Does co-location influence the rationale of economic behaviour?

A case study of the ski industry in the Lillehammer region

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INTRODUCTORY COMMENTS

Some fields of economic geography are more explored than others. In *Behaviour and Location,* Allan Pred discovers that little research has been done on the "motivations of man." Pred's observation, albeit written 42 years ago, is still representative. We know a lot about how firms in similar or complementary industries agglomerate, but not so much about the behavioural rationale in transactions that take place in agglomerations of this kind.

This is a research project at the graduate level of economic geography. The focus is behavioural ramifications of co-location. The study entails a theoretical emphasis, which should be seen as a necessary addition in any venture where the objective is to find some truth. Some remarks of recent psychological insight are also included. Hopefully, this may contribute to a (geographical) understanding of the motivations for observed economic behaviour. That said; insights from sciences other than economic geography should only be applied where sciences overlap. It is e.g. only the psychology which affects economic behaviour that is relevant for this research project.

Moreover, the behaviour we are interested in relates to decision-making that take place in transactions between *economic* actors. Recent discoveries in neuroscience have revealed that spontaneous decisions - where there are only a few seconds to consider alternatives - are predominantly emotionally motivated (Lehrer 2009). In other words, it is not thinking but feeling that determines the outcome of rapid decisions. However, even though the vast majority of contemporary writers acknowledge that even the most rational, economic actors do thinking "infused with emotion" (Baggini 2003), it does not necessarily follow that actual, final economic decisions are emotionally affected. We precondition, then, that decisions which happen in the interaction between firms are not as random or spontaneous as the decisions we make in a grocery store – when the choice between picking strawberry or raspberry jam is obviously "infused with emotion."

Although written in English, the study takes place in Norway. More specifically: In the ski industry in the rural region of Lillehammer. Many central actors in the Norwegian ski industry, from competitive athletes to producers of services and equipment, are located here. The city of Lillehammer hosted the Olympic Winter Games in 1994, which strengthened the region's position as a centre for cross country skiing. The clustering of cross-country skiing activities is still taking place. In order to study the ski industry geographically, then, the

Lillehammer region was a natural choice. One might argue that the region and industry in question is too insignificant in size and influence to be of any greater academic interest but to the research alone. However, it is through a small and specific case that a researcher may find insight in the actual dynamics of rationales that take place at a territorially confined location.

The research project is composed of five chapters. The first chapter deals with case-specific, background theory. In the second chapter, we discuss the three most important theories that provide different explanations for the rationale of economic behaviour: *neoclassical* and *institutional* economics as mainstream, economic theories and *evolutionary* economics as an alternative theory. In the third chapter, the research methods are explained and discussed. The fourth chapter builds upon the three previous chapters. Here, the conduction of the study, i.e. interviews and other forms of empirical data, is interpreted and analyzed - putting theories into practice. In the fifth and last chapter, there will be conclusions.

This is a descriptive rather than normative research project. The material will hopefully yield some tacit, normative assumptions among the readers, yet the objective is limited to discover how behaviour relates to co-location – we will not conclude whether one type of behaviour is superior.

It is argued by many writers that footnotes do not belong in a research project. Anything important enough to be mentioned should be included in the main text. Although sympathetic with arguments of this kind, I claim that both important and supplementary information enrich a research project even at the graduate level. Consequently, some supplementary comments are included in footnotes.

CHAPTER 1 – THE CASE

1.1 Background

The enlightenment of Norway was highlighted by the declaration of independence from Denmark in 1814. The Nation's weak cultural heritage, being geographically and culturally an outpost in Europe, had to be fortified beyond the religious ideals that in some sense had unified the colonized Nation for the last four centuries (Christensen 1993). Norwegian writers and politicians preferred *not to invent* new cultural practices, but rather re-create and strengthen an already existing, yet weak, Norwegian culture. The art and practice of skiing, reminiscent of famous civil wars in the early middle-ages, was one among few natural choices from where it was possible to bring back a distinct, cultural identity (Bomann-Larsen 1993).

During the same period, the modern, Norwegian army was developing a reputation as paragons of winter wars – frequent Swedish attempts to challenge the Norwegian border had been suppressed by Norwegian armies on skis. Consequently, the Norwegian skier was portrayed by famous writers such as Henrik Wergeland and Johan Nordahl Brun as a proof of our Nation's justifiable cry for independence. We did not have the academic foundation, great buildings or art-works of central-Europe, but our competence and elegance on skis gave us a distinguishable national culture. Skiing thus turned out to be a significant contributor to nation-building, and an important political factor in the early face of the modern, Norwegian state (Alnæs 2009).

In the western world, the last decades of the 19th century gave room for a re-emergence of the classical, Greek tradition where athletic competition was a sign of high end civilization. Consequently, the Norwegian identity was even more heavily supported by skiing – primarily in the form of cross-country skiing races (Slagstad 2008). Although exhibiting a thriving tradition for downhill, alpine skiing, it is important to emphasize that it is within the cross-country skiing tradition that Norway has been an international leader and cornerstone for technical development. In the modern era, the first official, international cross-country skiing race took place in Oslo in 1887 (Gotaas 2003). The terrain north of Oslo has thereafter determined the international standard for racing terrain, i.e. the gradients and length of racing courses. Looking at statistics from the Winter Olympics, including all games from the inception in 1924 to the Torino games in 2006, the Norwegian domination in cross-country skiing is obvious. 20% of every Olympic medal in cross-country skiing is won by a

Norwegian (Gotaas 2007). In 1999, cross country skiing was voted the national sport by 74% of Norwegians (Slagstad 2008). Notice, then, that when we henceforth talk of skiing in this research project, it is synonymous with cross-country skiing. Even more specifically, the focus will embrace the industry that supplies cross-country ski racers with equipment and support. Here, ski racing is interpreted as every competition from the level of citizen races in the low end to world cup races in the high end.[1]

Being the National Sport, skiing has naturally stimulated domestic production of skis and complementary equipment. Since 1882, almost 200 ski producers have been established in Norway (Gotaas 2007). Due to increased national and international economic competition and development – partly the result of post-fordist economic structures and the complex consequences therefrom (a major subject in economic geography, yet not the focus of this research project) – only three of these ski producers are still competitive. Out of these three, only Madshus exhibits a production for a solid national and international market. Madshus' production of cross-country racing skis is not externalized to a comparatively cheaper labour market in foreign countries. On the contrary, the production is located at Biri, 20 kilometres south of the Olympic city Lillehammer. Madshus has strong cultural ties to the Lillehammer region (Sand 2009), and will, as the last, major Norwegian ski producing firm, be one of the two central actors of this study.

The sentiments from the nation building of the 19th and 20th century have not disappeared from the Norwegian mentality. Skiing is still one of the few arenas where Norway stands out as a paragon relative to the rest of the world. There is no surprise, then, that Norwegian journalist Stein-Erik Kirkebøen (2007) concludes that there is no other field of employment in Norway, within professions of *any* kind, which inhabits the same level of virtue among so many practitioners as cross-country ski racing for men.

Naturally, ski racers are not only dependent on racing skis – they also need complementary equipment such as glide wax, kick wax, racing suits, ski poles and so on. The major Norwegian actor for such production is Swix (Gotaas 2007). Also located in the Lillehammer region, it will be the second central actor of this study. A more elaborate presentation of Madshus and Swix, and defence for the selection of the two firms, is provided in 1.6.

[1] Norway's identity as a nation of skiers was further elaborated when the Norwegian expedition (led by Roald Amundsen) beat the British expedition at the race to the South-Pole in 1911 (Slagstad 2008). Amundsen's expedition reaffirmed Norway's position as a powerhouse in ski-related endeavours. Interestingly, among the participants of Amundsens's expedition was one of Norway's fastest ski-racers. He was given the popular attention typical of Norwegian ski racers.

In this research project, then, we will study certain behavioural aspects of the two most important actors in the Norwegian ski industry. In light of the discussion above, it should be obvious that this industry is neither a game nor a hobby – rather it is one of Norway's key carriers of cultural meaning – wherein exists a deep business environment of involved actors. For the sake of making more accurate generalizations, the research is confined to actors within a certain region rather than within a nation.

That said; we should recognize the conclusion of economic geographer Harald Bathelt (2003). He stresses that there in contemporary economic geography has been too much focus on regions as isolated, economic entities. Rather, he says, we should understand the development of economic regions in light of nation-wide industrial and policy systems. Bathels's arguments would be applicable to the post-1980ies Norwegian, national policy to improve conditions for top athletes. Norway's outstanding performance in skiing since the 1992 Olympics should be read as the result of national rather than regional initiatives (Slagstad 2008). In line with this, Bathelt points out that (2003, pg. 99) "The national system should be viewed as a suprastructure for regional ensembles, being more than merely their sum." Bathelt's main point is that regions seldom are independently functioning economic systems.

Furthermore, it is reasonable to contend that many regional confinements below the national level are arbitrarily created and hard to define. This would, perhaps, be specifically applicable to a small state like Norway. Arguably, Norway undivided is, in itself, of the size that are thought of in economic literature on regions. Mouleart & Sekia (2003) provide an elaborate overview of the literature in economic geography that deals with economic systems at the regional level. They conclude that many writers arguably commit the fallacy of too deductively applying empirical observations from a few regional cases to all regions. Moreover – thus emerges the fallacy of begging the question - committed by writers who define specific forms of economic regions based on little evidence beyond that of particular cases. Writers of this kind may subject themselves to the danger of looking only for that which fit their pre-established, regional definitions in case studies, thus lacking a coherent empirical basis (MacKinnon et al 2002). The topic of regions as important economic entities is therefore a difficult and controversial one.

Applying Bathelt's logic – with the exception of certain popular, regional examples such as Silicon Valley and Third Italy - it is questionable to extract one region's economic development from another when they are influenced by common, national governmental innovation policies. However, it will become obvious why we can justify the confinement of

this study to a very specific region. The goal of this research paper, namely, is to find explanations within the microeconomic realm of economic geography, *not* to understand mechanisms at the state-supported and regulated macro-level. The firms in this research project will be studied as behaving actors at the micro-level within the private sector. These actors produce equipment. For that reason they are, at least at the micro-level, unrelated to national policy initiatives to "produce" top athletes (skiers).

In order to obtain a better understanding of the relationship between regional actors, it is necessary to investigate how tied the actors are to the region. A valuable insight could be derived from an understanding of embeddedness. Therefore, a presentation of this popular, yet important, concept in economic geography is included below.

1.2 Embeddedness

Even though the postmodern affection for pluralism and diversity has the potential to destroy the values of most societies, Jean Paul Sartre (in his late, postmodern period) offered some valuable insight when he suggested that any academic writer has a need to remake existing knowledge according to his or her personal, creative ignorance (Fox 2003).

This aspect of postmodernism, i.e. the emancipation from rigid structures, gives room for artistic talent also in academia, but is not necessarily a desirable aspect. Sartre's observation hits the mark when we look at how economic geographers use popular concepts within their discipline. Most noticeably, perhaps, the concept of *embeddedness* has been given different meanings, pushed in several directions and applied in diverging manners. However, although abused, it does not follow that it has become a useless concept already (Markusen 1999). While discussing embeddedness, Martin Hess argues that (2004, pg. 166): "A clear vocabulary is needed in academic discourse and … scientific research should be based on coherent and consistent conceptualizations." When every writer supplies the discipline with his[2] own interpretation of a concept, it will soon loose its meaning and be degraded to tabloid discussions. Consequently, before it is too late we must look through the fuzziness of a concept, in this case embeddedness, in order to reach its core meaning.

This much can be said immediately: embeddedness is an important concept in economic geography because it potentially contributes to a spatial understanding of economic behaviour. There is universal agreement that the concept stems from Karl Polanyi. In

[2] The male pronoun will represent unspecified individuals in this research project.

Polanyi's famous work *The great transformation. The political and economic origins of our time* (1944), he advocates a sociological understanding of economics. By doing so, he became a pioneer for institutional economics, providing diverging arguments from the market-based school of neoclassical economics (see chapter 2 for extensive explanations of the diverging schools of economic thought.) Polanyi introduces embeddedness as a concept to prepare his readers for an institutional agenda. He argues that pre-capitalist economies were (are) embedded in social relations, where so-called reciprocal and redistributive exchange mechanisms highlighted the economic life (Hess 2004). Capitalist, market economies, on the other hand, are socially constructed to disembedd economic actors from social relations as such.

Polanyi, then, argues that the degree to which economic actors are influenced by institutions depends on the purity of the market (Hess 2004). We might imagine reciprocal or redistributive mechanisms also in a contemporary market-economy, e.g. feelings of commitment to a specific business partner or economic relation because of shared culture, history or other aspects devoid of market influence. It follows that the purer the construction of a market – the lesser the significance of institutional forces. However, observe that Polanyi explains the market as *socially* constructed. In other words – the market may be understood as a construction by embedded actors to disembedd themselves. Regardless of the prevailing economic system, then, institutions matters for Polanyi.

For that reason, reading Polanyi, it is a contradiction to apply the concept of embeddedness in non-institutional settings. Embeddedness is meant to explain the social (institutional) forces that influence the behaviour of economic actors. However, it is not necessarily so that the original meaning of a concept is forever its sole and true meaning. After all – the academic project should be to develop new insights and thereby create deeper, thicker and more accurate concepts. We cannot, then, a priori claim that there is no such thing as non-institutional embeddedness. That said, Hess points out that (2004, pg. 171):

> "While it is encouraging to see the wide application of the concept in economic and social research, there clearly is a danger of the notion in all its varieties leading to a fuzzy concept which is hardly more than a handy metaphor for the social and embraces almost every analytical category imaginable."

Hess probably refers to fellow writers in economic geography who translate the concept of embeddedness into every conceivable category of non-innate influence (the innate being our

genetic and unchangeable dispositions). After all, Polanyi's point was that economic actors are embedded in social relations. Even though it is intuitively (and reasonably) tempting to use the embeddedness concept for different categories of relations - such as local, racial, national, supranational and ideological embeddedness (to mention a few) - it probably causes academic confusion more than a meaningful development of the concept. Embeddedness should, as in its original form, be limited to an economic actor's tie to social relations. The task for economic geographers, then, should be to investigate to what extent social relations are dependent on spatiality, i.e. the importance (or lack of importance) of territorial proximity for the creation of social relations. In other words, we should not create an independent category to study spatial embeddedness. It suffices to investigate the importance of territoriality in social relations – which thereafter leads to insight in how embedded the economy is in social relations at a specific place.

That said, although Polanyi defines social relations as inherently institutional, we should postpone the denouncement of social relations that are founded on non-institutional settings, such as incentives to make money *together, in mutual interest and because of* one's social relations, which would be the neoclassical interpretation. For the sake of making a just case in this research project, then, we cannot precondition that embeddedness is an inherently institutional concept. Only if social relations exclusively cause irrational economic behaviour, we might make conclusions as such. Accept the theory in chapter 2 and the analysis in chapter 4 for further discussions around institutional forces.

Ann Markusen displays an excellent understanding of language and the concept of embeddedness when she concludes (1994, pg. 168): "… a technique for key firm relationships with other key regional and external actors is offered, one which stresses the importance of nonlocal as well as local embeddedness." Markusen's use of the concept shows subtle precision because it implies that embeddedness may be rooted in social relations independent of local space. Similarly, Fløysand & Jacobsen contend that (2008, pg. 6): "… the literature in economic geography and regional studies has too narrowly equated embeddedness of organizations with linkages that are economic and local, and with the notion that increasing local embeddedness is inherently beneficial." A task for this research project, then, will be to investigate if it is possible for a firm to be equally (or more) embedded in external relations than in local relations. This demands an understanding of the behaving firm, i.e. who behaves on behalf of the firm?

Grannovetter (1985) contends that where neoclassical economists perhaps take an *undersocialized* perspective on economic action, most institutional writers represent an

oversocialized view. Grannovetter offers a micro-level understanding of embeddedness (Fløysand & Jacobsen 2008). He argues that social relations between individual actors across firm boundaries creates trust and improves inter-firm relations. What Grannovetter labels relational embeddedness at the individual level leads to structural embeddedness at the level of inter-firm relations (Hess 2004). That is, firms are subjected to embeddedness insofar as the individuals the firm is composed of are embedded in social relations. Consequently, it looks like there is an ongoing dynamic between socially embedded individuals and disembedded firms that engage in the market – i.e. firms are neither undersocialized nor oversocialized, but something in between. However, although intuitively attractive and in many cases plausible, it is not acceptable to *a priori* trust that Aristotelian golden mean solutions, such as Grannovetter's, will hit the mark.

1.3 The Objective

For the sake of coming up with valuable findings, it is of key importance to be very specific about the objective and methods of the study. Postmodernist arguments, where truth is perceived as a relative, human artefact, will not be embraced. Even though certain perceived truths obviously exist more accurately in our minds than in reality, it does not follow that all our ideas, perceptions and senses of meaning are socially constructed. I argue that everything is not equally true or false *in essence*. During the course of this research project, we will find and display small building blocks of truth. The methods will be accounted for in chapter 3.

It is unfortunately so that a hypothesis in many cases leads scientists to the fallacy of both begging questions and consciously or unconsciously applying information in biased ways. Rather than constructing a hypothesis, then, the objective of this research project is presented with a specific question: *Does co-location influence the rationale of economic behaviour?* In the question we imply that the territorial dimension relates to an actor's dwelling or work – not a random location.

The question will be analyzed from a regional vs. extra-regional perspective. An understanding of embeddedness will thus be important in the research project *if* it turns out that social relations influence the economic behaviour of the topical actors.

There are several variables that must be accounted for before we choose which interactions to research. Most importantly, there are different applications and categories of proximity. Ron Boschma (2005) points out five such entities (Fløysand & Jacobsen 2008, pg.

11): geographical, cognitive, organizational, social and institutional. It is important to emphasize that this research project will focus on the importance of the geographical dimension, i.e. the territorial influence on behaviour. However, we necessarily have to include aspects of other forms of proximity in order to understand the geographical.

We should not ignore the importance of networks when writing about economic behaviour at the local level. Network theory in contemporary economics and economic geography, as it is portrayed by, among others, Williamson (1985) and Grannovetter (1985), suggests that many explanations for economic behaviour within a region are found at the meso- rather than the micro- or macro-level. That is, economic behaviour is conformed neither by market nor regulative structures alone. Rather, local networks for innovation and/or cooperation decide how regional actors behave. This study will nevertheless be executed at the micro-level of economics. In order to reach the objective, we need to accomplish an understanding of the motivations for economic behaviour, i.e. the kind of incentives that dictate agency at the fundamental level of economic interaction.[3]

1.4 Generalizations

It is important to reflect upon the nature of generalizations. It could be suggested that reflections of this kind belong in chapter 3 (research methods). However, out of pre-emptive considerations, this all-too-often understated problem of any study or research will be accounted for already here. Nevertheless, an elaborate defence for the application of qualitative rather than quantitative generalizations will be discussed in chapter 3.

A generalization, even in its most quantitative and mathematical form, is necessarily a form of reductionism. This is a consequence of the often ignored truth that any study, in virtue of the fact that every phenomenon is infinitely complex, never obtains complete knowledge of any phenomenon. Hence, when generalizing from an observed phenomenon (let us call it A), it is by definition not possible to incorporate every aspect of A. That is, we have *reduced* the complexity of A. If it were possible to *not* reduce the complexity of A, we would no longer talk of a generalization, but rather a complete representation of reality. This is obviously

[3]It is obvious that micro-, meso- and macroeconomics do not operate independently of each other. Pascal famously emphasized that: (Myers 2008, pg. 54): "No single truth is ever sufficient, because the world is not simple. Any truth separated from its complementary truth is a half truth." However, in order to find the smallest building block of truth, one must look specifically at the fundamentals of one of these economic mechanisms.

impossible.[4] Therefore, it is reasonable to argue that everything we contend, understand and relate to at the end of the day are generalizations. Remember David Hume's problem of induction. Even if we have experienced that the sun has always risen from the east, we cannot absolutely claim that it will do so also tomorrow (Baird & Kaufmann 2003). Even that would be to generalize. Nevertheless, unlike the contentions of postmodernists, it is not so that any generalization is equally arbitrary and distant from reality. The degree to which different generalizations approach truth and reality are in fact quite distinguishable from one generalization to another. The great task of science, then, is to come up with the best and least arbitrary generalizations.[5]

Luckily, it is so that the truth exists. If postmodern contentions about diversification and fragmentation of truths were true, it would be senseless to write a research project like this (or anything scientific at all, for that matter), because the meaninglessness would envelope our reason and our souls and make us thoroughly indifferent to anything concerning science. The inevitable consequence of a world without truth, then, is nihilism, i.e. a world with no truths, but a diversity of falsities; eloquently portrayed by Russian author Dostoyevsky in the novel *Devils*. Discussing Russia's future if its population succumbs to pluralist perspectives on religion, Dostoyevsky's alter ego, the student Sjatov, argues (Dostoyevsky 1992, pg. 266) : "If a great nation doesn't believe that the truth resides in it alone … it is transformed into ethnographic material … there is only one truth; consequently, only one nation possesses the true God." Similarly – those who don't believe in the truthfulness of their own (research) project is performing a meaningless venture – the study will be subjected to the erosion of truth like any other agnostic work, being merely one of many attempts to explain what per definition – i.e. the agnostic form - is inexplicable. Hence, the academic contribution would be limited to fuzziness. Only that which is true, namely, can be explained and understood.

Just like it is an absolutely true statement that Norway has more Olympic medals in cross-country skiing than Austria, it is possible to make true statements about economic behaviour, even when the statement emerges from generalizations alone. As we will see in chapter 3 - that is why good generalizations are richer and more valuable than any postmodernist acknowledges.

[4] Unless one has discovered platonic, infinite ideas…

[5] I will never make generalizations where I have not (to the fullest, possible extent) taken all considerations into account. I will never consciously ignore an aspect of the case and make dishonest selections in order to better fulfil the objective of this research project. I make this remark because the position of a researcher is one where difficult, ethical judgments with regard to academic honesty necessarily emerge. Those who deny this lie.

1.5 The Region

The economic actors that will be subjected to research are, as implied, confined to one specific sector within geographically confined space, i.e. a defined region (to the extent that it is possible to make such confinements). The economic sector of research is cross-country skiing related industry. The study will involve an analysis of the two most important actors that belong to *both* this sector of production and the confined region. It is of key importance, then, to provide sound arguments for how and why the region is defined. Please note that the region is not defined to fit a personal purpose – I am aware of the danger of succumbing to the mentioned fallacy of begging the question (i.e. assuming a conclusion in the premises) in circumstances of this kind. Already existing literature is therefore used to define and confine the region. With an honest and comprehensive use of these deductive measures, the fallacy should be avoided.

That said, what is a region? Christopherson (2003) stresses the primary definition as areas that display "unity and homogeneity of traits." In order to set regional boundaries, then, I argue that we should look for the transitions where the differences between periphery and core become stronger than the similarities. It follows that we must distinguish between several forms of regional unity. A specific location might belong to several regions dependent on the topical segment of study.

Arnesen & Lein (2006) acknowledge the Lillehammer region as a commonly accepted entity in Norwegian social sciences. As writers of regional development, they stress that there in a regional definition implicitly exists a centre – i.e. the point of bureaucratic departure for the entire region. In this case, the region's centre is the city of Lillehammer. Arnesen & Lein goes on to set spatial boundaries for the region. This is where it becomes difficult, and we need help from recognized, contemporary geographers. Mol and Law (1994) suggest that regions are (1994, pg. 643): "… territories in which objects are clustered together and boundaries can be drawn." The objects in question must be related to human activities. Most geographers would probably admit that exact boundaries necessarily have to be arbitrarily selected, perhaps on the random will of city limits, rivers, mountain ranges, vegetation shifts or lakes. However, shared (clustered) human activities are not arbitrary, and as long as these are distinctly excluding individuals outside of the (arbitrary) regional boundary, the understanding of what is within the region and what is not seems meaningful despite of the intuitively random nature of confinements of this kind.

Obviously, our understanding of a region is related to our ideological background within the geographical discipline. Modern (and postmodern) geography runs in several diverging directions, especially with regard to different perceptions of the meaningfulness of idiographic explanations (Peet 1998). Typically, those who find inspiration from the early land description period of geography are more concerned with the existence of distinct regions. This so-called new regional geography seeks answers at the idiographic level, and applies unique features, e.g. topography, culture and history, in definitions of regions (Thrift 1990). Geographers whose explanations sit more on the nomothetic side of things do not to the same extent recognize unique regions as determinants for economic action. They understand the nature of economic behaviour as too atomistic to justify the existence of substantial regional differences. Despite of these disagreements, I argue that in order to establish a definition, we must look to those who attempt to accomplish just that. The definition is there, irrespective of the power it provides for economic explanations. In other words – it is possible to establish true definitions of regions independent of our belief in regional influence on economic behaviour. Hence; although the definitions below take a fairly institutional turn, it does not follow that regional institutions determine economic behaviour.

Writing on behalf of a new regional geography perspective, Gilbert (1988, pg. 217) offers the following definition of a region:

> ”Regions develop from regional social interaction while being both the condition and the outcome of the social relations between individuals, groups and institutions in regional space. They are … thus … structured in the process of being transformed through these relations of which they are the medium.”

Following this definition, the region is both the hen and the egg, i.e. irrespective of its influence on individuals; the region is both a necessity for and the result of human interaction. We see this when groups claim certain rights in physical space, hence the regional concept cannot be ignored. However, the regional concept could certainly be used opportunistically, like Johnston (1991, pg. 68) points to: “Regions are not simply the unintended outcomes of economic, social and political processes but are often the deliberate product of actions by those with power in society, who use space and create places in the pursuit of their goals.” Nevertheless, unintended or not, regional confinements are a reality; yet any exactly defined boundary is the subject of dispute. Knowing that human beings, both in the forms of more or less unintended groupings on the one hand and deliberate political bureaucracy on the other, play a part in the process of confining regions, we return to the Lillehammer region.

Arnesen & Lein draw the physical extension of the Lillehammer region only partly in line with the definitions directed by the formal administration in Lillehammer. According to the latter, the region consists of the municipalities Gausdal, Øyer and Lillehammer (Løhre 2007). In addition to the three municipalities, some major tourist attractions, such as Sjusjøen, are conveniently included. This definition takes mainly two variables into account, i.e. infrastructure and bureaucratic organization of the region. However, to reach a more accurate definition, especially for the sake of the present case where ski-related activities is in focus, we should also include variables such as topography, culture and types of industry.

