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**THE ENTREPRENEURIAL CAPACITY OF LOCAL AUTHORITIES  
IN SOUTH-EASTERN EUROPE - AN ENTERPRISE PERSPECTIVE**

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**Abstract**

*The article is looking into whether the management ability but also the inspection of development policies on the part of local city authorities influences the competitiveness of firms. Origin of this survey has been various approaches of the last decades which point out the significance of entrepreneurial capacity and the ability of local authorities to manage policies on local level. The analysis uses data from 310 small-medium size firms of Southeastern Europe. Through exploratory factor and cluster analysis the article concludes that the ability of Local Authorities to implement development policies, to develop co-operations with the private sector and to manage natural and human resources are important for firm competitiveness. At the same time it brings out the significance of these factors for the respective firms in the wider southeastern zone of Europe*

**Keywords:** local authorities; firm competitiveness; management and control; cluster analysis; Southeastern Europe

**JEL Classification:** R50, R38, R58, R59

**1. Introduction**

Development policies, such as, reforms and reconstructions of urban areas (Adair et al., 2000; Balsas, 2000), the creation of an attractive entrepreneurial city environment (Christiaans, 2002; Stubbs et al., 2002) and the planning and implementation of strategic development plans (i.e. Jimenez-Moreno, 2001; Vasconcelos and Reis, 1997), are some of the efforts aiming at the reinforcement and the projection of places strength. An important factor for the successful implementation of development policies is considered the ability of local authorities to plan, evaluate and implement these policies (Syrett, 1994; Priemus, 2002). Taking as a prerequisite the interest shown, during the last years, into the need of existence of local actors with an entrepreneurial capacity, the article attempts to investigate how important is their role on the development and competitiveness of firms.

More specifically, the paper aims to investigate local authorities' capacity to plan, implement and manage development policies and partnerships in various sectors in four cities of Southeastern Europe. The added value of the article is considered important on two levels. Firstly, it contributes to the research made up to now, as to whether local development policies, are able to influence the development and competitiveness of firms. And, secondly, it approaches the appreciation of medium-size firms located in a very interesting, geographical zone; namely South-eastern

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Europe. Based on this prerequisite the article comes up with interesting conclusions concerning the firms in the study cities, while at the same time it brings out the significance of policy factors for relevant firms in the wider southeastern zone of Europe.

The paper uses primary data of local firms' appreciations about the role and the capacity of public local authorities to manage development issues in their cities (studied areas) that affect the development of the existing firms. More particularly six fields of local authorities' capacity are examined. The first one concerns the ability of local authorities to plan and implement effectively development policies, while the second on the ability to build and manage partnerships, especially with the private business sector. The third field concerns the management of the natural and human resources, while the fourth the ability to manage regulatory and legal rules. The last two fields concern the ability to improve the operation of the existing municipal public organisations and the management and control of the public investments that take place locally.

## **2. Local Authorities Entrepreneurial Capacity and Firms Competitiveness:**

### **A literature review**

Most research on competition among places builds upon Porter's (1990) 'diamond' model of competitiveness (Healey and Dunham, 1994; Kresl, 1995). Porter's "diamond" used three main building blocks, namely global competitive environment, competitive strategy and organizational structure to explain the competitiveness of firms. From his point of view, Kresl (1995) identified a dichotomy between 'economic' determinants (factors of production, infrastructure and similar) and 'strategic' determinants (policy factors and institutional design).

Focusing on the role of local authorities, several approaches stand that their role on cities and firms' development is crucial. The report 'Cities of the Future', developed by *PriceWaterHouseCoopes* (2005, p.3), stated that 'City governments, local authorities and decision makers, are highly complex organisations. They need to respond to the demands of different groups and manage the allocation of resources between different, and often competing, claims'. The existence of local authorities with 'entrepreneurial capacity' or 'organising capacity' emerges as a basic need, especially in the '90s (Hall and Hubbard, 1998; Kresl and Singh, 1999; Van den Berg et al., 1997). Van den Berg et al's studies (1997, 1999), showed that the most important factors for the formation of organizing capacity in the implementation of policies, are the clear definition of city vision, the capacity for strategic networks development and, finally, leadership. Furthermore, Cheshire and Magrini (1999, 2001) examine local policies and their influence on region development. Using data from 122 FURs for the periods 1978-80 and 1992-94, they improved the existing development model mentioned in former studies (Cheshire and Gordon, 1996, 1998) creating a new variable, that is 'policy capacity' which was measured as the ratio of the population of the FUR in 1981 to the population of the largest department of the

FUR. The results showed that the ability of effective development policies locally, is not a random procedure but it is related with a number of factors the commonest of which is the structure of the local authority - or the administrative ability.

