Part II:

FACTORY LOCATION AND THE THEORY OF THE FIRM

Since location is ultimately a part of an investment decision made by individual firms, any theoretical explanation of location must invoke a theory of the firm. In a general way, firms function to coordinate various activities; in particular, firms assemble materials and services in factories in order to add value by the application of factors of production (labour, land, capital and entrepreneurship) and to then ensure the distribution of the resulting output. How firms perform these activities has been conceptualized or theorized in many different ways. Some time ago, for example, from the perspective of economics, Machlup (1967) recognized over 20 different (economic) theories of the firm. However, he suggested that these theories could be classified into three broad types, notably neoclassical, behavioural and managerial theories of the firm. Within economics, these theories provide alternative ways for analyzing prices, profits, production and investment and of linking changing in markets with changes in supply conditions. Within geography, these theories provide the broader context for distinguishing three approaches to industrial location (Table III -1). In particular, each of these theories is based on different concepts of the firm in terms of abilities and motivations, different concepts of the wider economy or ‘environment’ in which individual firms function, and different emphases of how firms relate to this wider economy or environment.

Neoclassical, behavioural and managerial or enterprise or institutional theories of the firm clearly directly correspond with the neoclassical, behavioural and enterprise approaches to industrial geography that are outlined in chapter 1. In this context, it might be noted that the structuralist approach to industrial geography placed explanatory
emphasis on the relationships between the more abstract (and aggregated) capital and labour in which variations among firms - capital - (or labour) were not deemed important. In the past decade, the shift towards realism and regulation theory has led to a much more explicit interest in individual firms, especially large corporations. In these (and related) approaches, firms are interpreted as institutions with the decision making characteristics associated with institutional or enterprise theories of the firm (Table II-1).

The three different theories of the firm and approaches to industrial location, alternatively theoretically interpret firms as Economic Persons, Satisficer Persons and Managers or Technostructures. Economic Persons optimize or maximize and are economically rational; they operate within an economic landscape which is interpreted in terms of costs and revenues; they respond automatically or instantaneously to economic forces; profit maximizing is considered socially beneficial so there is no conflict between firms and the economy. Over the long run, neoclassical firms survive by adapting to laws of demand and supply or, unless fortuitously saved by government subsidy or some other form of ' adoption, ' they fail. Satisficing firms, on the other hand, have limited information and they are boundedly rational; the behavioural economic landscape is interpreted as information flows which firms process through their 'mental maps' in order to make decisions. Over the long run, satisficing firms survive by learning (Simon 1958). For their part, managerial firms are dominated by big corporations which plan, develop strategies and structures, seek to grow, make profits and reduce uncertainty and which operate within an economic landscape of institutions interpreted in terms of 'countervailing powers' at the centre of which is a set of bargaining strategies between business, government and labour (Galbraith 1954). Over the long run, industrial evolution depends upon the play of these forces of political economy.

Collectively, these three frameworks serve to remind us that the reasons for industrial locations are complex, perhaps more so than is often realized and they
collectively enrich our understanding of location. In practice, eclecticism in contemporary literature on industrial location has blurred the boundaries between the theories. At the same time, these theories offer a different ‘micro’ basis for different evaluations of the evolution of industrial location patterns, different justifications of industrial location policy and different interpretations of ‘labour’ as a location factor. The distinction between neoclassical and managerial theory is of particular importance. In the neoclassical economy firms are abstract agents linking the forces of demand and supply in a manner consistent with the goals of society. In contrast, in the institutional economy it is explicitly recognized that the goals and priorities of firms may differ from that of other actors in the economy as a whole including local and regional interests. In this latter approach, firms have real, if not autonomous bargaining power as economic agents in which to at least partially influence their environment. Such a view recognizes the legitimacy of conflicting views, the possibilities of alternative courses of action and in general allows for a more critical understanding of the decisions and impacts of firms on local economic development.