Consequently, it seems meaningful to include all of those localities which contributed to the execution of the Olympics in Lillehammer in 1994 – in addition to those mountain resorts that connect and frequently update their skiing-trail system with the trail systems in the core of the region. This means that Hamar, Gjøvik, Ringsaker and Ringebu should be included in a regional definition – or at least large areas within these municipalities. This is where much of the regional interaction and local buzz take place. Local Buzz, although referring to an informal relation, may be defined in academic terms as "the information and communication ecology created by face-to-face contacts, co-presence and co-location of people and firms within the same industry and place or region" (Bathelt et al. 2004). We clearly need to include places where interaction as such is prevalent. We must therefore extend the region both to the south and to the east of the three municipalities Gausdal, Øyer and Lillehammer.

This leads to a major, geographical problem that deserves some attention. When confining the Lillehammer region with the extension above, it could be argued that certain elements in the regional extension belongs to the region while others do no. Immediately south of the formal boundaries, namely, I concede that there exist industries that are alien to the Lillehammer region, but also industry that is highly related to the region. Hence physical geography is not a sufficient measure for interpreting definitions. I am aware of the problem. It will not prove a major obstacle in this research project as long as I am attentive to the challenge of providing complex, non-linear regional definitions. After all, this is the least we should expect from a geographer.

An example of the above difficulty of fluid spatial boundaries sits in the state of Colorado. The municipality of Boulder inhabits characteristics that put it both in the mountain region to the west, the high-tech industry to the south and the farmer region to the east (Riebsame 1997). Consequently, Boulder must relate to different regions that in themselves bear little resemblance. It does not follow that e.g. the farmer region of the east must modify

its sense of unity. Rather, we must understand regions not only from a territorial or cultural perspective, but also in terms of actors. Regions, then, may be spatially fragmented despite of, or perhaps because of, the unity among its actors.[6]

A regional line must nevertheless be drawn somewhere. It is reasonable to suggest that, with the exception of segmented industries discussed above, the further away in physical distance from the core, i.e. the city of Lillehammer, the less a locality belongs in the region. Co-location clearly creates some kind of homogeneity. As an important measure in economic geography, Torstein Hägerstrand emphasized that "… interpersonal exchanges of information are inclined to be most intense at very short distances" (Pred 1967, pg. 33). Notice for example that in the example from Colorado, physical dimensions such as east and west were applied to differentiate between regions.

There is little difference in the availability of transportation and communication in the Lillehammer region (under the precondition that the region is not extended all the way to Oslo, which is not proposed by any writers). Consequently, the importance of the concept *relative distance* is minor, primarily because new technology matters less in a region such as Lillehammer - highlighted by homogenous infrastructure and rural industry. This is reaffirmed by a test of dialects where physical distance is directly related to similarity in language. It is fair to argue that there in Norway exists regional kinship where dialects are similar (Bryn 2004). Consequently, it is not valid to extend the Lillehammer region to localities where dialects are more similar to those in alien regions. Obviously, the case of dialects sits on a sliding and insecure scale. To validate this variable, though, it seems necessary to use the physical core, i.e. the city of Lillehammer, as a point of departure.

Keep in mind that the regional concept and physical co-location are stressed for a particular reason. After all, the objective of the research project is to study whether economic behaviour relates to territorial proximity, applying regional co-location as a behavioural variable. Without a clear understanding of what co-location is, the objective cannot be accomplished. The highly distinguished psychotherapist Erich Fromm proved that there is an innate, human disposition to feel more empathy and kinship with individuals who live close-by than people who live far away (Fromm 1973). For example, Norwegians would be more inclined to be tormented by a plain-crash in Sweden than by a plain-crash in Ukraine. Nevertheless, like Boshcma pointed out (2005), there are several forms of proximity. A

[6] The forced migration of several European ethnicities into Central-Asia in the former Soviet Union, dictated by Stalin, inadvertently resulted in the migration of cultures (Sowell 1996). Even though local culture, then, in many cases is linked directly to historical, bureaucratic events - one cannot assume that regional boundaries in all cases follow administrative confinements. Not even writers denouncing the importance of culture would assume such an outrageous position.

random example: a factory worker in Poland may feel closer to a factory worker in Portugal than to a white collar worker in his neighbourhood. The case of proximity is therefore complex, but it does not follow that physical proximity is not important.

To sum up – regional confinements may be somewhat arbitrary in nature. However, the existence of regions is not academically constructed, but real. It is a meaningful geographical concept when the objective is to study the structure of the earth both with and/or without locational patterns of human beings. Consequently, for the present case, regions will be considered as a somewhat fluid but nevertheless real concept. In order to more clearly see the regional boundaries in question, a map is attached in 1.7. On the map, the extensions of the Lillehammer region are highlighted in accordance with the discussion above. Other important, Norwegian locations that are discussed in this research project are explained on the map.

1.6 The Actors

It is necessary to clarify the meaning of the term *economic actor*. In this research project, the term is used to represent both individual and collective decision-makers; topical for this thesis, the latter being the behaviour of firms. Certain writers prefer the term *economic agent* to reflect the behaviour of individuals. However, I choose not to make a semantic distinction between actors and agents, assuming that any behaving actor has the ability for agency. To accomplish both accuracy and simplicity, then, the term *economic actor* will consistently be used throughout this research project.

The difference between individual and collective decision-makers is not always obvious, as implied in the discussion around Grannovetter's understanding of embedded actors. Any collective decision-making consists of an aggregate of individual agency. It would be ignorant to assume that the decision-making of one or a few individuals cannot determine the outcome of collective agency. Consequently, the only true dichotomy between individual and collective actors exists at the level of formally executing decisions. This is important to keep in mind when we soon turn to a presentation of the two, main (collective) actors that are the subjects of this research project, i.e. the firms Madshus and Swix.

In order to understand a firm, we must understand the economic organization of the market in which it is engaged. Such structures (or lack thereof) are obviously infinitely complex, hence we must look for the overarching lines of interaction within and across firm

boundaries. Whitley (1994) distinguishes between three dimensions of organization that are all necessary to understand firm behaviour: (a) the nature of firms as economic actors; (b) inter-firm relations in markets, and (c) authoritative coordination and control systems within firms.

An elaboration of Whitley's distinctions is the foundation for the analysis in chapter 4. For now, it suffices to say that the first signifies the execution of market decisions - including the informal agency of individual decision-makers - committed by Madshus and Swix. The second implies that economic behaviour is manifested through inter-firm relations. Inter-firms relations will thus be analyzed to accomplish a thorough understanding of why economic actors behave the way they do. The last dimension, on the other hand, implies that the formal organization and ownership structure of a firm also affects its behaviour. This could prove to be of key importance in the interview process, where it will be necessary to talk with the right people to understand the incentives for economic behaviour.

There are several important common denominators between Madshus and Swix. Without going too much in detail around the historical acquisitions and milestones of the two firms, it suffices to say that their relations to the Lillehammer-region go decades back. Both have their headquarters and production of their *primary* product located in the Lillehammer region. The primary product of Madshus is racing skis while the primary product of Swix is ski wax. Their production is thus complementary, because skis require ski wax and vice versa. However, the last decades have revealed that Madshus makes an effort to enter new markets, most noticeably distinguished by their recent establishment of ski pole production (langrenn.com 07.07.2007). Swix is, incidentally, the Scandinavian paragon of ski pole production. The relationship between the two firms is thus both complementary and competitive in nature. That said; this research project needs clear limits – and the primary production of the two firms, i.e. racing skis and ski wax respectively, will be the focus of the study.

At the core of both Madshus and Swix, highlighted both by their history and current production, sits the commitment to supply ski racers with equipment. Internationally, they are the two most well-known Norwegian companies within the ski industry (Sand 2009). Madshus is the world's second largest producer of racing skis, while Swix is the world's largest producer of ski wax.

Neither firm is independently owned. Swix is currently under the ownership of the Norwegian Holding Company *Ferd.*[7] Swix is therefore regarded as an investment, and is consequently not necessarily subjected to company programs and technical directions from a board of directors beyond the firm. Ferd's actual influence is analyzed in chapter 4.

Madshus, on the other hand, was bought by *K2 Sports* in 1988. K2 Sports is a major Trans National Company (TNC)[8] in the sports industry, with 16 world renowned brands, including Madshus, in their international portfolio. K2 Sports' home base sits in the state of Washington in the United States. There might be an important implication of the difference in ownership structure between the two firms in question. Unlike Swix, Madshus is an integral part and under the dictation of the will of a company. It could follow that desired irrational behaviour, such as giving better deals to local partners, is difficult to execute when a TNC constantly watches your back.

In April 2009, the managing director of Madshus, Lars Hanstad, was fired by K2 Sports' board of directors. The argument for letting Hanstad go was that the financial results in 2008 were disappointing. It is possible to question whether economic decisions can be independently performed when the dictations of a TNC determines the management-structure of the firm.

Moreover, it is worthwhile to investigate Madshus' ties to external actors in the TNC, relative to actors in the region (none of which belong to K2 Sports.) This could be indicative of the importance of physical co-location. The elaborate presentation of embeddedness in 1.2 is thus justified, because the concept contributes to insight in the sentiments of personal commitment that takes place in economic transactions. I argue, therefore, that with regard to the deductive part of the analysis, embeddedness is the most plausible concept to consider when researching ties between interacting firms.

Furthermore, Swix' position as an investment in a Holding Company implies that their economic decisions are relatively independent in nature. This provides an opportunity to research regional vs. extra-regional economic interaction without the burden of a TNC. It could prove important in order to obtain a more clean-cut divide between regional and extra-regional interaction.

The approach to the objective of this research project, then, within its limits of size and length, is to study inter-firm relations in the following vein: (a) the interaction between

[7] Formerly known as *The Tiedemann Group*. Name chance took place in 2001.

[8] The abbreviation TNC is commonly used to represent Trans National Companies in the academic literature (Dicken 2007), and will henceforth be applied in this text.

Madshus and Swix, (b) the interaction, respectively, between the two firms and other important, regional actors, and (c) the interaction, respectively, between the two firms and extra-regional actors. In order to accomplish the objective, several forms of sources must be utilized and interpreted. The research methods and forms of sources will be accounted for in chapter 3 and 4. We conclude this chapter by enclosing the map in 1.7. In accordance with the discussion and description of the region in 1.5, the map highlights what we mean by the Lillehammer region, i.e. the boundaries of co-location in this research project. The region is the confined area within the purple lines.

1.7 Map of the Lillehammer Region

Scale 1 : 1 100 000 (1 CM = 11 KM)

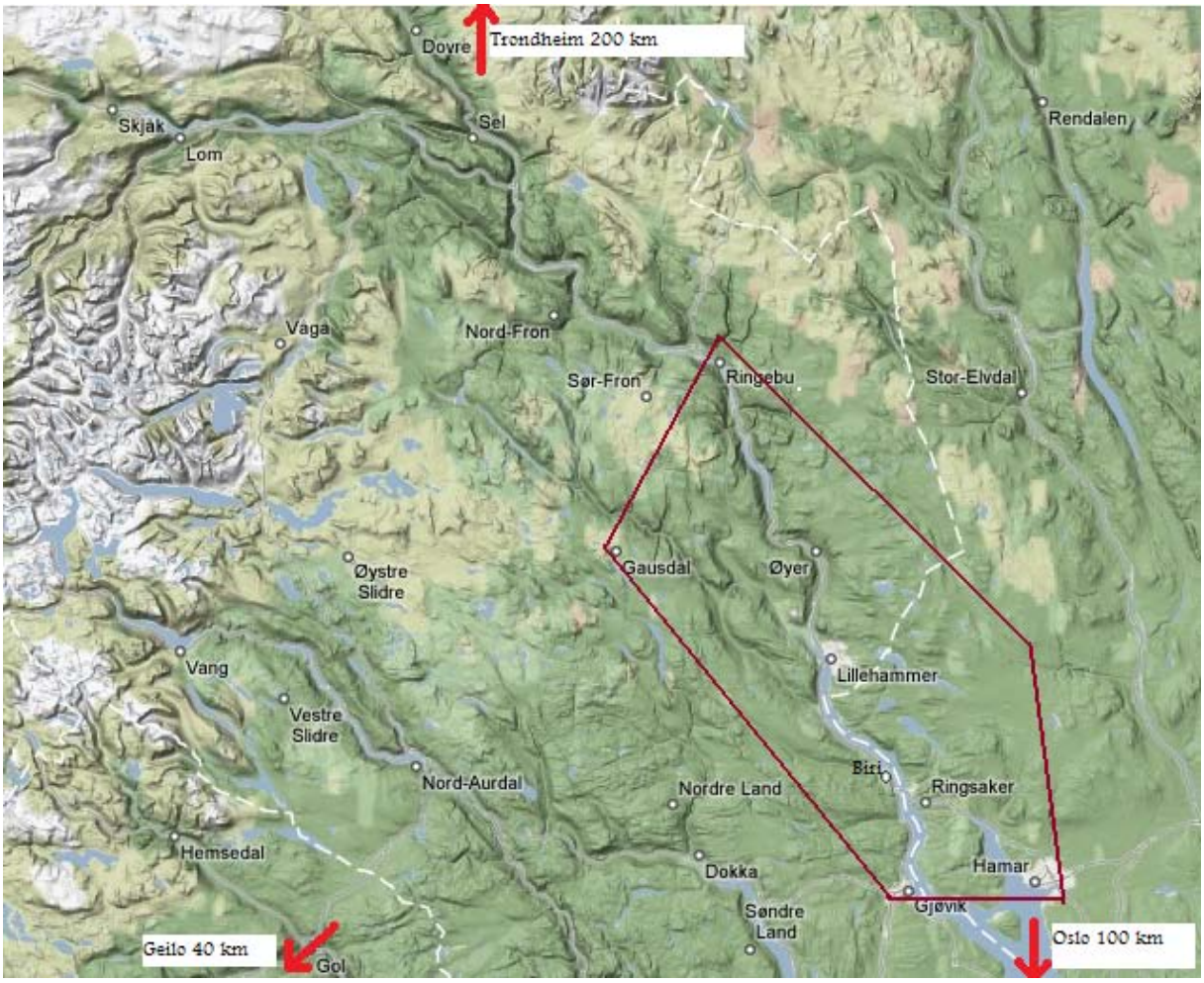

Illustration by googlemaps

CHAPTER 2 – THEORY

2.1 Scientific Foundation

In the previous chapter, it was made clear that geography is hard to define because different ideologies provide different guidelines. However, in order to know the boundaries of research, we need some kind of definition. Literally meaning "to write the earth," the science of geography has developed from its inception to include not only descriptions, but also interpretations of the earth (Christopherson 1993). Best explained, perhaps, geography is the study of physical space and how human beings relate to space through distinct places (Peet 1998).

Almost any subject can be studied geographically (Christopherson 1993). In the European tradition, geography has been divided into physical and human geography – as two distinct subjects of research. Economic geography is a subgroup of the latter. Unlike physical geography, human geography does not study space and place through physical processes (such as mass wasting and plate tectonics). Rather, the focus is how human beings interact through space and place.

Before we turn to a discussion of the different theories that seek to explain microeconomic behaviour, it is worthwhile to discuss what is meant by economic geography. As the saying goes – the well rounded study has no point. Consequently, when writing a research project in economic geography, it is crucial to remember to which science one belongs. In an ideological assessment of the subject, Scott (2000) does not hesitate to admit that the main concerns of economic geography are in constant flux, changing at the will of the ruling, academic paradigm. Few of contemporary economic geographers, for example, would agree that the regional science tradition, advocated by positivist scientists in the 1960ies, was economic geography, even though writers in regional science were studying the same phenomena as economic geographers study today.

This is problematic. Obviously, any academic writer belonging to a ruling paradigm dislikes being equated with earlier paradigms. First because the writers of a ruling paradigm straightforwardly disagrees with previous paradigms. Second because an equation implicitly states that the ruling paradigm, like any paradigm, is more or less destined to lose its domination sooner or later. Moreover, as we shall se, the equation of paradigms results in postmodern confusion. Every truth of every paradigm dissolves in the pluralist acceptance

that all theories are potentially meaningful. Nevertheless – as long as the subject of study has not changed, one must accept that the science itself includes more than one angle of explanations. The science of economic geography, then, must include former paradigms in order to be called a proper science.

Take the analogy of the contemporary neuroscientist. He probably has very diverging views with regard to the structure and functions of the brain relative to a scientist operating in the 19th century. Nevertheless, the subject of study has not changed. A brain is no more or no less a brain today than 150 years ago. They are both scientists in the subject of neuroscience. Similarly, even though economic geography changes and branches in new directions, it must be possible to find a common denominator that unites the subject as a proper science. It could be argued that neuroscience develops incrementally, while economic geography experiences paradigmatic shifts – and therefore inhabits a greater divide between diverging academic writers. Nevertheless, regardless of the divide between the scientists – a science needs some kind of unification independent of theoretical background. If this cannot be done, economic geography is in serious trouble. Not least because, as Peet (1998) emphasizes, different metaphilosophical perspectives will always exist side by side, even though academic paradigms changes at frequent intervals. They are obviously the minority, but there are, for example, many premodern thinkers in our postmodern age. Within the science of orogenesis (i.e. the birth of mountains), there are still writers, even in academia, who argue that Christian creationism provide better explanations for orogenesis than traditional physical geography.[9]

Marshall wrote about agglomeration economies in the 1890ies, wherefrom economic geography has developed (Harrison 1992). Following Marshall, there is common agreement in economic geography that firms in similar or complementary industries co-locate to obtain positive externalities, i.e. benefits that are obtained with no extra costs. The positive externalities include *shared labour supply, specialized labour force* and *knowledge spillovers* (Moulaert 2003). Trusting extensive geographical research, the positive externalities of co-location should be regarded as a precondition for this research project. Moreover, in the course of the research and analysis, positive externalities must be distinguished from other and thicker forms of local cooperation. The latter might provide insight in the rationale of economic behaviour, and should not be confused with the basic incentives that are found in Marshall's positive externalities.

[9] Another example sits in the sensitive science of ethics. Machiavelli's cynical prescriptions for maintenance of power are still recommended by some moral philosophers, even though the ruling paradigm in western philosophy is social liberal humanism. Economic geography, then, needs a common denominator, just like the brain is for the brain surgeon and ethics is for the moral philosopher.

One might argue that because economic geography is a relatively new science, in its infantile form it lacks the distinct foundation we wish to establish. It is possible to overcome this problem. Perhaps only the language complicates the definition of economic geography. Ludwig Wittgenstein always argued that our limited access to language – not our limited access to phenomena – creates problems when we seek answers. Some economic geographers contend that where there are used abstract, mathematical models to explain localization processes, one must talk of geographic economics rather than economic geography (Martin 1999). This is as rigid as when idealist philosophers claim that Machiavellian realists are not concerned with ethics but with another science (power, that is) altogether. The argument is valid at first glance, but appeals only to academic prejudice. As long as the subject of study is the same phenomena it is not valid to exclude some academic writers from a scientific discussion. Whether Marshall was a geographical economist or economic geographer seems irrelevant as long as his (nomothetic) approach provided valuable insight. That said - it is obviously necessary to exclude many writers when a distinct academic perspective attempts to explain phenomena. It does not follow that it is valid to exclude those writers from the science altogether.

In fact, even though the mathematical language of the so-called geographical economists represents the generic and nomothetic while the concrete language of economic geographers captures the unique and ideographical – they do not necessarily have to be incompatible sizes within the same science. Allan Pred (1967, pg. 65) notes that human geographers "focus on the factors that cause real-world spatial arrangements to deviate from the ideal patterns prescribed by what has … been termed "economic location theory." In other words, economic geography does not have to exclude geographic economics, but rather apply nomothetic theories to display the strengths and weaknesses of the latter through real world cases. Only if economic geography is perceived as a scientific method more than a science in itself it is valid to exclude theories that study the same phenomena. Philip Crang says it eloquently (1997 pg. 14):

> "… perhaps economic geography's value lies in its motivation as much as its methods or concepts; that is, in its emphasis on understanding differentiated spaces, places and practices of production, circulation and consumption, and the forms of surplus extracted within and between them."

Validating Crang's conclusion – that economic geography certainly is more than a mere method to understand other subjects geographically - it is reasonable to suggest, like

Scott in *Economic Geography: The Great Half-Century* (2000), that economic geography should be referred to as the science of how space and place affects economic life. In concurrence with Scott, this research project defines the smallest building block of economic geography as theories that use space and place to understand economic life. Possibly, this solves nothing, because we need a definition of "economic life." The term obviously includes many aspects, but suggests that there is a need for an empirical basis to study space and place – economic geography needs "life." Consequently, economic geography is a synthetic science, i.e. a science that is true only in virtue of the world. For that reason exactly, it is easy to understand why certain economic geographers reject analytic concepts (i.e. those that are true independent of the real world), such as the nomothetic concepts applied in academic economics. However, even though one's object of study is real and not generic – it does not follow that analytic concepts cannot be applied to explain behaviour in real place or space.

Ron Martin's definition of economic geography contributes to specify the realm of this research project. He argues (1999 pg. 79) that economic geography includes "the geography (i.e. how space and place relates to) of money, consumption, services, corporate organisation and behaviour, labour and labour markets, welfare, state intervention, globalisation, trade, institutions, social regulation, and other themes besides." Obviously, none of these topics within the field of economic geography ought to be studied in a vacuum. Just like, at the level beyond the isolated science, economic geography intersects with, among others, economics, psychology and sociology; the fragmented topics within economic geography naturally relate and intersect with one another. Nevertheless, the *focus* of this research project is corporate organisation and behaviour. Consequently, as implied in the previous chapter, there will be a disproportional amount of literature that is concerned with explanations at the micro- rather than the macro-level of economic geography.

Before we turn to the promised discussion of important, diverging theories that affect behavioural theory in economic geography, it is necessary to look closer at the problems caused by postmodernism. After all, the objective of this research project is to make conclusions – humble or not – and like most writers who make conclusions, I must expect to be confronted with inquisitorial, postmodern attacks.[10]

The rigid exclusion of certain theories from the science of economic geography, referred to above, could be read as a pre-emptive attempt by certain economic geographers to avoid postmodern problems. When diverging theories are discussed in an objective manner, it

[10] Even though it could be argued, in light of the discussion above, that postmodernism may be circumvented if the writers of the ruling paradigm thoroughly embrace their perspective. The latter under the precondition, then, that only weak perspectives are susceptible to the erosion of beliefs enforced by postmodern plurality.

is easy to fall in a postmodern trap where all theories are devaluated as equally true (or untrue). Science has reached the point where there are fairly convincing arguments from many diverging ideological standpoints. Consequently, a worst-case scenario implies that it is impossible to distinguish right from wrong. The liberated postmodernist embraces it as pluralist freedom – but for the rest of us it presents itself as nihilism. The consequence is the postmodern paradox – here displayed by the author Luke Rhinehart (1971, pg. 319):

> ”The man who lived in a simple, stable, single-lie society absorbed the single lie into a unified self and spouted it for the rest of his life... The man in our multi-lie society absorbs a chaos of conflicting lies and is reminded daily by his friends and neighbours that his beliefs are not universally held, that his values are personal and arbitrary and his desires often ill-aimed. We must realize that to ask this man to be honest and true to himself, when his contradictory selves have multiple contradictory answers to most questions, is a safe and economical way of driving him insane.”

Pluralism, namely, brings with it a consciousness where all values at first are perceived as equally true, before an honest assessment naturally erodes every truth into lies and nothingness. Consequently there is nothing to relate to at the level of truth. The postmodern paradox suffocates every strong belief.

Postmodern problems must be kept in mind during the upcoming section. Here, diverging economic theories that influence economic geography is discussed. It ought to be emphasized that even though a researcher strives to provide a complete account of a subject, every theory will not, and indeed does not have to, be presented. Leibniz, the 17th century rationalist philosopher, explained that because everything is contingent of everything else - each individual substance mirrors the entire Universe. Consequently, Leibniz concludes (Jolley 2005, pg. 47): ”… we can say that the nature of an individual substance or of a complete being is to have a notion so complete that it is sufficient to include, and to allow the deduction of, all the predicates of the subject to which that notion is attributed.” Following Leibniz’ logic (please excuse and read through the technical language), wherever there is one particular object of study, it is actually possible to read off all possible theories from one, single theory emerging from that object - as long as that single theory is presented in an honest and thorough fashion. Put simply, despite of the counterintuitive feelings it evokes, every theory of the subject is in some sense accounted for as long as every argument and counterargument of at least one of the theories is presented. Hence, a scientist does not need to explicitly recognize every theory within his field of research in order to establish truth.

Moreover, all theories are not necessarily equally true just because they are presented in an objective manner. One theory, or perhaps more than one combined, might actually trump through as closer to reality than other perspectives. Not only in our subjective perception of truth. Hopefully, it is also possible to detect objective differences between right and wrong – true and untrue. If it is not possible, no theory has sufficiently approached the truth. And there are truths out there – although it is quite possible that this research project will not find any. In virtue of being a fairly specific case-study, however, it is possible to highlight most of the relevant aspects of the case. To the dismay of postmodernists, I refer to Wittgenstein a second time (1972 pg. 1132): ”For doubt can only exist where a question exists, a question only where an answer exists, and an answer only where something *can be said*.” In other words, there is doubt where there are answers, but it doesn't follow that the answer is wrong. It is important to find the language that is able to capture the phenomena of study – in this case interaction between firms at a regional verses an extra-regional (national and international) level.

2.2 Economics and Utilitarianism

As mentioned several times, this research project deals primarily with microeconomic perspectives. Here, microeconomics should be viewed as the universe of possible decisions in which economic actors operate (A definition of economic actors was provided in 1.6). More so than its brother macroeconomics, microeconomics inhabits strong connections with the real world, putting emphasis on the individual and the firm rather than the aggregated economy (Mankiw 2004). Consequently, microeconomics is more useful for subfields of economics, such as economic geography (Harberger 2008). In line with reasoning as such, microeconomics arguably sits at the heart of behavioural theory in geography.

It certainly sounds like a fallacy of reductionism to describe decision-makers as economic actors. However, when the term is used in this research project it is not meant to commodify or de-humanize individual or collective decision-makers. Rather, it is reflecting the practicality of an academic language. It is absolutely essential to remember that words do not always fully capture the complexity of what they represent. That said, pay attention to the following insight about microeconomics in economic geography, commented by the economic geographer Peter Maskell (2001 pg. 331):

> "There is, it appears, a broad consensus within the discipline on identifying the forces that are responsible for the actual distribution of economic activity over space… however, when those beliefs are applied in practice, the pivotal theoretical concepts used in the analyses are typically found on the macrolevel, where agency is usually absent."