In addition, a number of studies, award the significance of development partnerships between the public and private sector (Bennett and Krebs, 1991; Fuller et al., 2003). Bennett and Krebs (1991, p.22) supported that the base for the planning and the implementation of economic development actions on local level is *partnership* between actions which are developed by firms individually and actions which take place under the auspices of Local Self-Government, but also actions on higher governmental level. Bennett and Krebs (1991, p.21), approaching the relation between firms and local authorities mention the creation of 'entrepreneurial agents', which will manage and control the available resources and sort out the priorities in firms' actions with one another and with other public and business actors. A relevant argument has been expressed by Lowndes and Skelcher (1998, p.315) and Wallis and Dollery (2002), while Giaccherio et al. (2007, p.173, cited in Cantner and Malerba, 2007), supported that relationships between agents, and between agents and institutions locally, become an important element in the creation of dynamic competitive advantages, based on the formation, transmission and evolution of knowledge. More recently, Hagedoorn et al. (2000), awarded the establishment of partnerships between local authorities and research institutions, while Williams (2002), referring to the role of community strategies in the promotion of economic development and their contribution to the attainment of sustainable development in G.B., supported that the new model of local authorities should concentrate on the reinforcement of all forces activated in the environment of organizations and local communities. In a very recent study regarding the factors that influencing SMEs competitiveness in Western Region of Romania, Bibu et al. (2008) find that the governmental institutions have an important role in firms activities, considering that government and non government organizations can be more involved in consulting activities, creating a favourable environment for small-medium business, while the most important communication channel between firms and government are county organizations for SME's, chambers for industry and trade.

All the above factors lead to the seeking of those groups into the city which, having the knowledge, will act strategically towards the organizing of planning and the implementation of the chosen development policies (Cheshire and Magrini, 1999; Polidano, 2000). This fact, no matter how simple it may sound, is really hard to be achieved. We mention two main reasons: a) although the sense of strategic planning is based on the principles that apply to business environment, we cannot support that 'managing a city' is the same as 'managing a firm'. Firms have a clear administrative and hierarchical structure with clear profitability targets. In the case of cities we have competing groups with interests representation and different targets (Kotler et al., 1999, p.106) and b) local authorities have limited experience on entrepreneurial matters, being dependent, most of the time, on superior administrative actors, as far as decision making on the performance of specific actions is concerned (Van den Berg and Braun, 1999).

### 3. Methodology

By taking into consideration the previous discussion, the article tends to examine which groups of factors (fields of policies) have major importance on firms' development, and particularly for which firms. For this reason the article uses two methods of analysis. Firstly, exploratory factor analysis, in order to evaluate what groups of factors have the major significance of firms and secondly, cluster analysis to see for what particular groups of firms. As study cities were used Varna (Bulgaria), Bari (Italy) and Larissa and Volos (Greece). These cities were chosen because of some common characteristics. Specifically: a) they belong to Objective 1 regions of EU, b) are medium-sized (100.000- 500.000)<sup>1</sup> residents, c) because of their geographical position, three of them (Varna, Bari and Volos) are important ports in their countries, d) they are located far away from the EU decision centers, namely, on the zone of Southeastern Europe – Balkans and e) the research was funded by the European Union – European Social Fund & National Resources – EPEAEK II, and these cities accepted to participate in this project. The selection of Larissa was based on three reasons: a) because the city has a unique and strategic geographical position in Greece, b) is located close to the city of Volos (56 km distance) and c) because of their proximity, the two cities could be examined as a 'dipole' in relation to the cities of Varna and Bari that surpass in population the two Greek cities.

Research is used primary data from 310 firms from all production sectors (manufacture, commerce, services and tourism) and has the following characteristics: a) Research took place from May, 2004 to June, 2006 through questionnaires and personal interviews, b) the questionnaire includes open-closed questions and Likert scale was used (1-10), c) each interview lasted 25 to 45 minutes, d) 90% of the firms had over 30 employees and 90% were local, e) interviews were made with high executives and business-owners, f) the selection of the firms was based on data that the Commercial and Industrial Chambers of Bari and Varna but also the Industrial Association of Central Greece provided.