Maskell implies that economic geography has been saturated with research concerning international trade and increased globalization. These aspects of economic behaviour are primarily related to external regulations such as macro-level structural adjustment programs and other strategies of international liberalization (Hess & Chung 2006). Maskell, then, has identified a void in the discipline of economic geography. Even more so, Boschma & Martin admit (2007, pg. 545) that: "We have little knowledge of how spatial structures, institutions and micro-economic behaviours co-evolve, or why such co-evolution varies over space." This research project will have the agency of local firms as its primary object of research, and thus (hopefully) be a humble contributor to filling that void. It does not follow that incentives found at the macro-level does not affect the behaviour of firms, because they certainly do. However, this research will be confined to study how economic actors rationalize (individually as well as collectively) when they make decisions – not how the aggregate of actors in an economy react to macroeconomic impulses or forces.

In *Freakonomics*, the international bestseller discussing microeconomics, the authors conclude that (2006 pg. 11) "Morality, it could be argued, represents the way that people would like the world to work – whereas economics represents how it actually does work." This is wrong. In fact, mainstream economics has its root in the ethical system of utilitarianism. The underlying assumption of utilitarianism is that people always have to make choices – the only thing we cannot choose is not to choose. Consequently, behaviour means to act on a choice. Mainstream economics has adapted this notion – referring to every choice as necessarily suffering some opportunity costs, i.e. the choices we did not have the capacity to make (Kasper & Streit 1998). If a firm decides location A for the expansion of its business, location B and C (the alternatives that were not selected) are necessary opportunity costs.

Like utilitarianism, mainstream economics asserts that maximum utility is the desired end of any decision-maker. In concurrence with utilitarianism, then, mainstream economists view human beings as individuals capable of calculating benefits and costs when making decisions. Mainstream economists thus agree that every choice inhabits some opportunity costs. However, there is much disagreement among economists about what kind of rational, emotional or potentially other driving forces that affect economic actors in the course of a

decision-making process. From a moral perspective, however, it is perhaps a more plausible criticism to argue that utilitarianism gives an incomplete account of the complexity of human capacities. We now turn to a discussion of what is meant by mainstream economics.[11]

2.3 Neoclassical Economics

Some would argue that utilitarianism and mainstream economics are incompatible. While utilitarianism advocates ideal choices that serve the common good, mainstream economics portrays individual actors as making decisions to their own benefit. This argument misunderstands the core of neoclassical economics – the most clean-cut, standardized and famous version of mainstream economics, which is rooted in rational choice theory.

Writers in neoclassical economics, from Adam Smith to Milton Friedman, contend that *only when* economic actors are given the opportunity to make their own decisions, the outcome will be to the benefit of society as a whole. Only when choices are not forced upon individual actors, their decisions can be moral. J. G. March advocates the morality of free, economic actors thus, referring to rational choice theory (1988 pg. 287): ”Standard notions of intelligent choice are theories of strict morality. That is they presume that a person should do what he believes is right and believe that what he does is right.” As we shall see, there are disagreements in mainstream economics about the degree to which economic actors are rational. However, to denounce all of mainstream economics as devoid of morality does not capture the true logic behind economic thought. Following March, when rational individuals are given the responsibility to make their own decisions, they will adhere to a strict morality. It is a belief in mutual expectations of rationality which in a utilitarian sense will be to the greater good of society.[12]

Neoclassical economics is originally influenced by the 17th century rationalist tradition where it was perceived that “just as there are laws of physics, so too there are laws of human psychology” (Jolley 2005, pg. 148). Consequently, the core aspects of neoclassical economics

[11]Keep in mind that this research paper sees economic theory as a foundation for understanding economic geography. The theories presented, then, although for the most part displayed as theories in economics, are necessarily directly reflected in the science of economic geography. In the case of objections, I refer to the previous discussion about the identity of economic geography.

[12]The historically most recognized utilitarian, John Stuart Mill, advocates the compatibility between utilitarianism and mainstream economics. He states (2001, pg. 3) “The principle of utility, or, as Bentham latterly called it, the greatest happiness principle, has had a large share in forming the moral doctrines even of those who most scornfully reject its authority.” Interpreting Mill - it shines through that even those who claim that the common good is of no value to the individual actor; utilitarianism – aiming at serving the common good - is the inevitable outcome of the freedom of individual (economic) actors.

predicate certain primary laws of human psychology, from which the assumptions of the theory are derived.

First, economic actors are perceived to always act according to their own preferences - independent of other actors. Thus emerges the neoclassical premise of economic actors as atomistic decision-makers (Friedman 1966). Second, economic actors are understood to be perfectly rational, and the perfectly rational thing to do is to maximize utility (Hodgson 1992). To be rational, then, means to maximize personal opportunities, i.e. to act in the most expedient manner possible.

When the objective is to study firms, rational behaviour (maximizing utility) is evident where firms *optimize profits*.[13] Any behaviour contrary to profit-optimization is perceived as irrational. The premise preconditions that economic actors inhabit the ability to calculate cost and benefits (i.e. opportunity costs) of their decisions. In concurrence with the utilitarian discussion above, this is presumed to benefit society as a whole, because rational actors will create a system of market equilibrium. The rational actor, namely, will only make choices that are within his range of benefits. Consequently, there will not be transactions where one party is suffering higher costs than benefits. It follows, then, that the equilibrium system benefits everyone who behaves rationally. In this context, it is important to add that according to neoclassical economics, irrational, economic actors might exist where a bureaucratic society corrupts the independence and good will of certain actors. However, as long as their competitors in the market are rational, the irrational, economic actors cannot survive for very long. The recent crisis in international finance proves this point, displayed by the fact that the banks which most notoriously let greed trump rationality (i.e. long-term profit optimization) experienced the greatest downfall (Riksen 2008).

It is uncontroversial to assert that Adam Smith's *The Wealth of Nations* is the "bible" of neoclassical economics. Interestingly, Adam Smith was not originally an economist, but a moral philosopher (Stoknes 2007). Smith declared his sympathy for a free market – where rational actors were assumed to create equilibrium systems through the so-called invisible hand of the market, i.e. the just, inevitable force created by equally rational actors. According to Smith and his successors, market failures are mostly the result of state interventions, where actors behave irrational because they are not given the opportunity to absolutely maximize

[13] There is a semantic distinction between "optimize" and "maximize". The latter represents an assumed, inherent disposition in human beings, i.e. our desire to maximize utility. The former is the manifestation of this disposition in practice, implying that the science of economics preconditions that economic actors relate to a world of scarce resources – hence utility in practice can only be optimized and never maximized. In neoclassical economics, then, economic actors are assumed to be utility-maximizers who, because of their disposition *combined with* external, natural limitations, are confined to optimize profits.

their personal utility. That said, advocates of this perspective admit that some kind of (weak) government is needed to remove and regulate cheaters and dirty weed from the market (Riksen 2008). However, regulations of this kind are intended to increase - not decrease - the ability of economic actors to behave in rational and atomistic ways. They are, after all, meant to increase the transparent nature of market transactions – meaning that certain regulations in fact could increase our opportunity to maximize utility.

When reflecting upon the neoclassical perception of actors as utility-maximizers, it is worth to mention the words of the ancient, Chinese virtue-theorist, Confucius (1938 pg. 124): "Those whose measures are dictated by mere expediency will arouse continual discontent." Confucius, although writing millenniums ahead, points to the ethical criticism of neoclassical theory. Neoclassical economists are denounced as constructors of a reductionist perspective of human psychology; hence the rather derogatory term "Homo-Oecoenomicus" – referring to the human being as neoclassical economics sees it – one devoid of any deeper virtue than the rationality of expediency (Stoknes 2007). However, even though many critics perceive neoclassical economics to lack a fundamental understanding of ideal virtue, it does not follow that the theory lacks understanding of human behaviour. The mere envisioning of a world of higher behavioural virtues does not necessarily make the vision real.

In order to assess the soundness of neoclassical premises, we must turn to the two, main practical objections – rather than the ethical objections – against the theory:

> (a) Contrary to the manifestation of neoclassical economics, economic actors are highly influenced by the opinions and preferences of other actors than themselves (e.g. Polanyi 1944).
> (b) Neoclassical economics falsely precondition that economic actors are always capable of calculating opportunity costs (e.g. Williamson 1993).

The objections are not mutually exclusive, but they do not necessarily co-exist. For example, it is possible to imagine that only objection (b) is valid, because economic actors who without the influence of anyone but themselves (could) calculate opportunity costs poorly – i.e. economic actors (could) make independent, yet irrational, decisions. This is important to keep in mind through the remaining part of the discussion.

From the perspective of neoclassical economics - rationality follows from atomistic decisions – and atomistic decisions are a desired – and real - end in society. According to objection (a), however, it is not true that purely atomistic, economic actors exist – the neoclassical assumption that there is such a thing as independent individuals is thus suggested

as false. In other words, if objection (a) is valid – the foundation for neoclassical economics fall apart.

It might be difficult to see how the implications of neoclassical arguments fit into questions of economic geography. Eloquently, Harrison (1992, pg. 476) puts the objections into a more understandable and geographically relevant language:

> Economists since Adam Smith have argued that, in order for decentralized market exchange to work efficiently, the behaviour of buyers and sellers must be subject solely to the pursuit of self interest by rational atomistic individuals. To this day, orthodox economists – including those who study cities and regions from an essentially neoclassical perspective… assume that relations of production and distribution are (and must be) essentially untouched by such sociological, cultural, anthropological and political considerations as the size, location and history of one's community, family and ethnic ties.

In order to respond to both objection (a) and (b) – the methods of neoclassical economic deserve a closer inspection. Conceiving economic actors as rational – neoclassical economists argue, as mentioned, that decisions are made according to a rational principle of maximizing utility. Economic actors, then, are implicitly perceived as capable of making strict cost/benefit analyses. From this conception of human behaviour, neoclassical economists construct mathematical, nomothetic equilibrium models - e.g. to explain locational behaviour of firms. The recent Nobel-prize winner in Economics, Paul Krugman, makes the following neoclassical statement about an important issue in economic geography (1991 pg 485): "Other things equal, the preferred sites (of production) will be those with relatively large nearby demand, since producing near one's main market minimizes transportation costs."

Notice that Krugman presumes an "other things equal." Such *ceteris paribus* thinking is typical of neoclassical models – and it implicitly suggests that models are static and invulnerable to fluid variables (Kasper & Streit 1998). Because no real-world example inhabits a true *ceteris paribus* – the neoclassical version of reality is necessarily a generalized one. However, as we discussed in 1.4 - is not any version of reality, at the end of the day, some kind of generalization? Neoclassical economists, after all, do not claim that their models fit perfectly in reality. They merely claim that the underlying laws and currents of human psychology, from which they construct their models, predominantly defeat the fluid variables (e.g. cultural variations) which are hard to predict.

Ron Martin's specific criticism of neoclassical economics points directly to the difficulty of applying abstract models to real places (Martin 1999). Martin, being a

contemporary economic geographer, contends that his science should only deal with real – not ideal – places. The debate is, as implied in 2.1, essentially a disagreement between analytic and synthetic (nomothetic vs. idiographic) scientists. Martin, applying synthetic methods, only accepts premises that are true in virtue of the world. Neoclassical scientists use nomothetic methods that would be true even if all humans went extinct. Krugman admits this, and speaks in honest terms about one of his models in economic geography (1991 pg. 498): "Obviously this is a vastly oversimplified model… and says nothing about the localization of particular industries." However – the discussion so far has hopefully shown that nomothetic models may not be conceived as *a priori* useless even though they are generalizations.

In macroeconomic theory, neoclassical economics predicates a free market and perfect competition. Consequently, in order to fit into reality, neoclassical economics can only operate where there is perfect competition – i.e. in the capitalist anarchy utopia (Heywood 2003).[14] Because perfect competition does not exist, neoclassical, mathematical models, universalizing human behaviour, are naturally subjected to criticism of ignoring reality and contextual variations (e.g. place specific behaviour) in their abstract generalizations.

Whether this criticism is valid from a macroeconomic perspective is not a discussion for this thesis, although former chairman of the US federal reserves, Alan Greenspan, recently admitted (October 2008) that he constructed misguided neoclassical, macroeconomic models to improve the relations between banks and home-owners. When applying the criticism to microeconomics, however, the objection certainly lacks validity. The neoclassical microeconomic argument, namely, is a theory of human behaviour – not a theory of the state of the world. It implies that economic actors choose what is rational - independent of other actors – and the rational choice is always that which yields the greatest utility. Even in a society without a free market - in which economic actors suffer significant limitations when it comes to possible choices - the rational actor (according to neoclassical economics) would still utility-optimize his choice within the confinements that are forced upon him.[15]

Moreover, because ideal, perfect competition hardly exists, there could be cases where rational behaviour is identical with creating monopoly-like situations; albeit these are per definition temporary in nature (Moene 2009). This is particularly a rational strategy for firms

[14] The only example of the utopia thus far is found in the novel *Atlas Shrugged*, were we find author Ayn Rand's fictional, paradise for rational beings - hidden somewhere in the Rocky Mountains (Rand 1957).

[15] Jean-Paul Sartre, not an economist, yet very perceptive with regard to this important point of freedom, says it thus (Fox 2003, pg. 13): "To be free does not mean to obtain what one has wished, but rather, by oneself to determine to wish (in the broad sense of choosing). In other words success is not at all important to freedom." When neoclassical economics advocates the free, economic actor – it follows that the freedom sits in the actor's rationality of maximizing utility. This freedom of choice exists independently of present economic systems or other external limitations – such as lack of important information with regard to consequences of choice.

that are in a position where they can optimize profits through excluding and ignoring - rather than cooperating - with firms in the same industry. We are here confronted with an inherent contradiction in neoclassical theory, because monopoly is normally denounced as one of the most distinguishable market failures (Stoknes 2007). However, monopoly is highly atomistic in nature, and will, as implied above, in certain situations, be the best way to control and optimize profits.

In order to construct perfect models one must assume that actors have perfect knowledge of their possible choices and their assumed consequences. However, neoclassical economists do not, as explained, claim to present perfect models. The neoclassical argument, then, holds as long as actors optimize within their confinements. The validity of neoclassical economics relies on whether economic actors rationally maximize self-interest or not. To test whether actors have external limitations of choice and limited access to information, then, is a worthless pursuit (the answer is obviously "yes") founded on a misunderstanding of neoclassical behavioural arguments. The neoclassical conviction is rather that economic actors who are able to compete in the long run are rational. Neoclassical arguments only fail if successful economic actors behave irrationally or if being rational is not identical with optimizing profits.[16] Consequently, writers who claim that economic actors are not atomistic because they act on the will of other actors – only hit the mark if the decision-makers perform external dictations with other rationales than to personally gain as much as possible from adhering to the rules.

There are, as implied, few studies in economic geography that have been conducted with the aim of understanding the rationale of microeconomic behaviour. An extensive study of Portuguese entrepreneurs is a noteworthy exception. Figueiredo et al. (2002) conclude that entrepreneurs have a home bias in terms of economic behaviour towards business partners, i.e. they give local firms better deals than external firms. Figueiredo et al. sees this from a neoclassical perspective, arguing that (pg. 359) "… firms maximize profits with geographically varying information costs." Their point is that the home bias is not culturally induced or the result of benevolence towards local firms, but rather driven by atomistic, rational self-interest. The majority of entrepreneurs, namely, make the rational assumption that they minimize potential costs by dealing with people they know are trustworthy (local

[16] In 2.1, it was implied that some economic geographers refuse to acknowledge neoclassical economics as a theory in the science of economic geography. Maskell (2001 pg. 338) suggests that: "It seems reasonable to… assume that the vast majority of economic geographers find the fully informed and rationally behaving actor to be an abstraction that is not easily accepted." As I have pointed out, even if economic actors are not fully informed, neoclassical arguments might hold – under the precondition that actors are rational and use all *available* information.

firms), rather than obtaining slightly better deals with people whose background they are unfamiliar with.

Figueiredo et al. admit that it is hard to argue that certain forms of rationality weigh more heavily than others. That said; even though human beings are complex, certain considerations will always defeat others. The behaviour of Portuguese entrepreneurs fits into the neoclassical perspective if they predominantly acted upon rational and atomistic considerations.

In *Brothers Karamazov*, a novel primarily concerned with religion and human psychology, the teenage femme fatale and slightly misanthropic Lise proclaims that (2003, pg. 743): ”I wish that some man would torment me, marry me, and then torment me, deceive me and leave me. I do not want to be happy!” Lise’s desires are obviously not rational, because it is not rational to desire pain. However, if a person like Lise existed, it would not prove the falsity of neoclassical theory. First, to have an irrational desire is not identical with making an irrational decision. Neoclassical arguments are rooted in actual decisions – not in dreams and visions. Second, people like Lisa might be insane, and thus not qualify as *economic* actors. Nevertheless, it is highly possible that successful economic actors frequently make irrational decisions, even when they are given enough time to make adequate cost/benefit analyses. Let us, however, postpone a potential declaration of death towards neoclassical theory until the economic actors of this research project have been thoroughly tested.

2.4 Institutional Economics

The second version of mainstream economics, institutional economics, exists in many variations. It differs from neoclassical economics in many ways. There are identified as many as 16 different forms in the academic literature (Amdam et al 1998), many of which would seem to belong far away from mainstream economics at first glance. Nevertheless, despite of possible protests emerging from writers within this discourse, I argue, for one specific reason, that institutional economics is not an alternative branch of economics. The argument will reveal itself in the conclusive remarks of this section. I apologize to all of the 16 versions that the present summary of institutional economics necessarily takes a generic form.[17]

[17] When reading introductory modifications of similar veins in the works of others, it strikes me that why bother theorizing when we necessarily subject ourselves to generic inaccuracies. However, although generic, this discussion of institutional economics nevertheless aims at getting to the *core* meaning and ramifications of the theory.

Let me introduce the main, neoclassical contender with J. G. March's insightful interpretation of the logic behind institutional thinking (1988 pg. 280): "Human beings have unstable, inconsistent, incompletely evoked, and imprecise goals at least in part because human abilities limit preference orderliness." March's logic of microeconomics may be exemplified by the thoughts of another beautiful woman portrayed in *Brothers Karamazov*. The seductress Gruschenka must, for obvious reasons, sacrifice her friendship with some men in order to sustain her friendship with others. She desperately proclaims that (pg. 724): "… everyone is necessary, and how is one to know who is more necessary than another?" She does not only point to the neoclassical problem of perfect knowledge, she also suggests that even *with* perfect knowledge, it is impossible to choose.

Following March, it certainly shines through that, unlike the neoclassical tradition, institutional economics does not perceive economic actors as perfectly rational. On the contrary, economic actors are conceived to be highly influenced and constrained by different forms of *institutions* when they make decisions. In contemporary psychology, for example, it is uniformly accepted that economic actors commonly prefer to recapture a minor, financial loss rather than to gain major financial profits (Tranøy 2006; Munger 2005). It is manifested when a firm uses resources to improve the sales of a clearly poor product without potential rather than to accept the loss and rather invest in the innovation and production of new and superior products. A rational actor, however, although possessing these common, irrational feelings, would decide to ignore his sentiments and act on profit-optimizing alternatives.

Irrationality relates to space and territoriality. Institutional economics, namely, preconditions that the behaviour of economic actors influence the behaviour of others; meaning that one firm could influence the behaviour of another, particularly when the interaction is frequent, as one assumes in cases of co-location. It is therefore important to unmask how the influence of institutions happens. Maskell & Malmberg explain (2007 pg. 608) that there are three main forms of institutional constraints that influence and limit the rationality of economic actors:

> "Institutions can be conceived as resilient humanly devised constraints that structure interaction in society. These constraints may be regulative (e.g. formal rules, laws, constitutions); normative (e.g. norms of behaviour, conventions, self-imposed codes of conduct); or cultural-cognitive (e.g. creating interpretive frameworks by which meaning is established and shaped),

Beginning with the third form of institutional constraints, the cultural-cognitive, it implies that the neoclassical belief in economic actors as utility-maximizers is not a solid foundation for creating equilibrium models. Neoclassical theories assume that economic actors have some kind of innate understanding of maximum utility which universalizes across regions, cultures and national borders. Institutional economists, on the other hand, argue that perceptions of what yields maximum utility varies among actors between different cultures and places. In other words – what is meaningful is not nomothetic and law-like, but rather idiographic and context-sensitive. Consequently, one cannot construct universal, nomothetic models to predict the behaviour of utility-maximizing actors.

In *The Invention of Regional Culture* (1997), the economic geographer Meric S. Gertler claims to have discovered behavioural differences between Canadians and Germans, relating the difference directly to the uniqueness of Canadian and German culture respectively. He concludes (pg. 47): ”… particular national or regional cultures are inherently more predisposed to co-operation … or that cultural ties are coming to dominate all others in shaping the emerging alliances and partnerships between businesses.” Referring to Gertler, one would think that it is not possible to apply universal models of economic behaviour across national borders. However, a legitimate question emerges - are such cultural differences the result of innate, cultural characteristics - or rather the creation of divergent political regulations?

The always eloquent German philosopher, Friedrich Nietzsche, suggests that (1878 § 465): “Culture owes its peak to politically weak ages.” It follows that politics and culture are asymmetrical sizes, yet Gertler admits (pg. 55) that: ”Culture is not a static, analytically prior concept, which produces these (institutional) differences. To a very significant extent, it is the outcome of regulatory forces emanating from a set of socially constructed institutions for the governance of investment and use of labour.” Culture, although thriving without political regulations, is necessarily influenced by regulations. Consequently, it seems fair to suggest that cultural-cognitive institutional constraints really are a mere subgroup of regulatory, external institutional constraints, to which we shall turn later. Independent of where it belongs, notice that the cultural-cognitive form of institutional constraints does not contradict the claim that economic actors always maximize utility – it only contradicts that there is a universal perception of what maximum utility is.

The second form of institutional constraints – normative constraints - is the one that is most widely advocated among institutional economists. Surely, it is also the one that most powerfully contradicts neoclassical microeconomics. A widely distinguished writer on this

subject is the already cited Berkeley professor Oliver Williamson. He weighs reliance to networks and family ties as more conducive to successful economic behaviour than neoclassical predications of atomistic, self-interested behaviour (Williamson 1985). According to Williamson (among others) there are normative rules of behaviour that will be self-imposed (i.e. internally) by economic actors.

Institutional economists commonly suggest, for example, that firms do not optimize profits, but rather strive to provide satisfying results and perform satisfying codes of conduct - according to local norms and expectations (Amdam et al. 1998). From this perspective, it is perceived to be more important to be liked than to optimize profits. As it has been implied, the economic language equals rational with optimizing profits. Institutional economists, therefore, provide the term bounded rationality to explain the behaviour of economic actors. It is thus implausible to make law-like predictions of the future, because only rational behaviour fits into nomothetic models. Institutional economists, then, contend that the neoclassical understanding of rational actors understates the importance of individuals as *social beings* (Harrison 1992). If it is true that economic actors put weight on their social dispositions when they make decisions, they can no longer be perceived as rational and atomistic decision-makers, but rather as socialized actors who are under the dictation of local norms. If so, Napoleon's observation that (Stoknes 2007, pg. 167): "Money has no motherland," [18] might prove false.

Bounded rationality, as implied in the quote by J. G. March, also refers to the institutional understanding that economic actors who are under the influence of social guidance do not always know or understand their own preferences. Actors are thus irrational. This takes institutional economics into an idiographic sphere which wholly differs from neoclassical economics. If economic actors have difficulties predicting and validating their preferences – it is very hard for academic writers to even come close to reality when creating equilibrium models. Consequently, the key difference between neoclassical and institutional economics sits in the latter's view of a local (cultural) determinism of decision-making that supersedes the psychological need of economic actors to act in the most atomistic, expedient manner.

The first (and last) form of institutional constraints is more obvious and less applicable to microeconomic theory than the other two. Economic actors, namely, are necessarily limited by the external institutions of society. It is hard to optimize profits, for example, if there is a tax system that contradicts this opportunity by enforcing a ceiling on maximum income.

[18] Author's translation.

Formal institutions, then, from national governments to international trade-laws, will necessarily guide and influence the behaviour of economic actors. External, institutional constraints may not contradict the neoclassical postulate that human behaviour fundamentally is governed by certain, universal laws of psychology. However, it implies that formal institutions regulate economic actors in a manner that forces incentives for atomistic and rational decisions into a latent state.

In order to understand the behaviour of firms at a certain location, then, one must have knowledge of the formal institutions which the firms must submit to. Gertler's discoveries from Canada and Germany, for example, could not prove that there truly were culturally-cognitive constraints on economic actors beyond the constraints developed by formal institutions. It comes down to, then, that neoclassical theory would be more easily tested in a universe without macroeconomic influences.

It is important to emphasize that the behaviour of firms may fit into neoclassical predicates even though the same firms admittedly submit to macroeconomic, institutional forces. This, of course, under the precondition that it is possible to study microeconomics in a vacuum devoid of macroeconomics. I argue that it is possible, but only in a qualitative study. The mere observations of decisions made, found in quantitative studies and positivist science, cannot provide thick insight in the behavioural rationale for economic action. And we cannot know if behaviour fits into neoclassical or institutional predications before we know the incentives that govern decisions.

Remember the first assertion of this section – that institutional economics belongs to mainstream economics. Institutional economists, namely, never make the claim that economic actors are not utility-maximizers – they merely claim that utility-maximization consists of far more complex variables than neoclassical economics acknowledge. In the widely cited (and already mentioned) article *Economic action and social structure: The problem of embeddedness* (1985), Marc Granovetter explains that the only true difference between neoclassical and institutional economics is that the former understands economic actors to utility-maximize according to an innate, universal psychology, while the latter contend that actors utility-maximize more randomly or according to rules and laws they have been taught or socialized into. Consequently, it seems fair to suggest that both neoclassical and institutional economics have a mechanistic view of human psychology. Both assume that it is rational to utility-maximize.

Institutional economists implicitly make this argument when they introduce the term *bounded rationality* to explain behaviour where actors are not able to calculate which

preference that inhabits the smallest opportunity costs. In other words – just because institutional economists label economic actors with bounded rationality – it does not follow that actors do not attempt to act expedient. It merely implies that they are influenced by other actors than themselves when they maximize utility, and therefore display a less atomistic – and possibly more confused and misguided - expediency. Consequently, there is no deeper morality involved in institutional than neoclassical thinking.

Interestingly, some argue that institutional economics in fact have a lesser opinion of human beings than neoclassical economics (Hauglid 2000). Remember the first included quote from J. G. March, were he implied that any intelligent decision will adhere to a strict morality. Actors who display bounded rationality, not making as intelligent economic decisions as rational actors, are in certain versions of institutional economics argued to more easily engage in opportunistic, destructive economic behaviour. Such institutional arguments present a good case where firms let greed trump rational choice – eventually leading to the downfall of both opportunistic firms (such as Enron) and their naïve (rational?) business partners. Institutional economics thus understands irrational behaviour to dominate and determine the market development – contrary to neoclassical economics - where it is contended that rational behaviour prevails.

We must look at incentives – not mere behaviour – to understand the motivations for action. Read the following example: In 2007, Madshus decided to pay out substantial bonuses to all of their world cup skiers. This contributed to negative results as the revenue for the ski producer was below expected (Sand 2009). Consequently, Madshus made an economic decision which obviously made them worse off financially in the short term. If Madshus decided to pay bonuses in order not to lose any skiers to other brands – and thereby expect an increase in sales (through sustaining its marketing position) and thus optimize profits in the long-term, the decision was rational and fits into neoclassical predicates. If, on the other hand, the decision was executed contrary to optimization of profits, and rather in order to satisfy expectations in the local ski environment, there were incentives that went beyond rational self-interest.

Obviously, one cannot make a strict dichotomy between diverging theories in practice. Economic actors may find several incentives for their actions, and any decision will yield complex consequences. However, if Madshus knew that paying the bonuses would make them financially worse off – also in the long term, the decision contradicted a neoclassical understanding of behaviour. That said, even if Madshus did not attempt to optimize profits – they still could have maximized utility – preconditioned that they have a more confused or

complex (i.e. institutionalized) perception of utility than neoclassical economics is capable of explaining.[19]

Unless you are both ugly and poor, it is impossible to know if your girlfriend dates you because she genuinely likes your personality. Similarly, we must as ourselves how it is possible to prove whether economic behaviour fits into the institutional perspective or not. Elster (1989) contends that the bounded rationality of institutional economics can only be proven as a negative norm, i.e. when the behaviour of economic actors obviously contradicts self-interest**.** Elster's contribution might prove valuable as a methodical defence when economic behaviour is analyzed in chapter 4.[20]

An underlying principle in mainstream economics – both neoclassical and institutional – is that economic actors respond to incentives (Levitt & Dubner 2006). In line with utilitarian thinking, it follows that economic actors react to forces in the market that help them maximize utility – rational or not. In mainstream economics, it is not suggested that there might be internal motivations for action that go beyond those of tangible results. This takes us to evolutionary economics.

2.5 Evolutionary Economics

By now, it has hopefully been made obvious to the perceptive reader that microeconomics is wholly related to psychology – primarily the psychology of choice. Friedrich Nietzsche, vaguely introduced in a segment above, was the main predecessor to famous psychotherapist Sigmund Freud. Notoriously known for his many contradictions and obsessive desire for truth (Kaufmann 2000), Nietzsche was never willing to confine human psychology to a universe of choices. Like Confusius (whose anguish towards expediency has been made evident), Nietzsche subscribed to a classical tradition in moral philosophy that we somewhat pretentiously label virtue ethics. The essence of virtue ethics sits in the belief that virtuous individuals are elevated from the mechanistic confinements of cost/benefit analyses. In the celebrated work on morals, *Nicomachean Ethics*, Aristotle explains the elevation as practical wisdom (known as *phronesis* in ancient Greek). It is acquired through extensive learning

[19] Institutional thinking, perhaps, sits closer to the insight of the rock band The Who in their famous song *The Seeker*, where they repeatedly sing: "… I got values, but I don't know how or why…" The one with bounded rationality, namely, does not always understand who or what governs his choices (i.e. feelings of utility).

[20]Not least because it is difficult to think of places or industries that fit better into institutional predictions than a culturally bounded ski-region like Lillehammer and the relatively idiographic ski industry.

within a specific field of knowledge. When an individual has been saturated with knowledge within that specific field – he obtains virtue (i.e. practical wisdom). Furthermore, the virtuous being does not encounter dilemmas of choice. His practical wisdom inadvertently guides him in the right direction which makes cost/benefit analyses superfluous (Cohen et. al. 2000).

Lacking the power of language that certain writers possess, I certainly do not pretend to convincingly explain virtue ethics - it might appear as a fuzzy concept. Please accept the following analogy as a clarification (Youkey 2006):

> Two monks are crossing a river, where a young woman is also trying to cross. The woman is wearing a beautiful dress and if she walks into the water the dress will be ruined. Monks are taught to be kind but are also taught to avoid temptations of the body, and so are supposed to avoid women. The first monk, then, chooses to ignore the woman, and he splashes through the water. The second monk puts the woman onto his back, and carries her across. Hours later, after the monks had walked together in silence, the first monk turns on the second, "How could you do that! You know you that we aren't supposed to touch women!" And the second monk says, "Are you still carrying that woman? I left her back at the river."

While the first monk made a utilitarian decision (he considered consequences) and chose not to help the woman – the second monk displayed a virtuous character. Practical wisdom guided him independent of rules, laws and ideas of benefits. Consequently – and this is the most important point – the virtuous monk was not faced with regret after hand. After every choice, namely, there is the possibility of regret – e.g. if the most expedient choice was overseen. One is tormented by thoughts of opportunity costs. Virtue, on the other hand, supersedes this problem and does not dictate the much discussed character trait of utility-maximization.

This brings us back to the mentioned writer on virtue, Friedrich Nietzsche. As a philosopher of human psychology, he introduced the term *creative destruction* to explain why human beings are never satisfied with status quo. Fagerberg (2003) elaborates on Nietzsche's observation to explain the rationale behind evolutionary economics. He credits the Austrian-American economist Joseph Schumpeter to have brought Nietzsche's ideas into the consciousness of economists. According to Schumpeter, creative destruction manifests itself in a world which is always susceptible to innovations. With few exceptions,[21] it has been contended in contemporary economic geography that innovations are the most important

[21] John Lovering's article *Theory led by Policy. The Inadequacies of the "New Regionalism" Illustrated from the case of Wales* (1999) is challenging the innovation discourse in economic geography.

aspect that distinguishes success regions from regions that are lagging behind (Cooke 2004). Consequently, it is relevant to understand potential driving forces of innovative behaviour.

Darwinist biology suggests that species evolve to adapt to new environments. Evolutionary economists translate Darwinist theories into the economic language (Hodgson 1993). They argue that while economic actors experience a world where they have the power to change circumstances, creative destruction increases the desire to use this power. Innovations are made to face new challenges – even if the challenges are imaginary. In the same fashion that mutations in biology are not intentional – sometimes not even necessary - process or product innovations at the level of economic agency could happen at the random will of creative destruction. That said, Martin & Sunley (2007 pg. 574) point out that "even Hodgson, a strong protagonist of an evolutionary approach to economics, has emphasized that while biological analogies are far more appropriate than the mechanistic ones that underpin mainstream economics, they have to be used cautiously." Although evolutionary economics seek explanations of economic behaviour beyond mechanistic perceptions of utility-maximization, then, it does not follow that the behaviour of economic actors are fully transferable to that of biological evolution.

Consequently, evolutionary metaphors do not have to be rooted in biology. Arthur (1989) provides us with the analogy of the pencil that balances on a table. Like the creative destruction of economic actors is forcefully manifested in innovative action – physical laws forces the pencil to fall in a certain direction. However, it is not given that the falling direction of the pencil is better than any other directions. Similarly, it is not given that successful innovations necessarily result in preferable paths of production.

What is given, on the other hand, is that evolutionary economics perceive actions as dependent of history. Jean-Paul Sartre, still not an economist, puts it thus (Fox 2003, pg. 18) "The historical whole determines our powers at any given moment, it prescribes their limits in our field of action and our real future; it conditions our attitude toward the possible and the impossible, the real and the imaginary, what is and what should be." Sartre's observation contradicts the reality of completely atomistic decision-makers. The neoclassical argument that economic actors are capable of making decisions in a vacuum - including isolation from historical events – is consequently challenged by the evolutionary perspective.

Evolutionary economics provides insight for the economic geographer most powerfully exactly when it comes to paths of production. Specific places, namely, may develop what is known as *path-dependency* (Maskell & Malmberg 2007). Path-dependency, signifying the inevitable specialization of a certain production in a region, may lead to success

when combined with virtue. When combined with narrow-mindedness, however, it leads to myopia and lock-in. Interestingly, then, evolutionary economics relates both to the high-end character trait of virtue *and* the low-end character trait of myopia. In this research project, virtue and myopia are labelled as incentives for action (or lack of action) in the evolutionary perspective. In other words – it implies that the character of an economic actor determines his decision. However, it might be argued that incentives are wholly related to utility-maximization and thus inadequate as a measure in this alternative branch of economic theory. In the lack of better words, and for the sake of deductively analyzing the three economic perspectives on equal grounds (see table 1 in 3.6), the labelling is nevertheless the best possible measure.

It is time to justify the extensive presentation of virtue. When a certain innovation, e.g. a product innovation, envelopes the economic life of a specific place, economic actors may develop practical wisdom with regard to the production of the particular innovation. Consequently, the economic life at a specific place could evolve as a result of the virtue of economic actors. From the perspective of evolutionary economics, then, actions are rooted in practical wisdom and historically influenced routines (e.g. within the firm's or region's path of production) more than rational choice. Evolutionary economics credits certain forms of regional economic behaviour, for example the success of specific agglomeration economies, as a result of practical wisdom rather than utility-maximization (Fagerberg 2003). Hence, routines rather than decisions could guide economic actors in the right direction. Moreover, it seems reasonable to argue that myopia and lock-in happens when the trajectory that was once created by virtuous actors are imposed (through the mentioned historical determinism) on actors that do not possess the virtue, but nevertheless follow the same routines. When we label the incentives as virtue or myopia, then, the type of behaviour that follows is neither rational nor irrational – but *routine based*.

Kasper & Streit (1998) label evolutionary economics as a subgroup of institutional economics. This is difficult to accept and possibly the result of a tendency among economists to treat everything that is not neoclassical superficially. From the perspective of economic geography, there are very convincing arguments for why evolutionary economics is highly distinguishable from institutional economics. Boschma & Frenken point out that (2006, pg. 286): "… it is not only confusing but potentially misleading to equate institutional and evolutionary approaches in economic geography." Institutional economics, as implied, explains the behaviour of economic actors as bounded by place-specific institutions – i.e. specific places or contexts lead to specific forms of socialized agency. Evolutionary

economics, on the other hand, suggests that because actors through a specific innovation/production history have created the economic life at a specific place, one must not look at place-specific behaviour, but rather the already discussed path-dependent behaviour.

Evolutionary economics, then, contradicts institutional economics at the point of culturally bounded rationality. Institutional economists, as explained, claim that external influences from both cultural and formal institutions affect the behaviour of economic actors. Possibly, evolutionary economics provides a better account of what Maskell & Malmberg (2007) defines as cultural-cognitive constraints on rationality (see 2.4). Remember Gertler's discoveries (1997); that cultural-cognitive constraints on economic behaviour were hard to prove empirically. Possibly, an inherent place-specific culture, e.g. that Sicilians are lazy because they live in a hot climate, is inferior to the behavioural effects of specific paths of production. Put simply – while the cultural aspects of institutional economics suggests that places create people – evolutionary economists take the opposite position – implying that people (and their innovations) create places. Notice, however, that when a place is created by people, its trajectories inhabit the same resilience to change which is evident in institutional, cultural contexts. As implied – when the virtue disappears but the trajectory remains, lock-in seems to be the consequence. However, it is the routines (the path) - not local culture (the place) that cause the resilience to change

The creative destruction of economic actors, manifesting itself in independent action at the micro-level of economic behaviour, suggests that evolutionary economics as a theory in microeconomics sits closer to neoclassical than institutional economics. Nevertheless, as implied, the evolutionary strands recognize that there are other driving forces of human psychology than atomistic desires for utility. Consequently, Boschma & Frenken (2006) argue that evolutionary economics could be perceived as a middle ground between the two forms of mainstream economics. They adhere to the idea presented by the evolutionary economist Andrew Lo, who "supposes that humans are neither fully rational nor psychologically unhinged" (*The Economist,* July 18th 2009). The argument is thus that economic actors employ both emotions and rationality in decision-making. This is an intuitively attractive idea, and quite in concordance with Grannovetter's golden mean solution (see 1.2) that neoclassical economics takes an *undersocialized* view and institutional economics an *oversocialized* view when explaining the behaviour of economic actors. However, the argument does not necessarily grasp the core of evolutionary thinking.

I claim that Boschma & Frenken, although very perceptive in other aspects of their evolutionary arguments, are wrong. Evolutionary economics, namely, is something different

altogether. Where neoclassical and institutional economics (although in different veins) see economic actors as necessarily utility-maximizing, evolutionary economics provides a thicker dimension to the behaviour of actors. While mainstream economics understands economic actors to find incentives where the ultimate end is limited to external consequences – evolutionary economics presents a case where it is rather the "doing it for the sake of being good at it" that is the primary driving force for economic agency. Whether it is the case that this driving force can be explained as an incentive in itself was discussed above – yet in a qualitative study like this, the labelling is not as important as an understanding of the concepts.[22]

The evolutionary approach has important, practical implications for contemporary economic geography. As a normative assumption, we may suggest that policy-makers in success regions should make sure that virtue is sustained – so that lock-in trajectories are avoided. Virtue is a tacit capacity. Tacit knowledge, which arguably is identical to practical wisdom within a particular field of expertise, is recognized as one of the key carriers of sustained success in economic regions (MacKinnon et al. 2002). In order to avoid lock-in trajectories, then, it does not suffice to attract people with excellent performances of codified knowledge. It is necessary to find the ones who possess relevant, tacit skills, i.e. those who absorb the virtue that is necessary for continued success. Only the latter have the ability to transcend regions from the evolutionary danger of succumbing to unoriginal ideas and development, which, from an evolutionary perspective, is identical with decay.

[22]It is important to note that virtuous actors certainly, and even by definition, are not omnipresent. However, it is appropriate to suggest that certain forms of economic behaviour are caused by practical wisdom rather than cost/benefit analyses. Moreover, I acknowledge that evolutionary economics not necessarily have to be rooted in virtue ethics. However, I argue that it is more plausible to suggest evolutionary economics as an adequate theory when one includes this specific theory of morals. After all, as I have explained, economics and ethics have always endured strong ties both in theory and practice.

CHAPTER 3 – RESEARCH METHODS

3.1 An Understanding of Truth

The 18th century British philosopher George Berkeley belonged to the empiricist tradition in modern philosophy. In the dialogues between Hylas and Philonus, he gives an account of the consequences that follow from trusting the tradition in its pure form (Baird & Kaufmann 2003). The main problem of empiricism is this: Our senses are not perfect. Thus, when we trust only our senses to accomplish understanding of our surroundings, it follows that any perceived truth inhabits arbitrary connections with the real world. Searching beyond the arbitrary nature of sensations, Berkeley, being both a truth seeker and an ultimate empiricist, concluded that the real world cannot exist. Therefore, there is no such thing as arbitrarily connected sensations, because sensations are all that there is. Thus sensations are just as true as we sense them to be. Following this logic, a flower smelled by a blind man exists only when the man breathes in through his nose. Every truth, then, is related (and relative) to sensory perceptions.

Immanuel Kant provided a solution to Berkeley's outrageous position some 50 years later. He explained that even though our perceptions are not in direct concurrence with the true nature of the world, it does not follow that there is no such thing as the real world. Rather, the true nature of the world exists as a "thing in itself," i.e. it is real, but its true driving forces can neither be sensed nor understood (Kant 1934).

The popular argument that "everything is relative" can be related to Berkeley's dialogues. Postmodern theorists do not seem to have absorbed Kant's solution to the problem. For example: Even though cero centigrade feels warmer when you come out of an ice bath than 10 centigrades feel when you come from a bath of 30 centigrades, water freezes at cero centigrade and not at 10. The point is: our perceptions might be relative, but the truth is not. Cero centigrade is always colder than 10 centigrades. Similarly, an economic action may be perceived as both profit-optimizing and not profit-optimizing dependent on both the perspective and the situation – but a perspective cannot alter the truth.

We may not be able to discover the true psychology of economic action, i.e. why action takes place at all. In a Kantian language - the ultimate driving forces of economic behaviour may exist only in itself. However, it should be possible to reach a non-arbitrary understanding of the kind of incentives that sit behind the behaviour we will be analyzing.

What has to be done is to reach beyond quantitative measures of economic behaviour. When we read an action externally we get a mere indication – not an answer – to the actor's motivations. An understanding of the preferences, background and opportunity costs of the actors in study must be present to understand his incentives for action. This approach requires some preliminary accounts of the differences between qualitative and quantitative methods.

3.2 Qualitative vs. Quantitative Methods

Before we enter a discussion of the advantages and disadvantages of qualitative verses quantitative methods, it is necessary to understand "case" as a concept. The study of economic behaviour in the Lillehammer region ski industry is a specific case. Hence, let it be clear that this research project is a case study. There is, however, no clear definition of what a case *is* (Thagaard 2003). In fact, the attempt to create a definition has been the subject of much academic controversy. Some of this controversy is redundant.

Ragin (1992) contends that a case is an empirically confined unit of research – in contrast to empirically open units of research. He hits the mark. We are going to study the economic behaviour of actors within one segment in a confined region. That is a case. If one were doing behavioural research *independent* of classifications such as segment and region, however, one would not be performing a case study. Potentially, Ragin's definition is misleading because a hypothetical case would be "the world" or "the universe" as confined units of research. However, counterarguments of this kind are inadequate. It would be implausible and arbitrary to pull out central actors in a qualitative case study (and difficult to find random, representative actors in a quantitative case study) from cases that consist of heterogeneous segments of the kind that are found in "the world" or "the universe." For this reason exactly, the specification of region and industry in chapter 1 was of key importance to understand the case.[23]

There are several distinct differences between a quantitative and qualitative approach. Quantitative methods require large, representative sample sizes – aiming at statistical confidence. Qualitative methods, however, allow small and strategic sample sizes. If applying qualitative methods, a researcher defines the necessary sample size in the course of the research – aiming at a "level of saturation," i.e. the point where he has obtained enough

[23] The greater one's belief in universal structures of behaviour across regions and nations, the greater the possibility for defending studies of large case units.

knowledge to confidently make conclusions (Sæther 2008). Strategic samples are justified analytically rather than statistically (see 3.5 for an explanation of analytic generalizations.)

Quantitative methods are also known as scientific or statistic generalizations. The latter involve standardized interviews and a random (yet representative) selection of respondents. Statistic generalizations are adequate when we want to understand simple correlations, asking correlating questions such as: “In what area of Oslo did you grow up” and “Do you have a graduate degree?” Furthermore, statistic generalizations are appropriate when we desire statistical confidence such as “We may conclude, within a 97% confidence interval, that in 2011, men in executive positions will still make more money than women in executive positions.”

It would, however, be meaningless to look for statistical 95, 97, or 99 percent confidence intervals in the present case. There are few firm participants and the objective is to find types of economic behaviour rather than to research the average percentage of different behaviour. We do not desire to make statements such as (for example, no bias taken) “we conclude with 99% confidence that normative incentives for action are more important than atomistic incentives in a regional context.” Rather, we look for statements such as (again, as a random example, no premonitions assumed): “we cannot see that that diverging motivations for economic behaviour relate to physical distance.” Standardized questions of the quantitative kind do not capture the respondents’ individual incentives for action. The absoluteness of quantitative conclusions is admittedly tempting, but not useful when it cannot provide insight in the topics we research.

A qualitative interview - unlike standardized, quantitative interviews – may be strategically adjusted to study specific individuals. Consequently, in the study of motivations (which is necessary to understand incentives), the qualitative approach is superior. In order to reach a deep understanding of economic behaviour, namely, one must see beyond the limited types of answers that standardized questionnaires have the ability to yield. The methods, advantages and disadvantages of a qualitative interview are outlined in 3.7.

The confidence in this case, then, cannot be proven quantitatively, but potentially qualitatively through sound generalizations extracted from the case. A presentation of qualitative generalizations is provided in 3.4 and 3.5, while the potential for qualitative relative to quantitative transferability is accounted for in 3.6.

To sum up: The objective, as stated several times, is to research if co-location influences the rationale of economic behaviour. In order to analyze types of behaviour, we must study the incentives for action. Qualitative methods give the researcher room to

accomplish thick insight in behavioural motivations, and will therefore be applied in this research project. A quantitative approach, on the other hand, is implausible in a small case like this, because it excludes individual motivations from both the premises and the conclusion.

3.3 On the Matter of Selection

Unfortunately, the position that there is such a thing as completely objective research methods has its root in an illusion. The illusion ignores that wherever there is action – *any kind of action* - there is also selection. Even though we may find the best phrases and most valid questions to present for our research subjects, we cannot see through the fact that every action – including asking questions - is contingent on a long, perhaps infinite, chain of historical events. No selection exists independently of previous selections. The problem exists no less in quantitative than in qualitative research. However, it is only a problem for the researcher who is not aware of the matter.

In *Devil's* (Dostoyevsky 1992), the gorgeous and emotional character Lisaveta Nikolajevna suddenly longs for some intellectual endeavours. She calls for student Sjatov. Lisaveta needs his help to select important newspaper articles from the previous year. She intends to make a newspaper clip-book that will work as a cultural and historical manifest of noteworthy Russian events from that year. The following problem emerges: what is noteworthy and what is not? Sjatov questions Lisaveta's intentions and points to the matter of selection (pg. 136):

> Sjatov: "In other words, something with a definite tendency, a selection of facts to support a specific tendency."
> Lisaveta: "Not at all. There's no need to make the selection tendentious; we don't want any tendency at all. The only tendency is to be complete impartiality."
> Sjatov: "There's nothing wrong with having a tendency… It's impossible to avoid if there's any selection to be made at all. The selection of facts will indicate how they are to be interpreted."

Sjatov's insight is of deep importance. As long as a writer or researcher emphasizes and makes clear what he intends to accomplish, the critical reader will be attentive to all selections that are made. Herein sits both the power and inertia of the reader – he may or may

not agree with the researcher's position – but only when disagreeing with the researcher's selections, the reader has the opportunity to make sound criticism. This brings me to the most controversial of qualitative generalizations - *naturalistic generalizations*.

3.4 Naturalistic Generalizations

In chapter one, it was explained that any statement necessarily inhabits generalizations. Any statement, namely, is necessarily dependent on the researcher's will, past experiences, ideas, understanding of language and so forth. Hence, honesty is the most important variable of a sound research project. When we are honest, most of us must accept Cronbach's conclusion that (1975, pg. 124): "…when we give proper weight to local conditions, any generalization is a working hypothesis, not a conclusion." It follows, then, that it is not possible to claim the possession of absolutely true statements, even though a statement might be absolutely true. However, although it has to be used with caution, naturalistic generalizations might bring us closer to a true representation of reality than any other generalization - quantitative, scientific generalizations included.

The bold statement above needs further clarification. As a defender of naturalistic generalizations, Robert Stake gives the following advice to the qualitative researcher "Place your best intellect into the thick of what is going on" (2005, pg. 449). Naturalistic generalizations, namely, are those where sound premises is evident only in the tacit understanding of the individual researcher. Michael Polanyi, the multitalented, younger brother of already quoted Karl Polanyi, argues that even though an understanding is tacit, it is nevertheless objective. Polanyi thus contradicts a fundamental measure of statistic generalizations. Particularly those engaged in the quantitative science of positivism denounce Polanyi, arguing that anything which is not explicit necessarily contains subjective measures (Polanyi 1962).

The debate about the possibility of objective, tacit knowledge is a highly relevant one. If accepting a naturalistic generalization, one must trust and find confidence in the virtue of the researcher. The researcher, namely, makes implicit rather than explicit selections of premises. Thus emerge both a major advantage and disadvantage. In 2.1, it was referred to Wittgenstein's conclusion that it is our limited access to language rather than to phenomena that limits research. When selections are done implicitly rather than explicitly, we may

circumvent such semantic challenges because the researcher does not have to put every observed phenomenon into words.

It seems plausible to argue, then, that objective knowledge exists more accurately in tacit understanding than in language, because language is an imperfect conveyor of knowledge. That said; one must also acknowledge the disadvantage when explicit selections are lacking. Although a tacit, implicit generalization might be sound, the selections, i.e. the premises, are impossible to contradict because they exist only tacitly. The conclusion is possible to contradict, however, but that may not suffice as science. Consequently, Sjatov's point that the attentive reader has the power to evaluate and criticize selections does not hold when it comes to naturalistic generalizations.

When applying naturalistic generalizations in science, then, one reduces the subject to no longer involve scientific discussion; rather it becomes a sole matter of scientific agreement or disagreement. Those who apply naturalistic generalization openly in science, namely, precondition that their propositions "are analytic, tautological or true by definition" (Frankena 1939, pg. 474). This is implied in the *objective* nature of tacit knowledge and eliminates discussion. It brings us back to Aristotelian *phronesis* – i.e. the practical wisdom developed by certain practitioners within their field of expertise. I argue that those who trust the reality of such Aristotelian virtue also must accept naturalistic generalizations – evidenced only by the tacit understanding of virtuous scientists. If there is no such thing as virtue, however, there is no such thing as sound, tacit knowledge.

Regardless of any discussion on the sound nature of naturalistic generalizations - they are admittedly and necessarily a part of every kind of science. Whenever one word is used rather than another – one question asked rather than another – one thought thought rather than another – the researcher, like any other person, inadvertently makes naturalistic generalizations. Even in the most thorough research project it is - unfortunately but obviously - impossible to account for why every thought, word, question etc. is used rather than all other (infinite?) possibilities. The consequence, then, is that there appears to be some kind of arbitrariness in even the most sound and well-proved scientific project. The arbitrariness may only be circumvented if the researcher acknowledges virtue and embraces naturalistic generalizations.

Furthermore, because naturalistic generalizations exist everywhere, it is not given that scientific generalizations are any more scientific than naturalistic generalizations. In fact, when ignoring naturalistic generalizations, dishonest research methods follow. As explained, naturalistic generalizations are necessarily a part of any research behaviour, particularly in the

initial process of confining the case. Because of this necessary, initial application it could follow that it would give validity to the entire research project if naturalistic generalizations are applied throughout.

3.5 Analytic Generalizations – Inductive and Deductive Reasoning

Due to the scientific problem that follows from implicit selections, naturalistic generalizations will *not* formally be applied in this research project (although they, as implied, exist informally wherever there is a sentient being). However, if a naturalistic generalization turns out to be essential to explain some deeper understanding of the subject, some tacitly accomplished understanding may be used to support a conclusion. Hopefully, the above discussion on the nature of naturalistic generalizations justifies a possible application of some tacit knowledge. That said - analytic generalizations will be applied as the most prominent, qualitative method.

In the recognized paper *Studying Regions by Studying Firms,* Ann Markusen (1994) concludes that qualitative interviews have the potential to generate both inductive and deductive insights. Analytic generalizations (Andersen 1997) consist of both inductive and deductive measures. When there is no hypothesis, as in the present case, the induction involves an analysis of collected data to find behaviour that is relevant to answer the research question. Induction is important because we might overlook relevant behaviour if we only search for that which fit into previously established concepts.