### 4. Cities, Firms and Local Authorities profiles in Southeastern Europe

The region of *Varna* is found on the northeast part of Bulgaria; it has an area of 3820km<sup>2</sup> and is an 'entrance gate' to the Black Sea. The city of Varna has a population of 343.000 residents and is the third biggest city in Bulgaria. The production profile of the city and its surrounding area is composed of metallurgy and machinery businesses, shipyards, shipping lines as well as of food industries, textiles factories and construction companies. On the other hand, *Bari* is found in the region of Puglia, on the south cost of the Adriatic Sea and is the second most important city of South Italy, after Naples, with a population of almost 312.000 residents. The traditional production sectors concern the manufacturing of agricultural and sea products. In addition the production structure of the city is composed of commercial firms, service businesses, soft industrial sectors (textiles, leather etc.) and automobile industries. A significant role in firms' competitiveness plays the port of Bari which connects Italy with Greece. Regarding the two cities of Greece, *Larissa* is the biggest

in area and population city of Central Greece, with 130.000 residents. Capital of the Prefecture and the region of Thessaly, Larissa holds a unique geographical position with economic importance, on the motorway axis Patras-Athens-Thessaloniki-Evzone, which connects the two metropolitan centers of Greece, Athens and Thessaloniki. *Volos* belongs to the six biggest cities of Greece (5<sup>th</sup> position), with a population of over of 120.000 residents. It is the capital of the Prefecture of Magnesia and geographically is located in Central Greece. Volos is one of the most important industrial centers with quite advanced geographical position among other Greek cities. The city is located a small distance away of the core motorway axis of the country which connects Athens and Thessaloniki, while the existence of city port has to be mentioned since it provides sea connections with other ports and islands of Greece (Strategic Development Plan of Volos 2006).

Regarding the profile of the *studied firms*, 54,1% of them belongs to the industrial/ manufacture sector, while 85,4% of them are local - something that means that the appreciation of firms is extremely important, since they are aware of the urban environment (weaknesses and strengths) as well as of the development policies applied by the local authorities, as much for the benefit of the cities as for the benefit of the businesses themselves. Regarding their age, firms' concentration appears in two time-periods. The first one 1990-1999, this concurs with the fall of the communist regime in Eastern Europe and the transition to a new social economic and political reality for the countries and the cities of South-eastern Europe. The second one is from 1979 and back, but because of its width it is not possible to clearly determine whether there was any distinctive concentration of businesses within a particular sub-period of this time period. Furthermore, concerning the number of employees a domination of small firms is noticed (60,5%), while 32,5% concerns medium-sized firms and a small percentage (6,8%) concerns the big ones. Consequently we report on small-medium firms in total.

Finally, shaping the *profile of Local Authorities*, in the case of *Varna*, the period after 1992 was for all the cities in Bulgaria a time full of challenges and changes, characterized by the need on the part of the cities to obtain an effective local administration, in order to become more able to compete for the attraction of investments both on national and international level (LGI, 2003). Since 1999, Bulgarian cities are forced to adopt a city development strategy (CDS) which constitutes the base for a long term development strategy (Tsenkova, 2004; Driscoll, 2002), while in 2003 *Local Government Initiative*, planed a series of development policies in order to improve the effectiveness of City Councils (Robison, 2003). For the first time, the Municipality is the basic administrative actor and local authorities have to oriented towards certain changes such as the acquisition of technical know how and practical experience or the development of relations and co-operations with the private sector (Kapitanova and Minis, 2003). As a consequence, the East European countries, and Bulgaria in this case, in the frame of the transition and adaptation period they run, are found in a very important stage of reconstruction of the role their local authorities are asked to play. As a result, their degree of experience, knowledge and actions lies on a low level.

In *Italy* the ‘new role’ of local authorities was a challenge whose main characteristics were the decentralization of powers and jurisdiction from the central government to the local authorities, accompanied by economic and managerial autonomy on local level. Municipality governments had always been the core of the Italian decentralization system, having their own structure and operation, being responsible for the planning and the implementation of municipal policies (transportation, zoning, social services, sanitation e.t.c.) [Piperno, 2000; COR STUDIES, 2004], while, during the last decade their frame of jurisdiction expanded covering a broader range of policies such as: the allocation of industrial incentives, education, heritage and environment conservation (Piperno, 2000). Meanwhile, Italy as a member-state of E.U., reinforced - through European projects – the regions of Target1 (South Italy, Mezzogiorno), contributing to their development.