For the sake of making valid, inductive judgments, some interview questions will presume a "tabula rasa" – where the interviewer supposedly knows nothing of previously established academic concepts. This opens up for an inductive analysis without bias. It is my sad but sincere experience that it is possible to find almost everything if one eagerly looks and asks for it. Ann Markusen implies that (1994, pg. 478): "… it often appears … that researchers can all too easily find someone to quote to support their position." Hence, an unbiased, inductive analysis is of deep importance when the objective is to find evidence for certain types of behaviour. Without an inductive analysis, there is a danger that any theory could explain the behaviour of any individual.

However, in order to establish useful conclusions, not mere suppositions and suggestions that are isolated from the surrounding academic sphere – deductive methods are necessary. Some deductive interview questions are useful, especially in dialogues where the

respondent displays both reflection and openness. Meaningful answers could very well emerge from asking respondents eloquent questions of (as a random example) deductive concepts such as irrationality or virtue. Deduction is also necessary in the analysis of the inductive conclusions that are made. The deductive reasoning will have its foundation in geographical research and economic concepts, i.e. the theory from chapter 1 and 2.

If you want to become a good skier, emulating the training methods of the best skiers in the world is a good idea. Similarly, in order to improve one's understanding of economic behaviour, it is wise to look at people who evidently display some knowledge on the subject. Arguably, those who repeatedly predict the success or failure of companies in accurate ways understand economic behaviour better than anyone. This is at least the most tangible variable in the world of economics. Charles Munger and Warren Buffett, the two primary brains and largest shareholders of the holding company Berkshire Hathaway, have over a period of four decades proven to be the best investors in the world, beating the market significantly year after year. As of March 2009, Buffett is the second richest person on the planet (forbes.com 2009), without creating a superior product (such as Bill Gates), nor making any short-term investments.

When the same guys repeatedly make the best long-term investments, it is worthwhile to look at their recipe. Interestingly, Munger (1994) proclaims that analytic generalizations are Berkshire Hathaway's most important measure in estimating the value of potential investments. Buffett and Munger make a so-called analytic checklist, i.e. a list of variables that may influence the development of the company in question. According to Munger, a qualitative analysis of the talents and strategies of individual executives are usually the most important variables in assessing a company's potential. To make predictions based on these variables, one clearly needs a rather thorough understanding of the rationale of economic behaviour.

Munger argues that there are some 25, main psychological tendencies which influence economic behaviour – some are rational while others are irrational (Munger 2004). The best executives are those who adjust company structures relative to these tendencies. Thus Munger applies deductive concepts while he synthesises neoclassical and institutional perspectives - arguing that paragons of optimal, economic behaviour *rationally* incorporate *irrational* behaviour in their companies' economic policies. The already mentioned irrationality that takes place when economic actors prefer to recapture a minor loss rather than to gain major profits, for example, could be applied as a predictable variable in a neoclassical model. Interestingly, Munger also incorporates an irrational variable that relates to embeddedness

(see 1.2 for an elaboration of this concept). Based on empirical evidence, he assumes that individuals who are acquainted socially will favour each other in business/economic relations. However, he does not observe the same favours between close friends. Munger claims that this lack of economic cooperation between strong social relations is the result of an unwillingness to receive favours from close friends – out of a fear of being unable to reciprocate the favours that are expected in return.

Based on Berkshire Hathaway's success, Charles Munger's method is clearly not a bad one. However, Munger also stresses that one should never be a slave to deductive analysis – unique behaviour that cannot be explained by previous experience could always emerge "around the next corner" – opening up for unknown forms of rational, irrational or even routine based behaviour.

In *The Black Swan* (2007), Nassim Nicholas Taleb points to a major difficulty in any analytic research, specifically within the field of economics. History, Taleb claims, is necessarily opaque, i.e. as researchers we can never see clearly which events caused particular effects. Consequently, Taleb admits that the more variables we are knowledgeable enough to account for, the less precisely we are able to conclude or predict anything. In fact, it is fundamentally impossible to limit the number of options when it comes to find variables that produced a particular event. Even though Taleb's position is extreme, we should acknowledge that some humility is appropriate even when seemingly obvious variables are found to explain certain forms of behaviour.

However, when Warren Buffett makes superior investments in some 19 out of 20 cases (Greider 2003) – and predominantly applies analytic variables in his investment methods, he arguably possesses the clear and precise understanding that Taleb discredits as imaginary. Not since wonder boy John Maynard Keynes' long-term streak of stock-investment success in the 1920ies *and* 1930ies, the world has seen the success of Buffett and Munger. As implied, Munger explains that microeconomic psychology, specifically the psychology of choice, is the most important variable in any venture to understand and/or predict economic behaviour (Munger 1994).[24] The latter has important implications for the conduction of this research project.

In microeconomics, there is common agreement that the psychology of choice is wholly related to incentives for action (Mankiw 2004**)**. Buffett and Munger put it thus: "Incentives are superpowers" (Munger 2003). Because behaviour clearly follows from action,

[24] As already implied - in order to estimate the investment value of any company, Munger argues that an understanding of internal micro-structures is of far greater importance than macro-numbers and international conjectures.

the analysis in this project will follow the three steps below - based on the methods of analytic generalizations:

1. Judge behaviour – inductive research.
2. Analyze incentives – inductive and deductive research.
3. Make judgments of the kind of behaviour that is observed – deductive research.

In order to research the incentives that govern decision-makers, it is necessary to look at a fundamental level of exchange of goods and/or services**.** Williamson, although an advocate for mesoeconomic analysis, points out that (1985) microeconomic research most powerfully can be executed where interaction between economic actors happen frequently. For the sake of presenting a more solid case, we ought to find transactions that satisfy this premise.

An acknowledgement of analytic generalizations entails a great deal of trust with regard to the integrity, honesty and thoroughness of the researcher. However, because analytic selections happen explicitly, we are not presented with the naturalistic problem that was accounted for in the previous segment (3.4). Consequently, Sjatov's reflection on selections stands the test. In the present case, we must analyze both the explicit and implicit nature of answers, actions, lack of actions as well as (if any) other implications that follow from specific decisions.

While the inductive analysis is important because *unique* case specific behaviour could be revealed, the deductive analysis involves the development or reaffirmation of already existing academic concepts. This opens up for so-called abduction, i.e. a co-existence of inductive and deductive methods when executing research. In an interview, a researcher may run between inductive and deductive questions as long as he is conscious about this abductive method.

When applying inductive insights into deductive measures we develop what may be labelled as *grounded theory* in qualitative methods (Charmaz 2005). Grounded theory are generalizations that exist in the application of relevant concepts from earlier academic works, yet grounded theory is not static – with new findings - both development and/or reaffirmation of concepts could take place. This does not necessarily represent a weakness, because the aim of science is to build knowledge in a collective project. Moreover, grounded theory is not randomly applied; specific concepts – like the concepts that were discussed in chapter 2 - are selected to generate new theory or knowledge within the realm of the specific case in question (Glaser & Strauss 1967).

A deductive analysis may potentially yield transferability from the present case to a greater microeconomic context. Mitchell (1982) emphasizes that the validity of transferring analytic generalization from a case to external contexts relies more on (pg. 208) “the cogency of the theoretical reasoning” than on the representativeness of the respondents. It shines through, then, that the importance of having a neutral position as a researcher cannot be overstated. In fact, nothing validates qualitative research as much as a neutral position. However, despite of Mitchell’s optimism, it is necessary to discuss the challenges and possibilities of transferability both *into* and *out of* a qualitative case study.

3.6 Transferability

There are reasonable arguments for why a qualitative, case study has little potential for transferability. Admittedly, quantitative, statistic generalizations may with precision state with how much confidence a generalization may be transferred from the original study to a new context. However, statistic generalizations must precondition an “other things equal.” There is always a risk that the new context inhabits relevant variables that were absent in the original study. Lincoln & Guba refers to the problem (1979, pg. 33): “The essential dilemma is simply this: generalizations are nomothetic in nature, that is, law-like, but in order to use them – for purposes of prediction or control, say – the generalizations must be applied to particulars.”

Any generalization, then, i.e. any statement beyond platonic truths, cannot uncritically be applied to particular cases unless the acknowledgement of unknown variables is accounted for. In quantitative research, the problem of transferability stops here. For a qualitative generalization however, one must make assumptions that are more controversial than an “other things equal.” There will always be controversy where the generalization relies on the researcher alone – even when it is analytic and explicitly defined. Lacking statistical confidence, then, qualitative generalizations are arguably only transferable to development of concepts. No case is identical – and similarities between cases can only be traced after inductive research is performed. Let me provide a topical (yet possibly irrelevant) example: when previous inductive research has provided evidence that the concept of virtue is real in more than one case, the deductive concept of virtue (i.e. the transferability of the generalization) can be applied on more solid grounds when what appears to be virtue is discovered through inductive research on behaviour in new cases.

Thus emerges the key question – when can we know that the similarities are strong enough to apply a generalization, i.e. the development of concepts, from one particular case to another? In *Case study and generalization*, Gomm et al. admit that (2007, pg. 111): " It is also rare for cases to be selected in such a way as to cover significant likely dimensions of heterogeneity in the population; or for much evidence to be provided in support of claims that the case(s) studied are typical (or atypical) in relevant respects." Consequently, both similarities and dissimilarities between cases must be accounted for before an analysis of the transferability may be performed. This is the primary strength of qualitative research – one does not need to assume an "other things equal" because the cases are accounted for in a thick and thorough manner.

Reflecting upon the advantages of a qualitative approach, I support Schoenberger's contention (1991) that qualitative research has greater potential for of accuracy and validity than quantitative research – because more variables are accounted for in the former. However, quantitative research, with large sample sizes and less dependence on the researcher's thoroughness, might be more reliable. The reliability relates to the transparent and confined nature of a quantitative approach. The confined nature implies that we do not know much, but we are (for example) 97% confident of what we know. The qualitative validity, on the other hand, implies that we know a lot about the case, but we cannot prove scientifically how confident we are.

It must be emphasized that for the present case, the matter of transferability is not only important for a potential generalization into wider contexts. Rather, it is the application of previous generalizations – not new generalizations – that are most critical in a graduate level research project of this kind. Herein sits the challenge of deductive research that has already been pointed to. I must be aware that any concept that is applied in the analysis of the case is a previously established generalization.[25]

Even though our primary intention is to make descriptive rather than normative statements, I adapt Charles Munger and Warren Buffet's method of analytic checklists in the deductive analysis. The checklist, identical with table 1, includes which variables to test in terms of type of behaviour and incentives for action. The concepts that are most topical for a generalization into this research project stem from the three perspectives that were accounted for in 2.3, 2.4 and 2.5, i.e. the grounded theory of this research project.

[25] As a critical researcher I cannot, for example, apply a concept unless I am aware of its origin. I argue, for example, that many writers in economic geography apply and transfer the concept "cluster" in random and arbitrary ways. Maskell & Kebir (2006, pg. 31) concludes that: "We run, perhaps, the risk that the cluster concept will join those rare terms of public discourse that have gone directly from obscurity to meaninglessness without any intervening period of coherence." For the sake of maintaining some validity within the application of qualitative concepts, it important to avoid fallacies of the kind that take place in the popular application of the cluster concept.

The concepts are not rigidly constructed – the research opens up for abduction that, if plausible, consists of developing the concepts in the course of the research.

The table below, then, displays theoretical concepts as essential variables in an empirical case study. The incentives are necessary antecedents to an understanding of the type of behaviour. In an empirical application of the perspectives, the incentives and types of behaviour should be researched and applied as premises that could lead to conclusive statements about the superior theory.

Table 1 Analytic Checklist – incentives and type of behaviour in relation to economic perspectives

PERSPECTIVE	**Neoclassical**	**Institutional**	**Evolutionary**
TYPE OF BEHAVIOUR	atomistic and rational	socialized and irrational	routine based
INCENTIVES	optimizing profits	satisfying norms	virtue or myopia[26]

As a deductive approach, we must discuss the preferred and plausible ways of testing different theoretical perspectives in practice. This requires an elaboration of the aspects a researcher has to be attentive to. First, if economic actors make decisions with other major motivations than to *rationally optimize their self-interest carelessly of social perceptions*, there exist incentives that are not found in neoclassical economics. The neoclassical perspective is therefore most easily displayed in numerical, monetary terms. Transactions that display profit-optimizing behaviour (within the external confinements that most economic actors are subjected to), may consequently be interpreted as conducted out of rational and atomistic considerations. The difficulty here, however, sits in the study of decisions which yield sub-optimal results, but where the original incentives could be profit-optimizing in nature. As it was explained in 2.3; external confinements might limit the possibility for finding the optimal decisions. In order to test true rationality, then, it is of key importance to obtain insight in the rationale of executive decision-makers

Moreover, profit-optimizing behaviour could be the case even where economic actors claim to sacrifice monetary values to e.g. social initiatives. An assessment of a complex cost/benefit analysis is necessary in such circumstances. If actors receive profitable marketing gains from so-called philanthropic spending, for example, the incentives could still relate to profit-optimizing. If, in the opposite case, actors claim to always act in the most rational, expedient manner – and a cost/benefit analysis is in concurrence with what they claim, there is little reason to suggest that their incentives are contrary to optimizing profits.

[26] As explained in 2.5, virtue and myopia are labelled as incentives in lack of a better description. Incentives relate to utility – whereas virtue and myopia not necessarily can be explained by utility considerations. They are, at any rate, driving forces for behaviour, just like incentives.

It is necessary to emphasize that behaviour could be atomistic and *not* rational. In a study of Middle-Sweden's farmers it was revealed that profit-optimizing results were generally not obtained because *individual, atomistic* decisions contradicted rational postulates (Pred 1967). In other words, in the execution of decisions – most of which were manifested as indifferent to profits - there was no evidence for the existence of social influences (social influence dictating the opposite of atomistic behaviour). This kind of behaviour, atomistic and not rational, could potentially fit in somewhere between neoclassical and institutional perspectives – unless we found evidence for path-specific behaviour which would rather support an evolutionary perspective. That said; it is necessary to add that according to neoclassical predicates, the opposite behavioural order, i.e. rational behaviour which is *not* atomistic, is a contradiction.

Socialized and irrational behaviour is not easily tested. Elster's predications of negative norms may be the best method to make valid conclusions. In order to prove irrational behaviour among economic actors, then, a researcher must find examples of behaviour that obviously contradicts rational self-interest in monetary terms. This is most prominently found where economic actors display (Elster 1996, pg. 1386) "suboptimal emotion-seeking behaviour," i.e. when economic actors have emotional incentives that transcend the desire to optimize profits. Elster thus implies that optimal, economic decisions could be neglected because normative influences dictate (irrational) emotional decision-making.[27]

A rather extreme example of the latter sits in the Norwegian ski industry from about 80 years back (Ghotaas 2009). The artisan and entrepreneur Alfred Hovde sold handmade skis in the small town of Vikersund. The skis proved popular as they were successfully used by several national ski team members in races. However, when the demand for Hovde skis reached areas and people Alfred Hovde was not familiar with, he turned financially irrational. The idea of selling skis to people whose background and skiing technique he was not familiar with repelled him – and he actually preferred to keep the skis stored rather than to sell them to unfamiliar buyers. That put a natural limitation to the development of his business; the irrational strategy was clearly not competitive in the long run.

The institutional perspective could also be evidenced in cases where actors admit to be content when satisfying profits rather than optimizing profits. Economic decisions of this kind suggest that the economic actor finds it more important to be liked in the local environment

[27] Recent discoveries in neuroscience (Lehrer 2009) have revealed that previously experienced negative or positive emotions dictate so-called intuitive decision-making. However, these emotional impulses are confined to spontaneous decisions, such as where to kick the ball or how to stop a car. Emotional decision-making manifested as economic behaviour is not a matter for neuroscience because social norms rather than personal experience dictate these emotions.

than to make the best, financial deals. However, there are major difficulties when it comes to research this aspect of institutional economics. Satisfying profits in the short-term could, namely, imply that the long-term effects, in virtue of having more friends and potential business partners, are in concurrence with optimizing profits. It surely does not suffice to trust that the incentives an actor proclaims are in harmony with his actual motivations. Rather, thorough cost/benefit analyses – also long-term ones, must be conducted in order to find evidence for this kind of socialized behaviour.

When it comes to study the credibility of the evolutionary perspective, two challenges emerge. First, a historical investigation of the routines of the firm in question is necessary. This can be done through a comparative analysis of old vs. new economic policies. If it is revealed that the routines of a firm do not change, even when new firm-policies suggest that they should change, an evolutionary approach seems meaningful (Thelen 2003). New policies, namely, are not necessarily absorbed in the decision-making of executives even though they are adapted in written form. In the mentioned case of the irrational decision-making among Middle-Sweden farmers, it could have been valuable to explore if there was a form of path-specific, myopic trajectory that caused the poor economic decisions to occur. Myopia could be evidenced if actors, independently of social influence, uncritically continue to submit to clearly misguided routines.

Second, we must ask how is it possible to understand the virtue (if any) that respondents possess. Path-specific, successful routines are indicative of virtue, but we cannot understand virtue from behaviour alone. Virtue, namely, is a tacit capacity, i.e. it depends on an individual's internal reaction to challenges. Individually adjusted, in-depth interviews, which potentially derive information found implicitly "between and behind" the words (not merely explicitly in the answers), could open up for a conveyance of tacit knowledge. We must thus study how the decisions of an economic actor relate to his character.

The evolutionary perspective is, as it was implied in the theoretical discussion, distinct from mainstream economics insofar as it transcends human behaviour from the limitations choices and opportunity costs subject us to. Consequently, an empirical application of evolutionary, economic theories requires a precursory analysis of mainstream, economic theories, where the evolutionary approach is presented as a candidate when the variables of the other perspectives are excluded as insufficient explanatory measures.

As a final comment, it is necessary to emphasize that the different types of behaviour may all exist side by side in a region or even in a firm. However, a researcher's task should be

to investigate which perspective that most accurately explains the dominant type of behaviour in a specific firm, region or industrial segment.

3.7 The Interview

When performing an interview, the researcher is faced with several methodological challenges in practice. The interview in qualitative research is distinguished by open-ended questions (Schoenberger 1991). Although a set of questions must be prepared in concurrence with the objective – the advantage of qualitative rather than quantitative interviews sits, as previously explained, in the formers ability to yield individually adjusted dialogues and responses. Schoenberger (1991, pg. 181) points to the disadvantage with quantitative interviews thus:

> "… the reliance on large-scale, standardized surveys implies certain assumptions about language and meaning, notably that the meaning of a given question is equally transparent to all respondents and is interpreted identically by them according to the researcher's intentions."

Assuming that the researcher is both honest and has the ability to sufficiently interpret responses, a qualitative interview is not presented with the problem that respondents might misinterpret questions. When the objective involves the behaviour and incentives of individual decision-makers, then, the qualitative interview displays its superiority insofar as it opens up for more individually accurate responses. Unlike postmodern contentions - even if language is arbitrary – what is meant to be communicated does not have to be.

In a qualitative interview, the researcher may perform personal interpretations of responses and develop the interview as he sees fit. However, it is important to keep the major difficulty of qualitative research in mind. The researcher carries a lot of weight on his shoulders with regard to honesty and integrity. A qualitative interview may easily be subjected to criticism in cases where it seems that the researcher is begging questions, i.e. asking only those questions that will prove his case. Obviously, similar criticism could be directed towards quantitative interviews; however, in the latter there are standardized questionnaires which in a more explicit manner display potential fallacies. It is evident, then, that there are potential fallacies in both qualitative and quantitative interviews.

In order to conduct meaningful interviews, I need to follow a relatively coherent pre-established structure, although adjustments, according to qualitative principles, will occur along the way. The interviews, albeit varying in length, will last for approximately one hour. In order to obtain as many valuable insights as possible from the interview process, I have outlined six personal rules of qualitative interview methods. The rules are developed with a basis in the teachings of Markusen (1994), Hesselberg (1998) and Sæther (2008).

1) Choose respondents wisely in order to talk with actual decision-makers. It seldom suffices to settle with public relations managers.
2) Interpret responses relative to the respondents' role. Attempt to put myself in their position. That said, do not over-identify with respondents, i.e. do not assume that they think and according to my perception of common sense.
3) Combine pre-structured and open transcripts. A standardized interview guide is implausible, yet some questions could be identically asked to all respondents.
4) Challenge the respondents. Ask about cost/benefit analyses for concrete transactions, e.g. "the incentives you proclaim are not in concurrence with the outcome of the behaviour."
5) Use multiple sourcing within the firm. Moreover, respondents independent of the firm are needed to understand the firm's role in the region.
6) Do not decide in advance how many respondents who are needed to reach a level of "saturation," i.e. the point where the information is solid enough to make valid and sound conclusions.

3.8 The Researcher's Position

Throughout the text, the importance of a researcher's honesty and integrity under both the conduction and analysis of a study has been emphasized. As a former racing skier, I have a pre-familiarity with the Norwegian skiing environment (yet not specifically with the Lillehammer region). However, respondents are chosen because of their position, independent of any personal connections. I will therefore keep a very low profile when it comes to this research project – not advertising the objective in the skiing environment. I thus avoid preconceptions, antagonistic or not, towards the study. In order to avoid rumours, the qualitative snowball method – where the researcher interviews actors on the advice of former respondents, will only be applied in cases where I trust that the respondent does not have a personal interest in conveying new respondents.

The advantage of knowing the environment sits in an increased ability to analyze the validity and truthfulness of responses, in light of a personal knowledge of ski related products

and the actual influence of different producers in the environment. That said; delicate insights in the rationale of the ski industry could be more easily conveyed through personal relationships. Nevertheless, there will be no prejudice in the analysis – I will not utilize information from personal connections unless it is confirmed by sources, who only in power of their position, display authority with regard to the truthfulness of the matter. In order to maintain objectivity, then, respondents are chosen in virtue of their role as actual decision-makers. In order not to jeopardize the soundness of the analysis, I am not previously acquainted with any of the important, quoted respondents.

There are a few other ethical considerations that deserve some attention - particularly the treatment of respondents. The study involves a research question rather than a hypothesis. Consequently, there is no conscious or subconscious reason to influence the respondents in any particular way. I will stress the importance of not asking personally biased questions or trying to convince respondents in one way or another. That said: strategic questions are allowed and necessary to find the true incentives of certain economic actors.

With regard to anonymity, I must make sure to treat respondents according to their wishes and never jeopardize their positions or reputation. Due to the wish of certain respondents to be quoted anonymously, particularly those with critical comments towards their own executives, I have chosen not to mention names in the analysis. If all names but the anonymous respondents were included – a simple method of exclusion could have revealed the identity of the respondents whose names were omitted.

When it comes to the conduction of the interview, I obviously need the approval of the respondent before (if) I turn on a tape recorder. However, the interviewing of respondents in important positions will be conducted without a tape recorder. I thus expect the respondents to more easily engage in a dialogue of the actual – not superficial – incentives of decision-making. In addition, an approval is necessary if I make specific quotations in the text.

Moreover, the matter of discourse is a prevalent theme in human geography. It is argued that a researcher must be aware of which discourse he is subjected to – or a part of. This research project is nevertheless going to transcend discourse analysis. Even if our perceptions *and* perspectives are influenced by the current or dominant discourse, the truth does not change. For example: Unless they are saturated with new evidence, a wave of institutional writings in academia does not make neoclassical predicates of economic behaviour any more or less true. Truth relies on sound arguments – irrespective of discourse. I argue that independent thinkers and writers are not subconsciously dictated by discourses. Even though a discourse analysis is helpful when the objective is to dismantle arguments, it

does not contribute to an understanding of truth. It is rather the product of postmodern beliefs that there is no such thing as truth.

CHAPTER 4 – ANALYSIS

4.1 The Organization of Firms

The foundation for the upcoming analysis includes qualitative interviews and an interpretation of secondary data such as transaction records and financial results.[28] The interviews were predominantly conducted in the period between April 15th and June 30th 2009. A list of the 14 interviewed respondents is enclosed as an appendix (pg. 110).

A qualitative analysis happens throughout the entire interview and research process. Even though the present analysis - in written form – is an analysis of the aggregate material; analytic reflections have thus been present at every interview. Most interviews have taken abductive forms, i.e. as an interviewer I have been strategically running between inductive and deductive questions. It was necessary to talk with a diverse selection of respondents in order to reach a qualitative level of saturation, i.e. the point when there were sufficient valid and sound premises from where it was possible to fulfil a complete, qualitative analysis of the case. The 14, main respondents include multiple sources within the executive branch of Madshus and Swix; within the Holding Company Ferd; as well as external sources in the Lillehammer region and representatives of several firms in the Norwegian ski-industry.

A short presentation of both Madshus and Swix was provided in 1.6. As implied, due to the confinements of a graduate level research project, we limit the focus of this analysis to the primary production of the two firms, i.e. racing skis and ski wax respectively. That said; Madshus is also a major producer of touring skis and ski boots, while Swix is a world leader within ski pole and ski clothing production. In the analysis, it will be necessary to include some aspects of this production as well. Out of relevant, additional information, we know that in 2008, Madshus had a turnover of approximately 175 million NOK**;** with a total of 70 employees, including part-time consultants (Madshus 2009). Swix had a turnover of approximately 500 million NOK; with 80 permanent employees in Norway, in addition to part-time consultants and employment abroad, making it a total of 170 employees (Ferd Capital 2009).

In 1.6, it was explained that it is necessary to distinguish between different levels of organization in order to understand the behaviour of a firm (Whitley 1994). To accomplish

[28] Some of this data was provided by interviewed executives – and is not included specifically in the reference list.

insight in the rationale of the economic behaviour of Madshus and Swix, then, we need to cover all of the three dimensions (which are repeated below) in the analysis.

a) The nature of firms as economic actors.
b) Inter-firm relations in markets.
c) Authoritative coordination and control systems within firms.[29]

The distinction between the three dimensions implies that we need to research the composition and distribution of agency in a firm before we determine the actual rationale that takes place in specific, economic interactions. It follows that we cannot make valid conclusions about the rationale of a transaction between e.g. Madshus and Swix before we know the compositional influences the decision-makers relate to.

In line with the methods of analytic generalizations that were explained in 3.5, an analysis of incentives and type of behaviour are the necessary benchmarks of this qualitative study of behaviour. Table 1 (pg. 57) will be a helpful measure to activate these concepts. As explained in 1.6, the most elaborate analysis relates to dimension (b), because a study of microeconomics is most plausibly conducted through a behavioural investigation of the transactions *between* firms. However, dimension (c) deserves some preliminary attention. The authoritative coordination and control system within a firm is indicative of the *intended* and *desired* rationale of economic behaviour. Moreover, in order to understand whose incentives and behaviour to analyze in specific transactions, a preliminary analysis of dimension (a) is appropriate. The latter should reveal which economic actors who determine and has an interest in market decisions - which clearly is a necessary precondition to study the rationale of transactions. The three dimensions are thus not discussed in the same order as they were listed by Whitley, but in the appropriate order relative to this analysis. Consequently, in 4.2, we discuss the authoritative coordination and control systems within firms. In 4.3, we turn to the nature of firms as economic actors. In 4.4, we engage in the most extensive discussion, i.e. inter-firm relations in markets.

It is important to emphasize that examples of economic behaviour and interaction in this analysis are selected due to their relevance with regard to the objective of the research project. Hence, only examples that contribute to an understanding of how the rationale of economic behaviour relates to territoriality are included in the analysis. Consequently, most of

[29] In economic geography, we normally talk of ownership relations rather than authoritative coordination. The semantic distinction is not obvious, and the latter concept is thus applied out of fidelity towards Whitley's writings.

the interactions in this analysis deal with output-relations, i.e. how the firms behave as a *potentially* independent (i.e. atomistic) actor in interaction that happen frequently. Input-relations are less frequent in terms of regular interaction with the same actors, and thus less adequate for a sound assessment.

4.2 Authoritative Coordination and Control Systems within Firms

As we learned in 1.6, neither Madshus nor Swix are independently owned. However, the difference between a Trans National Company and a Norwegian Holding Company are major, at least in form. I therefore asked if the difference in ownership-structure between Madshus and Swix could result in a manifestation of diverging types of economic behaviour – relating directly to the dictations imposed by the authoritative coordination of the paternal firm. An analysis of the paternalism of the external company is thus valuable. We therefore turn to the implications of authoritative dictations that relate to the rationale of decision-making; meaning how control systems outside of the firm affect the coordination within the firm.

4.2.1 Authoritative Coordination and Control Systems of Madshus

The production centre and headquarter of Madshus are located in the same building at Biri, some 20 kilometres south of Lillehammer. The executive branch of Madshus is entirely employed by Scandinavians with close ties to the skiing environment, most of whom relate personally to the Lillehammer region. Madshus is independent insofar as concrete business decisions are made at Biri, where only people outside of the United States based K2 Sports are employed. However, the financial controls of the paternal company are strict. In addition to continuous reports between Biri and the US, a K2 Sports representative visits the Madshus headquarter about once every month – assessing the production and recent financial results relative to the ambitions dictated by K2 Sports.

Even though Madshus are given independence in actual decision-making, then, the overarching guidelines that relate to financial goals are decided and enforced by K2 Sports. The TNC demands not only long-term, but short-term surpluses. In the short run, it is difficult to obtain improved financial results from innovations and/or improved products (there is, naturally, usually a significant lag-time before the market and consumers react to improved

products.) Consequently, K2 Sports' policy of short-term surpluses demands a permanent focus on cost-reductions. These demands stand in contrast to some of the marketing strategies at Madshus, where research and development of quality products are assumed to yield more positive long-term results than the obsession with cost-reductions. Consequently, the present sales director at Madshus acknowledges that:[30]

> *Madshus is forced to adapt new business strategies that are alien to our rural mentality of quality before speed and cost-reduction.*

Even though Madshus makes independent decisions of production strategies, then, the consequences of decisions that contribute to unsatisfactory financial results in the short-term are assessed and acted upon by K2 Sports. It follows that there are behavioural implications of K2 Sports' strict financial controls. A respondent at Madshus makes the following reflection:

> *K2 represents an American business culture, where employees are expected to put in more hours and more focus on short-term profits. We will never be able to adapt completely to this culture at Madshus.*

At first glance, the so-called "American business culture" seems to sit closer to rational, economic behaviour than Madshus' rural mentality of "slowing things down". However, the rationale of K2 Sports' policy program, despite of its profit-optimizing focus, does not necessarily entail rational behaviour. As it was implied in 2.3, only long-term profit-optimization may lead to truly rational economic behaviour.

When the will of an external company plays an integral part in the construction of financial strategies, it is difficult to make truly independent decisions. Surely, K2 Sports does not go easy on negative results. There is a high turnover rate in the executive branch of Madshus – K2 Sports demands new people when short-term results are disappointing. In April 2009, the managing director of Madshus, Lars Hanstad, was fired by K2 Sports' board of directors because he reduced the deficits by only 20 million NOK rather than the budgeted 30 million. The board of directors at Madshus had no say with regard to this decision. A respondent in the Madshus board of directors asserts that:

[30] All interviews were conducted in Norwegian. Quotes from interviews are henceforth translated into English by the author.

> *K2 obviously favours long-term results, but because they assess the process externally, their only proof of good business sits in short-term results. From K2's perspective - more important than long-term quality production is the demand to get back on the plus-side as soon as possible.*

In the international racing ski market, Madshus has increased its market shares as well as total sales every year since 2002. Nevertheless, the last four years have yielded negative, financial results. An important explanation to this paradox relates to increased costs of production *and* increased costs of exports – in addition to stagnant market prices for racing skis.

In order to survive in a rough macro-market, then, cost-reductions that ignore – or even contradict, long-term rationality, were, if only indirectly, enforced by K2 Sports. This must be seen in light of confirmed saturation of process innovations in the production of skis. The most tenable way to reduce costs, then, relates to a reduction in the quality of raw material in the production.

This research paper is focused on the rationale of economic behaviour. Judging from the recent behaviour of Madshus, the paternal focus of cost-reduction induces strong incentives of short-term profit-optimization in the executive branch of Madshus. Madshus' director of sales admits that:

> *In order to reduce the costs of production, we will reduce the quality of all types of skis except racing skis. But this probably doesn't affect our reputation, because people who don't buy racing skis are not that concerned with optimal glide and individually adjusted stiffness curves of the skis they purchase.*

Moreover, it seems that Madshus would have been in serious trouble without the cost-reductions. Lillehammer-resident and editor in chief of langrenn.com (the world's largest web-site on cross-country skiing), claims that without the planned cost-reductions, Madshus could have gone out of business. His assessment of Madshus is confirmed by several observers of the Norwegian ski-industry. An important consultant in the skiing-environment claims that "Madshus would not have survived were in not for the policy-changes enforced by K2."

Nevertheless, there were sentiments in Madshus that were antagonistic to cost-reductions. This brings us to the question of incentives, were the authoritative focus on cost-reductions has implications. If Madshus were to continue an expensive production in order to

maintain marginally better skis for ignorant consumers (those who do not buy racing skis), incentives would clearly relate to pride (i.e. norms) rather than profits. Consequently, if Madshus executives had chosen not to reduce costs, optimal economic solutions would be consciously neglected and the behaviour clearly irrational. K2 Sports' authoritative coordination, then, surely inspires to rational, economic behaviour when certain links of the production are changed to reduce costs on behalf of quality and pride. In this case, then, long-term rationality of always producing the best possible product does not apply, because there would probably be no long-term, but rather bankruptcy, without cost-reductions. It is, however, yet to be analyzed whether Madshus' rational behaviour is prevalent in relations beyond the production.

4.2.2 Authoritative Coordination and Control Systems of Swix

Swix' production and test centre of ski wax is located in Lillehammer, while the headquarter is split between Oslo and Lillehammer. The managing director, Ulf Bjerknes, is one out of four people in the Swix executive group, and has to report quarterly to Ferd. Contrary to the case of Madshus, Ferd does not perform pre-emptive controls of Swix' results. However, it does not necessarily follow that their paternalism is not as strict.

The Holding Company Ferd is a family company, originally established by the Norwegian entrepreneur Johan Andresen sr. Ferd's range of investments covers a diversified portfolio, most of which are temporary rather than permanent investments. As of 1978, however, Swix is 100% owned by Ferd, implying that the investment is relatively permanent in nature. Until 2004, when an independent board of directors was given executive powers, the Andresen family controlled and dictated decisions in the Ferd system. Today, Johan Andresen jr. is both the owner and chief executive officer (CEO), but his powers are no longer complete.

It is uncontroversial to assert that Swix has never been a supreme financial investment. A Swix executive admits that:

> *Swix, like most brands in the sports industry, has been market by enthusiasm for exciting products more than rational business behaviour.*

Several sources confirm that the Andresen family did not demand optimizing, financial results when they bought Swix. A former director of sales explains that as long as the results were not too much on the minus-side, Johan Andresen sr. was content. The present director of sales humorously acknowledges the popular saying from the 1980ies and 1990ies: "Swix was Johan Andresen's expensive hobby." It shines through, then, that the economic agenda in Swix used to be institutionalized - satisfying profits were accepted as an adequate incentive for economic behaviour – even from the perspective of the authoritative coordination.

After Ferd elected and employed an independent board of directors, however, things have changed. The director of sales refers particularly to Swix' negative financial results of 2005, 2006 and 2007. The results, albeit clearly not historically remarkable (Ferd's frequent subsidization of Swix has been made evident), caused the independent board of directors to demand better financial controls. Swix' executive group was forced to employ an increased focus of rational measures in their decisions.

Most noticeably, the new rationality manifested itself in moving the links of production that did not demand the specialized labour found in Lillehammer – i.e. the links of productions where Swix did not derive agglomeration benefits. Consequently, Swix decided to relocate the production of ski poles. There is now a Swix-owned production centre for ski poles in Lithuania. Lillehammer residents, who had been employed by Swix for decades, were thus dismissed from their jobs. According to the director of sales, it was not an easy decision to make, but a necessary measure to get back on the plus side (which was demanded by the board of directors at Ferd.) Indeed, 2008 did finally yield positive financial results, with an EBIT (Earnings Before Interests and Taxes) of 2 million NOK on the plus side; a noticeable improvement from the minus 43 million NOK in 2007. Both the director of sales and executives at Ferd claim that the move of production of ski poles in 2007 from Lillehammer to Lithuania was an important contributor to the improved results.

When Swix chose to keep so much of its production in Lillehammer for as long as they did, we are most likely witnessing the forces of incentives related to satisfying rather than optimizing profits. The decision-makers had close ties to the Lillehammer region, and preferred to be loyal to and liked in the region. It would seem, then, that Elster's negative norm is a plausible analytic measure[31] – one would be extremely creative to come up with rational (i.e. profit-optimizing) arguments for not moving those links of production which do not demand any kind of specialized skills. That said; a counterargument would be that Swix

[31] An explanation of and reference to Elster's concept of negative norms is provided in 2.4.

gains long-term benefits from producing everything in Norway, because “Made in Norway” is a sign of quality and integrity in the eyes of the consumers. However, like the director of sales straightforwardly puts it:

> *No one would pay 3000 NOK for a pair of ski poles made in Norway when the exact same ski poles, made in Lithuania, cost 1500. When everyone else produces things in eastern-Europe, we don’t have a market advantage producing in Norway. It’s just too expensive. Ski wax is a different story, though, because we need people with the right skill sets – Norwegians - and the production close to where we can test new ski waxes on snow*.

When Swix has chosen to continue all of its ski wax production in Lillehammer, we are surely looking at an example of Marshallian, positive externalities – because Swix benefits from the specialized labour and knowledge spillovers in the Lillehammer region. Moreover, as the director of sales emphasizes, the production of ski wax is mostly automatic; thus not demanding substantial labour costs.

In 2.1, Marshallian agglomeration benefits were explained as a precondition for this research project. It is important to emphasize that the adherence to agglomeration benefits is not to be confused as identical with rational behaviour. In other words - the neoclassical perspective does not limit rational behaviour to a minimum of cooperation (Porter 1998). In fact, extended forms of local/regional cooperation and interaction might be induced by profit-optimizing incentives. If, for example, Swix had assessed the long-term advantages of producing ski poles in Lillehammer as greater than the costs - because quality-concerned consumers prefer a brand which is “made in Norway” – we would look at behaviour beyond the utility of positive externalities, yet within the explanatory range of the neoclassical perspective. However, Swix assumed that producing the ski poles in Lithuania gave better terms for optimizing profits, displaying a shift from irrational to rational economic behaviour when the move of production took place. It has been showed that the shift in type of behaviour was partly induced by stricter demands from the paternal company Ferd; implying that authoritative coordination could change the incentives of economic actors in executive positions from satisfying to optimizing profits.

4.3 The Nature of Firms as Economic Actors

In 1.6, it was implied that collective agency (i.e. the decision-making of a firm) in many cases is the result of individual agency. A firm as an organization, then, cannot be analyzed isolated from the individuals who affect its behaviour. More specifically: if decision-makers interpret their role and engage in the market influenced by not only their formal, economic relations, but also by their social relations (or if the two are identical) - we cannot understand the nature of a firm unless we understand the embeddedness of the people who make decisions on behalf of the firm. In light of the discussion in chapter 2, social relations are a meaningful concept when we look at the influence these relations might have on the rationale of economic interaction. Consequently, economic relations are affected by social relations if it turns out that the latter plays a part in decision-making.

In 1.2, it was suggested that: "The task for economic geographers, then, should be to investigate to what extent social relations are dependent on spatiality, i.e. the importance (or lack of importance) of territorial proximity for the creation of social relations." When we hereby turn to an analysis of the nature of Madshus and Swix as economic actors, we must therefore look at both which (if any) social relationships that influence decision-making of important actors in the two firms, and how this influence is manifested as a specific rationale of decision-making. In 1.2, the concept of embeddedness, despite of its susceptibility to a diverse application in the academic literature, was confined to explain economic actors' ties to social relations. Embeddedness, then, is primarily useful when exploring individual relationships (relational embeddedness), but could also prove important when analyzing what Grannovetter defines as structural embeddedness (see 1.2). The latter implies that a firm, although disembedded in nature, becomes embedded due to the social relations between employees across firm boundaries. It does not follow that embeddedness has two meanings, but that the embeddedness between firms does not rely on specific, individual relations if structurally resistant to changes in employee structures. That said; the important aspect of embeddedness in this analysis is to explore (under the condition that we find that social relations affect economic interaction) how the social relations in question relate to territorial proximity.

Moreover, we discussed if the concept of embeddedness is in harmony with other economic perspectives than institutional economics. It was suggested that if an actor exploits his social relations to optimize profits – embeddedness and rational, economic behaviour are

not necessarily contradictions.[32] However, a strong local bias in the social relations that influence decision-making (i.e. embeddedness at a local level) could be indicative of irrational behaviour. This was suggested in the case of Swix above; where the move of the ski pole production happened much later than rational considerations would imply, most likely because of social relations between executives and employees in Lillehammer.

4.3.1 The Nature of Madshus as an Economic Actor

In Madshus' executive group, there are predominantly people from the Lillehammer-region. Lars Hanstad, the already mentioned, former managing director, had strong ties to the region. The new managing director, Nils Hult, is Swedish. A respondent in Madshus' executive group claims that Hult, albeith dedicated towards Madshus after many years in a lower position, got the job partly because he was territorially unbiased – both towards the Lillehammer-region and, perhaps more importantly, to Norway. It is thus implied that Hult was hired to decrease the embeddedness of Madshus' executives to specific, Norwegian relations, many of which are regional in nature.

Madshus is the world's second largest producer of racing skis, behind the Austrian brand Fischer. When we want to analyze Madshus as an economic actor, i.e. as producers and promoters of racing skis, the most tangible variable to consider is the nature of the ski racers who are employed through so-called racing contracts.

In 2009, Madshus has 13 Norwegian ski racers on racing A-contracts, i.e. skiers who are not only formally supplied by and committed to Madshus, but also receive monetary bonuses when performing well. Out of these 13, as many as seven relate to the Lillehammer-region – meaning more than 50%. This could be indicative of a local bias. In contrast, namely, "only" some 30% of the top 100 skiers in Norway relate to the Lillehammer region.[33] Although these numbers fall short of statistical adequacy, it is reasonable to contend that without a local bias, one would assume that 4, maximum 5, of the racing skiers with A-contracts should relate to the region. I confronted Madshus' director of sales with these numbers, suggesting that there were normative incentives in Madshus to act benevolent towards local skiers. He acknowledged the numbers, but argued that local benevolence was only an insignificant part of the explanation:

[32] See 4.4.5 for a further discussion on the rationality of embeddedness.

[33] Based off on all male finishers in the two main distances (15km. and 30km.) from the official results of the Norwegian Championship 2009.

> *Our strategy is to cover all of Norway equally, but it is hard to assert influence in new markets. In Trøndelag,[34] for example, Fischer dominates, and we cannot afford to pay the racers as much as they do. In the Lillehammer-region, we control the market, and we have to make sure that it stays that way.*

According to the sales director, then, Madshus want to employ the best skiers possible, independent of geographic location. That said, he admits that it is easier to communicate with skiers who live close-by, because face-to-face contacts improves the relation and the possibility for feedback when testing new skis. It is thus more cost-effective to employ skiers who live in the region.

We cannot trust this rational assessment before we look at the skiers who are actually on contracts. I therefore challenged Madshus' director of sales – suggesting that a few of the A-contract skiers from Lillehammer have not performed particularly well the last seasons. He eventually admitted that although a local bias is basically absent when employing racers, there is some reluctance when it comes to dismiss local skiers from their contracts, even though their (relatively poor) performances imply that it is cost-effective to substitute them with better skiers. In other words, there are traces of normative incentives where it is perceived as more important for the ski producer to support local skiers with excellent skis and opportunities than to make money. Several respondents at Madshus imply that it is hard to disappoint people one is acquainted with and frequently meet - and that there surely are social relations between Madshus executives and some of these skiers. It follows that there exists an embeddedness of social relations that is induced by territorial sentiments. Interaction does not only happen at competitions, but also, inadvertently, at local settings, e.g. when there is little snow and "everyone" trains at the only, local venue with artificial snow. In other words, although rational assessments prevail, there are normative forces in Madshus which yield socialized and irrational (economic) behaviour. Interestingly, the irrational behaviour relates directly to co-location between economic actors.

That said; remember the example from 2.3, where we raised the question of why Madshus decided to pay out substantial bonuses in 2007, even though it led to financial trouble. The bonuses were paid to local, national and international skiers with A-contracts. Several anonymous sources in Madshus confirm that it is hard to adapt to cynical business

[34] Traditionally, racing skiers from Trøndelag move to Trondheim to ski for one of two major ski-teams, where they are perceived as a coherent and relatively uniform group.

decisions when the tradition is to pay bonuses to everyone who performs. Moreover, we need to question if the incentives could have been profit-satisfying and/or related to local norms when international skiers were given the same attention as local skiers. It seems that the incentives here, then, if profit-satisfying in nature, could not be related to local bias. However, in line with the concepts of the institutional perspective, incentives could also be induced by local norms of fairness and justice, i.e. specific local norms that are not exclusively exhibited in the interaction between local actors. This implies that even though behaviour is affected by place, it does not follow that local bias is a part of the place-specific behaviour.

If Madshus knew that paying the bonuses would make them worse-off, also in the long-term, the behaviour was clearly not rational. A key, independent respondent in Lillehammer claims that Madshus "spent money like drunken sailors and have no understanding of rational, economic thinking." However, Madshus' director of sales contends that the strategy was conducted with incentives of optimizing profits, and thus displaying rational behaviour. He refers to the fact that Madshus has increased – not decreased – its market share, both nationally and internationally, since 2007. Some of the bonuses were paid to German and Russian skiers, resulting in renewed contracts with two of the best German world-cup skiers and, at the time, the best Russian world-cup skier. The German and Russian markets for racing skis are the world's fastest growing. If German and Russian consumers observe their best, national skiers on Madshus' racing skis – it is surely an excellent marketing strategy for Madshus' international sales.

Obviously, many variables could explain increased market shares, but it shines through that the decision to pay out bonuses did not necessarily involve as much irrationality as the respondent above, denouncing Madshus as "drunken sailors," implied. However, contrary to the director of sales' assertions, it is also evident that rational cost/benefit analyses were not properly conducted. Given Madshus' financial situation, the decisions were clearly too risky to involve proper, rational assessments. However, irrational, emotionally evoked decisions do not seem to be the case either. Decision-makers at Madshus do not feel sentimental or socialized with German skiers – and the suggested norms of fairness and justice towards skiers are only marginally evidenced in the respondents. Rather – we seem to be looking at behaviour without thinking or emotions. The behaviour, in fact, seem to be relatively indifferent to utility-maximization, but with a clear fidelity towards routines.

Madshus was struggling in terms of market shares in the late 1980ies. Since the early 1990ies, however, Madshus has followed a path were the virtue of paying bonuses to good performers have transformed the firm from being a mediocre ski producer in 1993 to a major

ski producer in 2008 –attracting some of the best skiers in the world. When the international macro-market for racing skis changed to the worse, then, Madshus arguably displayed some myopic character traits – not transcending its behaviour from established (but successful) routines. Or, like a respondent at Madshus puts it:

> *We adapt slowly to new strategies and routines up here. We are not in Oslo, you know.*

Moreover, routine based behaviour, lacking mainstream cost/benefit assessments, does not endure the *a posteriori*, regretful judgments of opportunity costs. This is evidenced in the case of Madshus, were no respondents seem to be neither particularly satisfied, nor discontent, with the execution of bonus-payments. Rather, a mentality of "we did the right thing because it has always been the right thing" seems to be prevalent. That said; whether it was virtue or myopia that caused the Madshus executives to continue the routines is difficult to analyze. Assessing the evolutionary perspective in this case, there seems to be a fine line between virtue and myopia.

4.3.2 The Nature of Swix as an Economic Actor

There is some bias towards Lillehammer in Swix' executive group. Two out of four have personal relations to the region. Out of 80 permanent employees in Norway, 60 work in Lillehammer. The managing director, who is not originally a Lillehammer resident, contends that even though the Swix' headquarter recently was divided between Oslo and Lillehammer equally (it used to be in Lillehammer alone), Swix' identity should relate to the Lillehammer region. In fact, he argues that because Lillehammer is the Norwegian ski-city number one, constantly reaffirming Swix' close ties to the region is of key importance to attract the necessary expertise which is found in the region. However, several sources in the Norwegian skiing environment confirm the observation of the editor in chief of langrenn.com:

> *To get a job in Swix, coming from Lillehammer is an advantage, because you know the guys better. However, if you are a well-known figure in the skiing environment, it doesn't matter if you are from Lillehammer or somewhere else, as long as you make social contacts at important events*

In other words, even though there is a formal policy in Swix to affirm and create social relations within the Lillehammer region, it could be that the locally induced embeddedness is important more because of the convenience of short distances than of local sentiments. According to Swix' director of sales, who is also in the executive group, the Lillehammer bias is merely practical in nature. He comments that:

> *Swix is done relating to geography. Geography doesn't matter in decisions. We have bias towards neither Lillehammer nor Oslo. However, because of the cluster benefits in Lillehammer, the production of ski wax will remain there.*

The director of sales thus introduces the controversial and degraded cluster concept, but implicitly refers to the positive externalities of Marshall's agglomeration economies (see 2.1). Swix' has decided to produce ski wax at the best location in terms of knowledge and specialized labour, and reaffirms social relations in the region to get in touch with the best labour and thus optimize the production.

Swix' director of sales also refers to another formal policy which surely influences Swix as an economic actor. He contends that it has always been difficult to balance asymmetrical focuses of quality products and cost-reductions. We know that minor, incremental innovations (and improvements) are not always absorbed by the market and the consumers (Dicken 2007). On the contrary, it takes a collection of incremental innovations before the market reacts. Even though creating the best products is the intuitively supreme long-term strategy, one cannot know that the market will ever grasp and comprehend the differences in quality. Spending time, money and effort on creating marginally improved products, then, is probably not going to yield the best financial results, according to the director of sales. Swix has consequently applied a formal strategy to avoid irrational, economic behaviour; individuals with little personal history and experience from the skiing environment are employed in the financial control organs - to make sure that not only interesting products, but also cost-effective products, are given attention. In other words, Swix as an economic actor does not only consist of people with social relations from the skiing-environmnent, but also of people with external, independent competence. Swix thus seems to consciously enforce atomistic and rational measures into their system.

Moreover, Swix employs several individuals in its research & development program – some in temporary and other in permanent positions. While the chemical testing of ski wax

happens at the University of Oslo – the strategies and think-tanks of innovation mostly take place in Lillehammer. The director of sales admits that everyone engaged in the innovation of ski wax know each other very well as former skiers. It is basically impossible to get a job in innovation if you don't know all the people already. They have to trust both your skills and your integrity. In this group of research & development, there is a core of Lillehammer residents who assert a strong influence on the nature of the innovation program. According to a former Swix executive, the fact that Swix limits its innovation centre to a relatively small location like Lillehammer inadvertently results in a lack of proper, human capital. He thus modifies the argument that the embeddedness to Lillehammer is induced by convenience rather than local sentiments.

Interestingly, the two most influential innovations made by Swix (now adopted by every other brand within similar production, and considered invaluable by any racing skier); Cera-F racing powder and the carbon ski pole - both originated through interaction between core people in Lillehammer *and* external social relations from the skiing environment. At its most successful executions, then, the Lillehammer group did not make decisions alone, but followed a path of employing ingenious former, racing skiers – independent of location.

Innovations as such could not have been thought of without the trust and knowledge formed when people know each other very well. However, the innovations connect to social relations independent of location. In fact, both present and former Swix employees claim that important, innovative people who do not live in the Lillehammer region have chosen to seek work elsewhere. Arguably, even more ingenious innovations of the kind above could have emerged from Swix without the Lillehammer bias – a bias that was fortified as of 1988, when it was declared that Lillehammer was going to be the host of the 1994 Olympics. A former, international sales director points to this lack of rationality through the following example:

> *In 1989, Swix chose to acquire Norheim clothing in Gjøvik*[35] *rather than to establish a similar production in central-Europe. Local priorities made us unable to reach a big, international market. We could have been big in central Europe – but we made poor decisions, partly because of a narrow-minded Lillehammer group.*

Looking at the example of Norheim, there is common agreement (today) that the acquisition was a true failure.

[35] Gjøvik was an Olympic city together with Lillehammer, and is within the boundary of the Lillehammer region – defined in 1.5.

This leads us to a difficult aspect in any study of economic behaviour. The decision-makers at the time were responsible for Swix' growth and innovation. Albeit today admitting that the acquisition was a mistake, some argue that the purchase was based on rational expectations – even though it did not yield profit-optimizing results. As implied in 2.3, behaviour may be rational even when the outcome has sub-optimal outcomes, as long as alternatives are rationally evaluated and acted upon. In 3.5, it was referred to Nassim Nicholas Taleb, who claims that it is impossible to understand the significance of specific, economic actions in retrospect. Arguably, however, it is even harder to predict and foresee the outcome of economic decisions. Even though an assessment is rational - unknown, unpredictable variables could alter any cost/benefit analysis.

However, when it comes to decision-makers at Swix in this case - and similar cases of innovative praxis - the embeddedness to social relations clearly influenced decision-making. The former international sales director, namely, emphasizes that there were several (rational) voices in Swix that opposed the acquisition, but their opinions were never properly considered. The embeddedness here, then, is surely somewhat connected with territoriality. Decision-makers at Swix preferred to engage in a dying regional rather than growing international context. Incentives of satisfying rather than optimizing profits are thus obvious. That said; the Lillehammer bias is presently declining due to the mentioned rational voices in Swix' executive branch – who demands stricter controls on important, financial decisions – partly because of the misguided acquisition of Norheim.