In *Greek* cities, the system of decentralization and local authorities have undergone successive reforms, up to now, with the newest one being the proposal for a new Municipalities Code of Municipals and Communities in the frame of Law 2539/97 (Kapodistrias Law) [Besilla-Vika 2004, p.427]. The grater and more complex these reforms are the greater and more acute is the opposition resulting on local and regional level. In addition in Greece local authorities are dependent on government subsidies, a fact that questions their financial autonomy. In a more judgmental view of the institution, the verified non exploitation of all the potentials offered by the existing frame can be linked with notions such as: ineffective management, lack of know how or even poor management of the allocated funds. This fact surely affects matters of local development and competitiveness among cities, especially the ones with large populations. Moreover, on regional level, there is little entrepreneurial activity on the part of local authorities. Some of the reasons why lie on the lack of information, the small size of the existing firms and their short life-cycle, the negative idea that local societies have of entrepreneurialism (Besilla-Vika 2004, p.433). Unfortunately, in the case of Greece, the role of Local Authorities has always been regulated by the Central Authority. Therefore, the need for substantial reform which will meet the new requests of the society, to much greater degree now depends on the ability of the central authority to listen carefully to and foresee the new needs arising.

In conclusion, we can support that three are the main differentiations of nature of the systems of local authorities among the three countries, a) the fact that local authorities in Italy constitute the oldest administrative entity with clear orientation of its role and jurisdiction , something that in the case of Bulgaria was something unknown, till recently. In the case of Bulgaria the reconstruction of the political and administrative infrastructure, in the frame of a difficult adaptation to the new norms of the E.U., was based more on reliability and less on a well established experience and it started in the beginning of the 90s (Kapitanova and Minis, 2003). Finally, in the case of Greece, there is intense interference of the central government in the decision making procedure concerning development actions on local level b) The reconstruction of local authorities was accompanied by the need of existence of

specialized human resources with administrative abilities and skills, something that was a fact in Greece, as well. In Bulgaria, the economic and political changes had to take place simultaneously, taking into consideration the fact that there was no political experience in the taking of development actions under the conditions of the new European environment c) All three countries belong to different political, economic, social and cultural environments. The difference, however, is greater in Bulgaria in comparison to Greece and Italy. Italy is traditionally a great power in Europe and Greece has a 25 year long course as a member state of the E.U., while Bulgaria is just stepping onto the threshold Europe. These differences are crucial and consequently influence the environment of these three countries in different ways. As a result, all the production forces which act and operate in the internal environment of their regions and cities are influenced, too.

In the following sections, exploratory factor and cluster analysis are presented, in order to provide some answers to whether and on what degree some groups of the examined factors are important to the competitiveness of the specific firms taking part in the research.

### **5. Exploratory Factor Analysis**

Exploratory Factor Analysis (EFA) is a widely utilized and broadly applied statistical and multivariable technique in the social sciences. EFA allows the interpretation of complicated phenomena that depended on multiple and often inter-related components (Costello and Osborne, 2005; Forina et. al., 1988). The usefulness of the method is proved by the fact that there is a wide range of its implementation in various fields of empirical surveys (Piscitello and Sgobbi 2003; Jang et al., 2002).

In EFA principal component analysis – PCA is used, which represents the linear combination  $\kappa\alpha$  and proves the greater symmetry of data variability (Katos, 2004, p.532). The different combinations among variables are expressed through *eigenvalues* (i.e. the extraction sums of square loadings). More specifically, factor analysis aims to define those new variables whose eigenvalue is  $\geq 1.00$ . The reason is because variables with an eigenvalue  $< 1.00$ , present an error variance that is difficult to interpret.

The hypothesis which is being studied refers to how responsible the degree of public local authorities capacity to plan and implement development policies which might influence (positively or negatively) the competitiveness of the firms located in these cities is. In our case we used factor analysis through SPSS18, in six (6) initial independent variables from which derived two (2) hyper-variables ( $k=2$ ). These six variables refer to the fields of planning, management, control and implementation of development policies by local authorities. Our objective is to examine which policy development groups are formed so that in the cluster analysis that follows we can focus on those fields where the firms, on the whole, estimate that the ability of the local authorities to develop policies are likely to influence or not their competitiveness.