Because a job in the innovation program requires highly specialized and tacit skills around the properties of ski wax and complementary products, employing people one is not acquainted with might be a dangerous enterprise.[36] This, however, is exactly what Swix has done in the chemical testing of ski wax. Rather than looking for acquaintances, they recently hired a recognized Swedish chemist (with no ties to the skiing environment) in a key position to perform scientific, chemical research on innovative ski wax ideas. Notice that the research of this kind takes place at the University of Oslo, and that employment strategies thus are less influenced by the Lillehammer group of employees.

Again, it needs to be emphasized that the irrational, Lillehammer bias we discussed was manifested more strongly before the mentioned shift towards strategic, rational measures at Swix took place a few years ago. As an executive at Ferd, working specifically with Swix, puts it:

[36] As far back as in 1979, the present managing director of Swix' innovation program, Leif Torgersen, codified every factor that influences the texture of snow (Vaage 1979), and thus the necessary properties of ski wax. However, the codified material is so complicated that it cannot be grasped without a tacit understanding of the volatile nature of snow.

> *1n the 70ies, 80ies and early 90iess, you could make decisions based on bias and personal opinions and still survive. Today you have to consider the most rational alternative and act on it. Stronger, international competition makes it harder to be irrational.*

In concurrence with the discussion in 2.2.3, - analyzing both what people in Swix proclaim, how they are perceived by observers in the skiing environment and how they actually behave in terms of economic decisions, it is reasonable to suggest that there has been a shift from mostly irrational to mostly rational measures through the recent years of stronger international competition. In order to reduce costs, for example, Swix has reduced the number of Norwegian racing skiers they support with free equipment by as much as 70% since the late 1990ies. This is considered a rational measure by the director of sales, because most Norwegian skiers know where Swix' products are superior and where they are not – thus applying (and not applying) Swix regardless of formal agreements.

It is not given that Swix' assessment is accurate. In fact, it could be that the rationale that takes place here is, in the words of J. G. March (see 2.4) "… inconsistent… and imprecise." The possibly bounded rationality, or irrationality, sits in the unevaluated danger that Swix could lose its market domination when other brands are given the opportunity to engage racing skiers, formerly committed to Swix, in exclusive agreements. This is yet to be seen. The strategy, nevertheless, is an attempt to act on rational considerations.

When it comes to existing endorsement agreements between Swix and individual skiers, Swix' main, declared strategy is to support skiers who are attractive in the eyes of media. It follows that not only how fast you are, but also your personality and good looks could give you an endorsement agreement with Swix. The strategy, although clearly induced by profit-optimizing incentives, naturally makes it easier for Swix to justify a disproportional high ratio of local endorsements, because skiers are assessed by subjective standards. Indeed, the director of sales admits that social relations between employees at Swix and local skiers frequently favour local skiers before external skiers; confirming that Swix is somewhat embedded to (local) social relations. However, he emphasizes that the same favours/privileges are given to social relations outside of the region. Again, then, we see that the relation between embeddedness and territoriality is existent, but somewhat inconsistent in nature.

That said, when we look at the names of the endorsed athletes, there are indications that a local acquaintance is perceived as a stronger kinship than an external acquaintance,

even though the relations are similar in quantitative nature. The explanation could sit in local buzz.[37] It could mean that a decision-maker at Swix reasons or feels that he knows a skier personally because of the local talk (i.e. buzz) about the potential of that skier – giving the latter prerogatives relative to external athletes. We may then talk of embeddedness to territorial relations between Swix and athletes - independent of specific, individual priorities among the decision-makers at Swix. It follows that Swix, despite of a rational cost-reduction strategy, is somewhat influenced by embedded sentiments. The latter yields incomplete, profit-optimizing considerations in the execution of endorsement agreements.

Not surprisingly, it seems that irrational behaviour is more prevalent when actors are given the opportunity to make biased selections, as we see in interaction at the marketing level, such as endorsement agreements. Rational strategies are increasingly being implemented, although we know that profit-optimizing incentives must be present to adapt to strategies as such.

4.4 Inter Firm relations in markets

In 3.5, it was referred to Oliver Williamson, who pointed out that microeconomic research most powerfully can be executed where transactions between business partners happen frequently. It follows that transactions between business partners that happen seldom – for example a rare agreement between Swix and Toko (the market leader of ski wax production in central Europe) to share transportation costs at an important event – are possibly random in nature and not valid as subjects of analytic, microeconomic research.

In the first chapter, the following was promised (pg. 18):

> My approach to the objective of this thesis, then, within its limits of size and length, is to study (a) the interaction between Madshus and Swix, (b) the interaction, respectively, between the two firms and other important, regional actors, and (c) the interaction, respectively, between the two firms and extra-regional actors.

In order to analyze if inter-firm relations depends more on regional co-location than on economic relations (independent of territoriality), we must ask ourselves questions such as: If firm A is structurally embedded to firm B because of individual relations across firm

[37] See pg. 14 (in 1.5) for a definition of local buzz.

boundaries – what happens when important individuals disappear from firm A? That is – how long does the structural embeddedness between the two firms last without those individuals? In the upcoming segments, we must therefore analyze interaction not only at the level of the firm, but at the level of the individual actor as well. It follows, as it was explained in chapter 3, that an understanding of preferences, background and opportunity costs of the actors in study must be present to understand incentives for action.

The Lillehammer region attracts skiers from all over Norway, having Norway's highest concentration of full-time and part-time ski racers (Gotaas 2009). Most respondents explain the concentration by inherent advantages in the region; such as cold winters, an extensive network of ski-trails, a college with prerogatives for top-athletes, and Norway's most developed centre for artificial snow. Interestingly, however, several respondents reveal that skiers in the Lillehammer region, although clustered together, do not interact to any significant degree. In fact, at the level of individual relations, skiers seem reluctant to engage in the new environment. We may conclude, then, that living within close proximity and engaging in the same activities is not identical with making social relations. In the 1930ies, Mikkjel Fønhus, a Norwegian author, observed the same tendency. In the novel *Skiløperen*, he implied that social relations among Norwegian skiers relate to who you are (i.e. how fast you are) not where you are from. However, it seems that former, regional attachments (e.g. the region where a skier started his carrier, before he moved to Lillehammer) do play a part in the social relations at Lillehammer. We must keep this in mind when we now turn to an analysis of the relations and interaction between firms, particularly because a large percentage of employees in Madshus and Swix are former racing skiers; implying a direct link between racing skiers and a pool of labourers.

4.4.1 The Interaction between Madshus and Swix

As it has been explained a few times, agglomeration benefits are seen as a precondition for this research project. The analysis, then, should primarily be concerned with interaction that transcends the basic positive externalities of co-location. However, because Madshus and Swix are the primary actors of this study, it is worthwhile to look at the agglomeration benefits they derive from each other. Not only as a general investigation of agglomeration benefits, but because we need to see clearly where the borderline between positive externalities and other

forms of local cooperation sits. Remember that agglomeration benefits can be identified as: shared labour supply; knowledge spillovers and shared supply base.

When asking respondents at Madshus and Swix about the interaction between the two firms, several agglomeration benefits are revealed. The most important ones are discussed below - in addition to an analysis of where the behaviour transcends these agglomeration benefits.

It turns out that many former employees at Madshus are now employed by Swix – and vice versa. Moreover, a respondent at Swix disclose that out of 34 part-time consultants employed by Swix, as many as 20 are simultaneously employed part-time by Madshus - representing the two firms interchangeably at events. Most of these "freelance" consultants have their home base in Lillehammer, and are almost exclusively former racing skiers. Executives at both Swix and Madshus disclose that historically, consultants of this kind – if pursuing a career within the ski industry - end up in lower, executive positions at either Madshus or Swix, unless they move on to coaching positions for local ski teams.

It is evident, then, that there are at least two types or pools of shared labour supply in Lillehammer, utilized by the two firms. Particularly when people formerly employed by Madshus are presently employed by Swix (and vice versa), there is a natural environment for sharing information at events where both firms are present. This does not only lead to knowledge spillovers, but is clearly an indication of social relations between individuals in the two firms. There are many examples of former skiers - with little formal education - who begin their carries as consultants for both Swix and Madshus, while continuing their carrier at one of the two at the will of coincidence. The loyalty of many employees, then, is shared between the two firms. Social relations of this kind seem to stimulate cooperation (beyond agglomeration benefits) between the two firms at major promotion events.

When it comes to shared supply base, Madshus and Swix share three international distributors in the transportation of goods *into* Norway. We thus see benefits related to economy of scale; such as reduced transportation and information costs. However, there are certain indications that these benefits are not optimized. A respondent at Madshus reveals that until recently, Madshus ran only one-third to half-full trucks from Oslo to Lillehammer, not coordinating logistics in order to reduce transportation costs. I tracked little willingness to cooperate with Swix to reduce costs in form of shared transportation of goods from Oslo to Lillehammer. However, the respondent emphasized that an increased focus on efficient logistics was currently taking place. The immediate willingness to profit-optimize is nevertheless clearly absent.

4.4.2 The Interaction between Madshus and other regional actors

We have to keep in mind that Madshus is not only a dominant actor in a regional context – it is, in fact, the by far most influential racing ski producer to ever emerge from Norway (Gotaas 2008). Consequently, when it comes to cooperation with other actors in the ski industry, the quantitative nature of agreements within the region do not, in relative numbers, necessarily transcend Madshus' engagement in external, Norwegian markets. Empirically, namely, we see that Madshus engage closely in markets far beyond the region. We must therefore look at decision-making at the individual level to adequately analyze if Madshus make different kind of agreements with regional relative to extra-regional actors.

With the exception of agreements with racing skiers on contracts, Madshus distributes skis through sport stores. Talking to respondents in several, Norwegian sport stores that have racing skis as one of their main sales products, it is clear that Madshus is not biased in terms of prices. Different sports stores, independent of regional belonging – are given the same, standardized racing ski prices. This applies even to large quantum discount agreements for major sport stores. However, equal pricing does not mean equal deals. Any racing skier knows that even though two skis look exactly alike and are produced in the same manner at the same place – no ski is identical. In fact, the quality of seemingly identical skis differ to the extent that A-contract skiers every summer test up to a hundred new pairs of skis each – before they settle with the best pairs.

There are several variables that determine the quality of a racing ski. Some are only discovered in the tacit knowledge of individual skiers, while others are codified in precise numbers. The latter is most noticeably distinguished by two variables: pore sizes in the ski sole and degree of stiffness along the ski's curve. It is uniformly acknowledged that small pore sizes and certain, codified "stiffness curves" are preferable to others. However, because the production of skis itself includes imperfect variables; it is necessarily so that some skis come out better than others. Consequently, two seemingly identical skis - having gone through the exact same links of production – will necessarily vary in quality.

The quality of the two, main codified variables is measured respectively with a magnifying glass and electronic ski-curve testers. A quality measurement of this kind is conducted in a few minutes, but the method is inaccessible to the average consumer. The very best skis are obviously distributed to contract skiers. The major question, however, is how Madshus distributes the remaining skis of preferable quality (i.e. those with small pore sizes and excellent curves) relative to skis with bigger pore sizes and mediocre curves. Does the

distribution happen at random – coincidentally favouring certain sport stores before others? Keep in mind, then, that even though the price of two pairs of skis is the same, the actual value might indeed be substantially different in terms of quality. Madshus' director of sales acknowledges the dilemma:

> *Due to imperfections in the production, there are always differences in the quality of racing skis. The differences are marginal, but good skiers will notice. However, we cannot afford to throw skis away. In other words, we have to sell mediocre racing skis to certain sport stores*

I consequently asked the sales director if there is a bias with respect to which stores get the mediocre skis. He confidently admitted that Madshus spends a little more time selecting good skis for local sport stores than for other sport stores. The behaviour seems highly indicative of a local bias, yet there could be rational assessments even here. I therefore asked if the local sport stores were given benefits because they are more critical about the quality of the skis or because individual actors at Madshus feel less comfortable disappointing local stores than stores outside of the region. The sales director gave the following answer:

> *Someone has to be slightly disappointed. It is better if they are not in the local environment. Actually, we shouldn't think that way, because we basically have monopoly in the local environment anyway, a few disappointments wouldn't affect our position.*

Clearly, then, even though a rational assessment is present, it is neglected when local sport stores are given better deals. Decision-makers at Madshus act contrary to the type of behaviour which would optimize results.

In order to understand the incentives of the decision-makers at Madshus, it is necessary to find out why local stores are given priority, even though a rational assessment admittedly contradicts such priorities. It seems that the incentives in play are clearly induced by normative standards, confirmed by the sales director's acknowledgment of the importance of local sentiments:

> *Local sport stores sell fewer skis than e.g. stores in Oslo. If we give local stores mediocre skis, we know that a local racer, perhaps a 14-year old, buys something which is far from optimal. That would be bad.*

Several respondents at Madshus admit that even though they ideally want every ski to be perfect, it is unfortunately so that many skis are highly imperfect – and they care less if a random person in e.g. Oslo buy a mediocre pair of skis than if a local racer ends up with the same pair. It should be added that respondents at Madshus assert that Madshus, after all, is able to produce a higher percentage of skis with small pore sizes and preferable stiffness curves than any of their competitors. This is confirmed by a sales executive from an Oslo-based sport store that sells every major brand of racing skis – having the highest racing ski sales numbers in Norway:

> *We get a lot of mediocre skis from Madshus, but not nearly as many as we get from the other brands.*

It could be suggested that Madshus, in virtue of having a reputation of supplying fairly good skis to all of its distributors, is not running a particularly high risk when giving local distributors prerogatives. However, the local bias is clearly not driven by profit-optimizing incentives alone; hence economic behaviour of this kind is not rational.

In Norway, there are five state supported high schools for top athletes – known under the abbreviation NTG (Norwegian Top-athletic Gymnasium). Two of these high schools have cross country skiing as a primary sport in their program. One is located at Geilo[38], while the other is established in the olympic venue at Lillehammer. Naturally, the high schools attract many of the most promising, young skiers from all over Norway, including external regions such as Troms and Finnmark in northern Norway.

Despite of a diversity in the regional background of individual actors, it is evident that NTG-Lillehammer is formed by the agglomeration benefits that exist in the region. Particularly the specialized labour force is utilized for coaching positions, waxing positions, consultants and so on. Respondents at Madshus acknowledge the high schools at Geilo and Lillehammer as important arenas for promotion purposes and for establishing contacts and possible endorsement agreements.

[38] Geilo is located between Oslo and Bergen – see map in 1.7 for closer, geographical descriptions.

Madshus' director of sales, as previously explained, commits to a policy of recruiting skiers independent of location. Nevertheless, there is no doubt that the ties between Madshus and NTG-Lillehammer are much closer than the ties between Madshus and NTG-Geilo. There are even coaches at NTG-Lillehammer that are also on Madshus' pay list, employed by the ski producer to support NTG skiers who race on Madshus skis. Madshus, then, is more willing to engage in promotion efforts at Lillehammer than at Geilo, even though both high schools have the same program and curriculum.

Madshus' director of sales first proclaims equal cooperation with both high schools. However, he eventually admits that:

> *Due to social relations with the coaches at Lillehammer, we have much more contact with the skiers at Lillehammer than at Geilo.*

The local bias in this case clearly extends the positive externalities of co-location. Positive externalities, namely, would be confined to benefits such as the movement of labour between Madshus and NTG-Lillehammer or knowledge spillovers that are more easily conveyed at local venues. However, in this case we see that Madshus, both formally and informally, cooperates more closely with the high school that is within regional proximity. Considering that NTG at both Geilo and Lillehammer are a part of an identical state supported initiative – cooperating closely with one would not reduce or weaken the cooperation with the other. As a game theory approach, Madshus may increase and decrease the cooperation with each, individual NTG in a "vacuum" independent of its relations with the other. The tendency to engage more closely with NTG-Lillehammer, then, cannot be explained by exclusive arrangements to obtain better relations with one than another. Rather, we might be looking at what Allan Pred (1967, pg. 45) explained as:

> … it appears justified to contend that specialized person-to-person channels of communication are not unrelated to distance from the actor's dwelling and place of work. In most instances time-distance sets a limit to the area within an actor may actively participate in specialized groups

Certain forms of social relations that also affect economic relations, then, are more easily continued when the interaction is local, and thus frequent, in nature. This is reaffirmed by the fact that even though the coaches at NTG-Lillehammer have a high turnover rate – meaning

that new people frequently emerge in important positions - the ties between Madshus and NTG Lillehammer do not change. It implies that social relations are not only embedded in individual, economic actors, but also in the local environment as a whole. Most likely, then, embeddedness to local, social relations explains why Madshus has closer ties to NTG at Lillehammer than at Geilo.

As a counterargument, it should be added that the last decade displays a clear tendency in favour of NTG at Lillehammer when it comes to produce paragon, world cup skiers. To cooperate more closely with NTG at Lillehammer, then, could also be a part of an empirical strategy to promote oneself where the (probably) most promising skiers are found. However, first; one cannot know that this tendency will not change. Second; the game theory example showed that Madshus does not have to choose between the two. It is therefore hardly a rational strategy to virtually ignore the cooperation possibilities with NTG-Geilo. Embeddedness to social relations seems to be the dictator of decision-making here. Interestingly, the embeddedness relates directly to territorial proximity.

A counterargument to the importance of territoriality in social relations is made by the editor in chief of langrenn.com. The latter, as implied in 4.2.2, is a successful internet based news source, focusing exclusively on Norwegian cross country skiing. It has an average of almost 20 000 hits per day (Sand 2008). Langrenn.com is strategically located in Lillehammer, utilizing the positive externalities in the Lillehammer region. Full-time journalists and editors report and work from Lillehammer, while the web site has freelancers throughout the country. It is naturally a highly attractive place for branding and advertising among ski related enterprises. The editor in chief asserts that location and territoriality is rather unimportant when it comes to make marketing agreements. Both Madshus and Swix advertise on the web site, but so does almost any Norwegian ski related enterprise.

Interestingly, the respondent admits that social relations sometimes lead to better deals for some brands than others. However, Madshus and Swix, although co-located with langrenn.com, are not among these.

> *To be a social guy at important events, for example big ski races, is the most important factor for successful contracting. Special agreements usually happen over a beer after big ski races. You really have to extend the regional level a lot to find anything that relates to location. It is perhaps a little harder to do business with people from the north.*

The respondent thus reaffirms Mikkjel Fønhus observation from *Skiløperen*, where it is implied that who you are, not where you are from, governs social and (in this case) economic relations. In 1.2, it was referred to Fløysand & Jacobsen's (2008) rejection of the normative argument "that increasing local embeddedness is inherently beneficial." In line with, among others, the respondent from langrenn.com, we see certain indications that successful economic behaviour in the ski industry could be unrelated to local embeddedness. However, the case of Madshus has displayed that embeddedness to local relations to some extent leads to normative incentives which cause irrational, economic behaviour.

4.4.3 The Interaction between Swix and other regional actors

In 4.3.3, we learned that Swix made a poor investment when acquiring Norheim clothing in 1989. That said, as an independent actor, Swix cooperates with most ski related enterprises in the Lillehammer region. In marketing relations, we see that Swix dominates not only in the region, but within the extended nation. However, considering its Norwegian ownership and the fact that Swix is the world's largest brand within the ski wax industry, there is no surprise that Swix is not only deeply engaged in a regional context – but also dominates the ski wax marketing scheme nationally.

Again, it must be emphasized that the analysis deals with interaction beyond positive externalities of co-location. Agglomeration benefits Swix obtains from being in the region with the largest concentration of ski racers – wherefrom knowledge spillovers such as feedback on innovations are derived – cannot give us insight in the rationale of economic behaviour. Rather, we need to look at the nature of agreements, formal and informal, that happen between Swix and other regional actors.

In 2.3, it was referred to Figueiredo et al. (2002), who emphasized that giving local partners prerogatives is not necessarily a sign of irrational behaviour, because the information costs of looking for external partners could exceed the marginal benefits of obtaining slightly better prices. Hence, we cannot limit the analysis to whether there is a local bias or not, because the discovery of local bias is not sufficient to discard rational behaviour.

Every respondent in the ski wax industry contend that the most important arenas for marketing ski wax exist at major ski races. Due to the *Norwegian Ski Pool* agreement, every ski wax producer or distributor are given equal access for marketing purposes at races hosted by the Norwegian Ski Federation, such as Norwegian Cup races and the National

Championship. Even though Swix is in a position to pay more than other brands, they are consequently not given the opportunity to marginalize or exclude competitors from these events. When we want to analyze Swix' behaviour, we should therefore look at venues *without* strict, egalitarian regulations.

Birkebeinerrennet is the second largest ski race in the world, attracting 15 000 skiers. It is an event with strong ties to Lillehammer. The administration, award ceremony – not to mention the finish line of the race - are all located in Lillehammer. It is a private initiative, independent of the Norwegian Ski Federation, and consequently in a position to give certain distributors and producers advantages in terms of marketing access.

The level of the ski racers at Birkebeinerrennet, implicitly meaning the consumers of ski wax, extends from professional world cup racers to citizen racers. The venues at Birkebeinerrennet are recognized as a major opportunity for different brands, within most segments of the ski industry, to display innovations and engage in other marketing activities. This is confirmed, among others, by a respondent from the Norwegian distributor of the Italian ski wax *Rode*, which is the second largest actor in the Norwegian ski wax industry. He emphasizes that the by far largest share of the marketing budget of Rode's Norwegian distributor sits in marketing activities at Birkebeinerrennet. Yet Rode, and other ski wax brands outside of the Lillehammer region, are not given the same marketing opportunities as Swix. This local bias requires an analysis of the rationale behind the interaction between Swix and Birkebeinerrennet.

Swix has the following agreement with the administration at Birkebeinerrennet: Representatives from Swix are given access with cars, trucks and equipment to the start area of the race, while representatives from every other brand are excluded from the enclosed area. Respondents from both Birkebeinerrennet and Swix contend that the relationship between the two is purely financially motivated, even though the interaction happens locally. A key respondent in the administration of Birkebeinerrennet asserts that:

> *A formal cooperation with Swix exists because Swix, due to its supreme position in the Norwegian ski wax market, economies of scale in local production and low transportation costs, can provide the best deals in terms of both price and service. This benefits us and the consumers.*

In other words, if another brand were willing to pay as much or more than Swix does to obtain the exclusive marketing benefits, there is nothing in the agreement that contradicts such a development. However, like a respondent from Swix explains:

> *We have 75% of the Norwegian ski wax market. Naturally, no one else can pay as much as we do.*

Respondents from other brands uniformly assert that even though they dislike Swix' arrogance, they believe that they would be given the same privileges as Swix if they were in a position to pay as much as Swix does. Swix would thus be in its privileged position because they pay more – not because of social relations. Nevertheless, when asked about the terms of the agreement, especially when it comes to the possibility for renegotiation in the case of competitors, respondents at Birkebeinerrennet and Swix preferred not to answer. Moreover, it was not possible to establish the length (in years) and rigidity of the agreement, yet respondents at Birkebeinerrennet admit that other brands were never considered. We also know that there are social relations between individual actors in Swix and the administration at Birkebeinerrennet. However, it is hard to find evidence that the embeddedness to these relations are strong enough to manifest itself as irrational behaviour in terms of not looking for the best possible deals.

Even if there were evidence for such behaviour, an objection towards the link between social relations and irrational behaviour emerges: Irrational behaviour, if any, is executed by Birkebeinerrennet – not by Swix. It could thus be objected that Birkebeinerrennet alone, while committing to Swix, does not look for optimal agreements, and thus suffers from not optimizing profits (under the precondition that there are closed deals between the two, local partners.) Swix, on the other hand, seems to be in a monopoly position to its own, profit-optimizing benefit.

However, the objection as such ignores the atomistic nature of rational behaviour. In 3.6, it was emphasized that according to the neoclassical perspective, rational behaviour which is not atomistic is a contradiction. If Birkebeinerrennet gives Swix privileges, the former could expect favours in return that are not necessarily included in Swix' present cost/benefit analysis. Allan Pred (1967, pg. 7) refers to Herbert Simon when identifying the nature of this problem: "… what action is optimal for one depends on the actions of the other firms… this condition requires every decision-making unit or form to outguess ones opponents, but not to be outguessed by them, something which is clearly logically

inconsistent when applied to all units." Simon thus intended to display that there is no such thing as rational, economic behaviour, because one can never be atomistic when interacting with other actors. This is a radical position, but a precondition for rationality is surely that agreements happen in accordance with the rules and regulations of the market. In other words, rationality preconditions that all actors or units are engaged in an equally atomistic manner – so that one does not have to "outguess one's opponents." In cases where social relations, rather than market confinements, determine the nature of agreements, then, rationality is necessarily limited.

That said; we also need to be attentive to the fact that Birkebeinerrennet and Swix could optimize profits because their social relations strengthen the negotiation position of both actors. This is where we enter the difficult paradox: rational behaviour cannot be atomistic, yet there are indications that the embeddedness to social relations could induce profit optimizing behaviour. In 1.2, I argued that unlike the intentions of Karl Polanyi, embeddedness does not, *a priori*, relate to the institutional perspective alone. However, due to the contradiction between rationality and embeddedness, it can never relate entirely to the neoclassical perspective. Nevertheless, we might be looking at an example of a long-term agreement that benefits both parties. Due to the agreement's indefinite nature, it is reasonable to suggest that the rationale of the interaction is governed by routines – meaning that that the nature of the agreement is uncritically taken as successful and indefinite by both parties. Moreover, the agreement is clearly not place specific, because (as it will be discussed in 4.4.6) Swix is given the same privileges by similar events in other Norwegian regions, such as Skarverennet and Flyktningrennet. Rather, we are probably looking at a path in the Norwegian ski industry, where Swix is taken as the best, possible partner. Whether this path is uncritically continued, or if Swix actually presents the best offers, is difficult to analyze.

What is certain, however, is that Swix is in a position where they may, and indeed have, utilized a kind of monopoly position in the Norwegian ski wax market. As it was explained in 2.3, strategies of this kind could be both rational and atomistic in nature, preconditioned that there are market dynamics, such as having the strongest marketing position or the best resources for innovation, which keeps the monopoly situation possible. If the monopoly position is continued due to secret agreements with complementary actors, however, we can no longer talk of sound market dynamics, because the atomistic nature of these agreements is non-existent.

Like Madshus, Swix cooperates with NTG. In fact, there exists an exclusive, formal agreement where athletes at NTG are offered a 40% discount off retail price on all of Swix'

products. The agreement applies to both NTG at Lillehammer and at Geilo. However, talking to respondents from the two high schools, it shines through that Swix has a strong bias towards Lillehammer. A respondent at NTG-Lillehammer discloses that although the official agreement entails a 40% discount, athletes at NTG-Lillehammer are given a 60% discount on most of Swix' products. In return, coaches at NTG Lillehammer recommend Swix ski wax to their athletes. Respondents at Geilo are not familiar with a similar agreement.

Considering that several former NTG-athletes are presently employed by Swix, the secret agreement between NTG-Lillehammer and Swix is not particularly surprising. The relationship between the two are thus highly embedded in nature, and the decision-making of Swix is far from atomistic in this respect. When we look at the people that relate personally to both NTG-Lillehammer and Swix, we see that many are not originally residents of the Lillehammer region. This implies that social relations which affect economic behaviour, although related to territorial proximity, do not have to be attached to an original, cultural kinship.

Does Swix act contrary to self-interest when they give secret discounts to local actors? Surely, decision-makers at Swix foresee increased profits from dominating the local market completely. Only, perhaps, when we apply extremely stringent interpretations of rational choice theory and neoclassical economics – where only purely atomistic and rational behaviour can be to the long-term benefit of any actor - we may suggest that Swix' behaviour is irrational. However, rigid, rational behaviour as such is perhaps only expected by the very most libertarian-utilitarian[39] and calculative of us. Again, as implied in 2.3, we might have to turn to Ayn Rand's fiction to discover economic actors of this kind, such as Dagny Taggart and her three, male relations in *Atlas Shrugged*. These relations displayed pure and moral economic interactions through the entrepreneurial spirit of atomistic and monetary, mutual self-interest - which is predicated by the neoclassical perspective.

4.4.4 The Interaction between Madshus and extra-regional actors

At Madshus, there is a continuous endeavour to improve and develop the quality of racing skis; particularly the optimization and codification of varying stiffness curves relative to snow and temperature is an incremental process that is not fully explored. According to respondents

[39] Libertarianism being the political-philosophical idea that moral behaviour is only found where every individual actor calculate benefits irrespective of benefits and relations with other actors (Heywood 2003).

at Madshus, innovations of this kind cannot be executed without the help and feedback from ski racers. When a skier has reached the level where he has the capacity to win the World Championship or the Olympics, he has necessarily applied and tested several hundred pairs of skis, and clearly possesses knowledge that is valuable for a ski producer.

Madshus particularly employs Thomas Alsgaard and Ole Einar Bjørndalen, known as two of the world's most sensitive technicians on skis, in the development of racing skis. A production director at Madshus explains that:

> *Without our close relationship with Ole Einar Bjørndalen we would not have produced as good skis as we do. His feedback is amazing. He has an understanding for what works and what doesn't that can't compare with anyone else I have met.*

Ole Einar Bjørndalen is referred to as the perfect partner both because of his patience to discover new aspects of the properties of racing skis and his willingness to cooperate with Madshus' research & development program. Respondents at Madshus describe him as a skier with extraordinary tacit capacities. There is little doubt that he has a virtuous understanding of ski technique and the complex properties of racing skis. The difficulty, however, is to codify Bjørndalen's tacit discoveries. He knows when something works, but cannot necessarily explain the technical details that distinguish the optimal ski at specific snow/temperature conditions. The challenge for Madshus, then, is to interpret which variables that distinguish what Bjørndalen has picked as the best skis from the next best skis.

Madshus has a similar relationship with Thomas Alsgaard, whose feedback is described as "extremely important." Moreover, Alsgaard was Madshus' perhaps most important promotion representative in the 1990ies. His victory at the Lillehammer 1994 Olympics played an integral part in Madshus' increased market shares. Interestingly, neither Alsgaard nor Bjørndalen relates to the Lillehammer region. In fact, Bjørndalen's relationship with the Madshus' executives is described as purely professional. Alsgaard has some social relations with Madshus employees, which is not surprising, considering that his formal relations with Madshus go almost two decades back. The important point here is that when Madshus select paragon skiers for feedback, they choose irrespective of region. For a purpose as important as research and development, what matters is what the skiers know and what they can do, not shared feelings of local sentiments. That said; both Bjørndalen and Alsgaard are from Norway. Madshus admits that there is a barrier when it comes to utilize the feedback

of international skiers in the production – both because of language difficulties, trustworthiness and the short-term nature of their contracts. In this case, then, we must see culture as a national, not regional, artefact.

To analyze if co-location influences the rationale of economic behaviour, we should ideally look at extra-regional firms that are engaged in activities similar to those that exist in Lillehammer. However, Madshus most important, external partners are suppliers that do not have competitors in the Lillehammer region. We must therefore look at Madshus' interaction independent of a comparative analysis.

Madshus most important supplier is Isosport – an Austrian producer of ski sole material. As we have learned, the quality of the ski sole is one of the most important variables when producing a good racing ski. Respondents from Madshus report of close ties with Isosport, evidenced by an exclusive agreement between the two firms. Unlike Madshus primary competitor, Fischer, Madshus are supplied with a newly developed nanomaterial in the ski sole. The nanomaterial is proven to reduce the amount of glide wax that is needed to saturate the sole. Interestingly, Fischer – which is also supplied by Isosport – is not given access to the new material, even though Isosport and Fischer are located in the same region in Austria. Fischer, in fact, has not developed its sole material in 15 years.

Clearly, the relationship between Madshus and Fischer is purely competitive. They are never invited to Isosport at the same time. A respondent at Fischer admits that they do not have access to the nanomaterial, but argues that:

> *It is not the amount of glide wax needed that is important, but the actual glide itself. Our ski sole material works as well as Madshus'.*

Regardless of Fischer's perception on the preferred material, it is evident that Madshus has accomplished a close relationship with a partner in a foreign country – independent of K2 Sports.

This leads us to an analysis of how Madshus cooperates with international partners through the Trans National Company K2 Sports. Respondents at Madshus disclose that they share some transportation and production costs with producers of similar equipment within the TNC – relating directly to preliminary links of production that takes place in Asia. When Madshus produce ski boots, for example; the production, design and supply base is shared with a rollerskate producer that is also owned by K2 Sports. Here, it is of key importance to emphasize that the social relations between Madshus executives and actors within the TNC

conglomerate are non-existent – implying that the cooperation is a purely rational measure to optimize the production. The concept of embeddedness has no explanatory power in this respect. Madshus director of sales concludes that:

> *Were it not for the cooperation with other brands in the K2 system, we would not have been able to expand our efforts beyond the production of skis.*

Considering the fact that Madshus and Swix do not even share possibly significant transportation costs from Oslo to Lillehammer, there is little doubt that Madshus have closer ties to external partners (yet within the same TNC) than to its peers in the regional neighbourhood. Local cooperation seems to be primarily limited to interaction between Madshus and local distributors/consumers, i.e. transactions where Madshus is in command of the nature of the social relations.

4.4.5 The Interaction between Swix and extra-regional actors

The close relationship between Swix and Birkebeinerrennet has already been discussed. According to respondents in the ski wax industry, there are particularly two races, next to Birkebeinerrennet, that distinguish themselves as important arenas for marketing purposes; Flyktningrennet (in Trøndelag) and Skarverennet (at Geilo). Interestingly, it turns out that Swix has accomplished the same exclusive agreement with these two events. This does at least indicate that it is not primarily a local/regional bias which yields Swix' privileges at these events. Rather, as the respondent from Swix' Finnish competitor *Rex* contends:

> *Swix does not have better ski wax than us, but they have more money, and the big events surely want as much money as they can get.*

Moreover, Swix' director of sales admits that their strategy is to completely dominate the Norwegian ski wax market – attempting to avoid any weak links – both with regard to geographical areas and types of ski wax. For this reason, perhaps, Swix is clearly perceived as arrogant by respondents among competitors such as Rode and Rex. Swix is understood as unwilling to concede to any weakness or cooperation with any competitors in Norway – confirmed by the directors of sales:

> *Basically, a Norwegian consumer should not need any other brand than Swix. Our goal is to cover everything that relates to ski wax.*

We know, for example, that Swix has no cooperation with Rode, even though Rode has a distribution centre in the Lillehammer region. It all comes down to, then, that Swix is reluctant to cooperate with both regional and extra-regional actors in the ski wax industry. Rather, its strategy sits in elevating itself from everyone else; successfully resulting in a market domination of every area in Norway, perhaps with the exception of Northern Norway, where the Finnish brands Rex and Start are somewhat influential.

That said, Swix does cooperate with some distributors of ski wax– but this happens outside of Scandinavia. In central Europe, for example, Swix is not the largest distributor of ski wax. Looking at the international market for ski wax, Swix controls some 40% of the total sales. However, the high numbers are largely the result of its market domination in Norway and Scandinavia. In central Europe, then, Swix has an incentive to cooperate with other producers or distributors to minimize information cost, thus benefiting from shared economies of scale. However, even though agreements of this kind are frequent, they are ephemeral in nature – meaning that they cannot be judged in relation to embeddedness.

Nevertheless, in this case we surely observe seemingly counterintuitive indications of increased interaction with increased distance; meaning that Swix engages in cooperation more deeply in external regions than in the Lillehammer region. This is clearly indicative of rational behaviour, because the degree of interaction is assessed and directly related to the assumed benefits and optimization of profits through the interaction in question.

When it comes to cooperation with firms in complementary industries, there is little evidence for local bias. In fact, Swix' director of sales reasserts that:

> *"Geography matters basically nothing when it comes to make good deals with other brands in the ski industry. When it comes to endorsement deals, we make the same agreements with Fischer in Austria as we make with Madshus in Lillehammer."*

The agreements he refers to relates to offering athletes a "complete package" of complementary products – such as Fischer skis and Swix poles. Here, it appears that optimal agreements are chosen before local agreements. The argument is confirmed by Madshus –

making it rather evident that rational behaviour prevails. This is rather surprising, because we saw in 4.4.2 that the social relations between Swix and Madshus are close because of the shared history of many employees. That said; in 3.5, it was referred to Charles Munger's discovery in economic psychology, namely that close social relations could be reluctant to favour one another in economic interaction because of a fear of feeling guilty if unable to reciprocate the favour. This could explain why we see that social relations has more influence on informal than formal cooperation. The latter is, perhaps, not only expected, but even obvious. However, because it turns out that the informal, local cooperation is not only less open, but also less influential in nature, it is reasonable to suggest (regardless of the adequacy of Munger's discovery) that the rationale of economic behaviour takes a rational turn when important measures are at stake.

CHAPTER 5 – CONCLUSIONS

5.1 General Remarks on the Conclusions

Before we make conclusions, it is important to repeat the purpose of this research project. As explained in 1.3, in virtue of not involving a hypothesis, the objective is to answer the following research question: Does co-location influence the rationale of economic behaviour?

Any academic writer knows that there is no such thing as absoluteness about behaviour. Based on the research question and the theory of this research project, what we ultimately are looking at when attempting to make conclusions is this: is it reasonable to assume that economic actors predominantly want to make as much money (optimize profits) as possible – or could territorial relations modify – or even completely alter – these economic incentives?[40]

In order to understand the true rationale of economic behaviour, we must look at interaction that transcends the agglomeration benefits of co-location. In order to make conclusions about the territorial influence on economic behaviour, then, we must utilize the discoveries from chapter 4. Here, it is worthwhile to restate Dostoyevsky's contribution to the matter of selection (3.3). It is in the selection of facts, or in this case the selection of specific economic interactions, that we can evaluate the soundness of the aggregate conclusion.

In the analysis, it was indeed revealed that certain forms of economic interaction in the Lillehammer region depend on territoriality. However, we also learned that there were important economic interactions where physical distance seems wholly unimportant. Moreover, even though we have analyzed the rationale of different types of economic behaviour, it is from the change or difference in economic behaviour (relative to territoriality) wherefrom conclusions can be derived. Identifying various types of economic behaviour alone, then, is not a sufficient measure for making conclusions.

In order to utilize the aggregate of the analytic material in a proper fashion, we will now recapitulate and make conclusions from the many observations made in chapter 4, relating the case directly to the economic perspectives from chapter 2. Eventually, we conclude by clarifying tendencies, suggesting transferability and making claims about the rationale that takes place in the ski industry in the Lillehammer region.

[40] If the application of economic theories in 5.2 fall short of the complexities that were attributed to the same theories in the discussion in chapter 2, the reader should include the latter in his or her own interpretation of the conclusions. At any rate, the variables in table 1 (pg. 57) are applied as the most relevant concepts in the discussion.

5.2 How the different Perspectives relate to the Case

Neoclassical economics, as it was explained in 2.3, contends that economic actors are guided by profit-optimizing incentives - resulting in atomistic and rational economic behaviour. In the Lillehammer region, we found important transactions and economic interactions that were in concordance with this perspective.

In 4.2.1 and 4.2.2, we learned that the dictations of external ownership structures could inspire to an increased focus on optimizing profits at the executive level of Madshus and Swix; evidenced both by the recent cost-reductions at Madshus' racing ski production at Biri and Swix' decision to move their ski pole production from Lillehammer to Lithuania. Here, it is important to emphasize that the increased focus on optimizing profits has taken place adjacent to a shift towards stronger external influence. Not surprisingly, it implies that the stronger the authoritative control, the lesser the chance for decision-makers at the firm to manifest normative incentives

Strong ties to social relations are defined as embeddedness in this research project. If social relations influence the decision-making of economic actors, we may thus say that they are embedded in social relations. In 4.3.2, it was implied that Swix' managing director employed embeddedness to Lillehammer as a rational measure to obtain specific advantages through the knowledge creation that takes place in the region. Embeddedness as a strategy, then, may be rational - even though social relations evidently lead to normative incentives among the embedded actors. In order to avoid incentives of this kind, we saw that Swix has employed people independent of the skiing environment (and the social relations therein) to ensure that atomistic, rational measures are not forgotten in financial strategies. Similarly, rational measures were displayed in 4.4.3, where Swix' decision to remain in a monopoly position in the Norwegian ski wax market largely can be understood as a rational and atomistic strategy to be independent of both the influence and competition of other actors. However, a monopoly strategy as such is rational only if it is not "uncritically taken as successful," meaning that the behaviour is routine based rather than rational if not frequently assessed upon by the decision-makers. It is only rational to be in a monopoly position until the consumers realize that they are not given optimal options. It is not evident that an assessment of this kind is made by Swix. This indicates routine based rather than rational behaviour in some of the monopoly agreements.

In 4.4.4, it was made evident that Madshus' innovation program rationally utilizes the expertise of the two racing skiers Ole Einar Bjørndalen and Thomas Alsgaard, who are neither

related to the Lillehammer region nor particularly socially related with anyone at Madshus. These skiers are selected because they possess a superior, tacit knowledge. Moreover, even though their feedback is based on virtue rather than rational calculations, the decision to employ Bjørndalen and Alsgaard is clearly rational – they possess optimal knowledge and are not selected because of social relations or connections to the region. In fact, they have more influence on the decision-makers at Madshus than any skier from the Lillehammer region.

The most important discoveries, perhaps, were revealed in 4.4.4 and 4.4.5. We learned that there were many indications of closer contacts with external than local partners, confirmed by important economic actors in the skiing environment. It was argued that who you are and how you present yourself - not where you are from - determines the decision-making when economic actors make transactions in the Norwegian ski industry. There are even examples of increased interaction with increased territorial distance, particularly within the TNC structure that Madshus is a part of. This is a strong indication of the fact that normative considerations and regional sentiments do not necessarily influence the behaviour of economic actors. In many cases, in fact, it seems that what influences economic rationales are little but the atomistic, rational actors themselves - looking for the best, possible deals

The latter examples surely contradict the arguments found in *Institutional economics*. This perspective assumes, as explained in 2.4, that the incentives of economic actors are influenced by normative, institutional forces, i.e. decision-making is socialized into irrationality. From this perspective, it follows that optimal, economic opportunities are neglected because of e.g. a bias towards social relations or due to feelings of utility which are attached to local norms rather than pure, profit-optimizing calculations.

In 3.6, it was explained that irrational behaviour is evident when actors clearly behave contrary to rational self-interest in monetary terms - referred to as Elster's negative norm. In the analysis, it was revealed that some irrational behaviour is present in the Lillehammer region. Madshus is somewhat under regional, normative influence when giving local sport stores better skis than sport stores outside of the region, thus exhibiting incentives of satisfying rather than optimizing profits. Behaviour of this kind is both unatomistic and irrational, as the influence of local norms yields suboptimal decisions. It thus stands in contradiction to the neoclassical perspective, because sentiments of being liked in the local environment are perceived as more important than rational considerations of making as much money as possible. Evidence as such, manifesting Elster's negative norm, was clearly found in 4.2.2, where Swix' former reluctance to move their ski pole production out of Lillehammer ignored optimal solutions in order to satisfy local expectations. As implied above, Swix'

decision to finally move the production displayed a shift in the rationale of the firm's decision-making, from irrational to rational.

Similarly, looking at both the behaviour and arguments conducted by present and former Swix' executives, it shines through that the irrational, economic behaviour which was revealed when Swix' misguidedly acquired Norheim Clothing in 1989 would not have been conducted in the same manner today. Stronger, international competition gives decision-makers at Lillehammer less room to adhere to their local bias. The same shift is somewhat noticeable in the rationale at Madshus, yet new, rational strategies in both firms are clearly not identical with an adaptation to rational behaviour in all transactions.

The shift from irrational to rational dominance is thus far from complete. Normative incentives were revealed where the influence of social relations cause Swix to give monetary prerogatives to athletes and coaches at NTG-Lillehammer. Similarly, relations of this kind cause Madshus to sustain their formal support of underperforming, local skiers. Notice, then, that the embedded sentiments relate directly to territoriality, meaning that the influence of local, social relations may lead to irrational, economic behaviour.

The social relations above are not only embedded in a few individual relations. The relationship between Swix and NTG-Lillehammer, for example, are withheld independent of specific individuals. Here, we see that the region and its normative institutions assert some influence on the rationale of economic interaction – it is not only the random will of specific, individual social relations that is in play.

Assessing contemporary behaviour only, the irrational behaviour we observe is mostly exhibited in marketing and promotion related interaction. The latter thus seems to be particularly susceptible to the influence of local expectations and social relations.

In chapter 2, we learned that both neoclassical end institutional economics perceive economic actors to make decisions in light of cost/benefit analyses; either profit-optimizing or profit-satisfying. There could be economic interactions where this perception of economic action is too narrow, namely when path-specific routines transcend decision-makers from cost/benefit analyses, i.e. the ideas of *Evolutionary Economics*.

Evolutionary Economics, elaborated upon in 2.5, represents a perspective where economic actors are either virtuous or myopic, but not utility seeking, when acting upon routines. As it was explained in 3.6, the evolutionary perspective should first and foremost be included when the variables of the mainstream perspectives are already deductively accounted for – and evidently revealed to be insufficient explanatory measures. In the analysis, we saw this most clearly when Madshus has continued to pay out substantial bonuses to contract

racing skiers, even when a traditional cost/benefit analysis would contradict behaviour of that kind – also when taking normative incentives into account. This is a path-specific routine from a ski producer that has experienced success partly because of its reputation of exhibiting monetary gratitude towards its performing skiers. Considering the lack of after hand evaluation among Madshus' executives, there were clearly some myopic tendencies in the execution of these decisions.

Above, we also concluded that Swix' successful monopoly position is *evolving* into a routine that stands the risk of becoming a myopic trajectory if uncritically continued. Reflecting upon the extended study, virtuous behaviour was also detected in Swix' innovation program – where a path of employing ingenious, former skiers – independent of location – resulted in two extraordinarily successful innovations (the Cera-F racing powder and carbon ski pole). However, the path was not continued. A place-specific employment strategy followed, exhibiting a Lillehammer bias in the employee structure. We have not seen equally or more successful innovations since. Swix thus cut off what seems to have been virtuous path - in order to fortify Lillehammer's influence on decision-making. The latter proves that territoriality (i.e. co-location) certainly influences the rationale of economic behaviour.

5.3 Reflections on the Research Project

We have now summarized the analysis of different types of economic behaviour in the Lillehammer region ski industry. Where the three perspectives differ and are meaningful for application is outlined in table 2. The table is an elaboration of table 1 (see. 3.6), and develops from the analysis. The different variables should not be interpreted as absolutes.

Table 2 – Application of different economic perspectives

PERSPECTIVE	**Neoclassical**	**Institutional**	**Evolutionary**
TYPE OF BEHAVIOUR	atomistic and rational	socialized and irrational	routine based
INCENTIVES	optimizing profits	satisfying norms	virtue or myopia
SPACE	neutral space	local context	firm
EMBEDDEDNESS	minor	major	medium
OCURRENCE	increasingly frequent	decreasingly frequent	random
ARENAS	professional relations / external economies	social relations / marketing and promotion purposes	specific industrial paths
AUTHORITATIVE CONTROL	strong	weak	weak (or not adapted)

In 1.2, we elaborated upon Grannovetter's golden mean solution, meaning that where neoclassical economists take an *undersocialized* perspective on economic decision-making, institutional writers represent an *oversocialized* perspective. Economic actors, according to Grannovetter, are split somewhere between rationality and irrationality.

In the case of this research project, we have learned that even though there is a territorial influence on the behaviour of economic actors, the influence as such relates particularly to economic interaction for marketing and promotion purposes. It seems that the greater the value of the investment in an interaction, the more atomistic and rational (and the less socialized and irrational) the decision-making. We thus emerge at a case-specific golden mean conclusion.

Concluding that there has been a recent shift from irrational to rational dominance in the executive branches of Madshus and Swix, neoclassical economics is an excellent perspective to explain the behaviour at key transactions, including both local and external relations. Swix' decision to move production from Lillehammer to Lithuania is an important example of the latter. Institutional economics, on the other hand, provides better explanations of economic behaviour in terms of the execution of marketing strategies, because these inadvertently open up for a territorial influence on behaviour. The local bias here results in assessments where satisfying profits (in accordance with local norms and expectations) are more important than optimizing profits. Unlike Grannovetter's golden mean solution, the discovery from this case reveals that actors are not simultaneously embedded and disembedded in all interaction – the degree to which embeddedness determines economic behaviour relies on the kind of interaction we look at.

However, it does not follow that we equate the adequacy of the perspectives, which would have made them meaningless. Table 2 displays that one perspective explains certain behavioural manifestations more accurately than the other, and vice versa.

In 3.6, it was emphasized that in a qualitative study "…we know a lot about the case, but we cannot prove scientifically how confident we are." Considering the fact that the rationale of economic behaviour clearly does not relate to tangible variables, clarifying tendencies is perhaps the best we can do. However, I have been ambitious in this research project – aiming at establishing, if nothing else, a small contribution of absoluteness. The least we may contend as certain is that co-location makes it easier to act on irrational decision-making, yet when high numbers are at stake, rational strategies often circumvent the irrationality. Also interesting, displayed in table 2, is the paradox that the stricter the external ownerships structure, the more atomistic (and rational) the behaviour.

The exception to the golden mean conclusion sits in a few specific routines, yet these were too minor, both in qualitative and quantitative nature, to be announced as particularly meaningful when explaining the dominant types of behaviour we have been looking at in the Lillehammer region. However, we have learned that routines are embedded in social relations that depends little on territoriality, and that the execution of routine based behaviour happens without much consideration for external ownership structures.

The conduction of the case study has been relatively idiographic in nature, meaning that the behaviour has been analyzed in relation to the region. In 3.6, it was referred to Gomm et al., who commented that: "It is also rare for cases to be selected in such a way as to cover significant likely dimensions of heterogeneity in the population; or for much evidence to be provided in support of claims that the case(s) studied are typical (or atypical) in relevant respects." In line with reasoning as such, transferability from this research project is difficult to assess without complementary or subsidiary work. However, it does not follow that the conclusions above are meaningless at anything but the idiographic level.

Normative statements are surely an attempt to transfer knowledge. In the introductory comments, it was made clear that normative conclusions were not the objective of this research project. Even though rational behaviour was presented in line with more successful decision-making in the analysis, it does not follow that all sorts of irrational behaviour should be greeted with hostility. In fact, some of the irrationality which stems from embeddedness to local, social relations might be what makes us human rather than calculative machines. It could be exactly what is needed to obtain a happy and successful economic life in a region – even though some optimal alternatives will be surpassed.

Considering that we have analyzed inter-firm relations relative to regional co-location, an *a-posteriori* reflection on the regional definition from 1.5 is appropriate. Although the definition of the Lillehammer region has been helpful and accurate in terms of studying economic interaction, there are also aspects in the research which suggests that *a-priori* regional definitions could be untenable. In fact, perhaps research of this kind is exactly what is needed to understand where regional boundaries – in the form of where interaction is perceived as local – should be drawn. In that case, one needs to define a region relative to the industry concerned and the embeddedness between actors.

At any rate, specific definitions of the kind above would be an exhaustive project for the geographical discipline. The tentative regional definition which was elaborated upon in 1.5 is not perfect, but works excellently as a means to understand the dynamics of the region. For some aspects of the case, however, perhaps we must admit that social relations in

southern Norway as a whole is the smallest, possible regional confinement for the ski industry. It could thus have been more tenable to use southern Norway as a region when studying the interaction between certain Norwegian actors.

Conversely, we have detected distinct, regional-specific behaviour in Lillehammer, manifested not only through socialized, regional behaviour, but also through rational strategies - at the executive level - of reaffirming regional ties. After all, when performing a research project of this kind, understanding where the region matters and where it does not (or is non-existent) is a valuable attribution.

In chapter 3, it was emphasized that a researcher's honesty cannot be overstated. In the conduction of the study and the analysis, avoiding preconceptions did not turn out to be more difficult than expected. In fact, remaining open-minded and free of personal bias was the only way to complete a research project without a hypothesis. That said; it has been somewhat challenging to denounce a decision as, for example, "irrational and misguided" when the decision-makers are clearly devoid of anything evil. Consequently, we must isolate economic decision-making from human dispositions such as kindness or villainy. Keep in mind that already in the introduction it was implied that human beings are not economic actors only.

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APPENDIX - LIST OF RESPONDENTS

Director of Sales – Madshus

Former Executive, anonymous – Madshus

Former member of Board of Directors, Madshus

Director of Sales – Swix

Former Director of Sales – Swix

Sales Consultant - Swix

Senior Adviser / Executive Corporate Communication – Ferd

Editor in Chief – langrenn.com

Recognized Norwegian Author of several books on Norwegian skiing and ski industry

Consultant – Rode ski wax

Former Executive of Sales – Rex ski wax

Racing ski responsible at Oslo Sportslager and former Ski Coach at Lillehammer

Former, key athlete – NTG Lillehammer

Former, key athlete – NTG Geilo

In addition: Short correspondences with several executives, employees and athletes in the Norwegian ski industry; including both Lillehammer region residents and respondents external to the region.