Figure 1 depicts the behavior of each initial variable towards the components, that is, to what degree each initial variable contributes to the formation of the main components (percentage of diffusion). The quality of representation of the six (6) initial variables is quite satisfactory since 64 to 80 % of each one's diffusion is included in the formation of the main components. Figure 2 shows those independent variables which contribute, at a higher percentage, to the total variance and present eigenvalues  $\geq 1.00$ .

**Figure 1:** New variables behavior towards the Initial ones

Variables	Initial	Extraction
Local authorities capacity to plan and perform development policies	1,000	,725
Local authorities capacity to build and manage partnerships	1,000	,743
Local authorities capacity to manage the natural and human resources of the areas	1,000	,640
Local authorities capacity to manage regulatory and legal rules	1,000	,459
Local authorities capacity to improve the operation of the existing public and municipal organizations	1,000	,789
Local authorities capacity to manage and control the public local investments	1,000	,802

Extraction Method: Principal Component Analysis

**Figure 2:** Total Variance through the analysis of the main components

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2,884	48,074	48,074	2,884	48,074	48,074	2,408	40,135	40,135
2	1,273	21,213	69,287	1,273	21,213	69,287	1,749	29,151	<b>69,287</b>
3	,667	11,115	80,402						
4	,492	8,200	88,602						
5	,354	5,907	94,509						
6	,329	5,491	100,000						

Extraction Method: Principal Component Analysis

In figure 2, two (2) (components or hyper-variables), with eigenvalues  $>1.00$  are derived, explaining almost the 70% (quite satisfactory analogy) of the total variance of initial variables. The degree to which each variable participates in each new component is presented at figure 3. From figure 3 derives that the loadings of the



initial variables which are included in the new hyper-variables are  $> 0.60$  and mainly between  $0.75$  and  $0.86$ , showing that these loadings can be considered very high in the total of loadings of the initial values (Bollen and Lennox, 1991; Chang et al, 2003). The behaviors of the variables of table 3, lead to the creation of eight hyper-variables, after three (3) rotations in a six dimensional space. The new hyper-variables are presented in figure 4. In addition, the reliability test was based on the estimate of Cronbach's  $\alpha$  (Cronbach, 1951). Cronbach's alpha determines the internal consistency or average correlation of items in a survey instrument to gauge its reliability (Santos, 1999; Bussing et al., 2005; Jelenc, 2007). Internal consistency ranges between zero (0) and one (1). A commonly-accepted rule of thumb is that an  $\alpha$  of  $0.6-0.7$  indicates acceptable reliability, and  $0.8$  or higher indicates good reliability. In our case both hyper-variables present very high values of Cronbach's  $\alpha$ ,  $0,934$  and  $0,982$  respectively.

**Figure 3: New Hyper-variables (N=310)**

Variables	Components		
	Code	1	2
Local authorities capacity to plan and perform development policies	E15_2	,859	,073
Local authorities capacity to build and manage partnerships	E15_3	,850	,040
Local authorities capacity to manage the natural and human resources of the areas	E15_4	,763	,240
Local authorities capacity to manage regulatory and legal rules	E15_5	,559	,383
Local authorities capacity to improve the operation of the existing public and municipal organizations	E15_6	,058	,893
Local authorities capacity to manage and control the public local investments	E15_7	,222	,860
<b>Cronbach's Alpha</b>		0,932	0,982

**Figure 4: Factor Analysis Hyper variables (N=310)**

	Hyper-variables	Initial variables that included
1	MANAGEMENT	E15_2, E15_3, E15_4
2	CONTROL	E15_6, E15_7

The first hyper-variable *MANAGEMENT* is composed of the first three initial variables that concern the capacity of local public authorities to plan and implement development policies, to develop and manage partnerships with the private sector but also to manage the natural and human resources effectively. The second hyper-variable *CONTROL* is composed of the two initial variables that concern the control and the improvement of local public organizations but also the control and the management of the investments that take place locally.

## 6. Cluster Analysis

An important note is that factor analysis results bring out the significance of some factors and the groups that they compose, ranking these factors in particular

axes. Therefore, they do not lead in conclusions as to which groups of factors (hyper-variables) and for which firms (production activity, size, age) are significant, less significant or indifferent/neutral. Cluster analysis is a widespread method with multiple applications in various scientific fields (Mudambi, 2004; Paralles-Barbera et al., 2004; Morosini, 2004). Generally Cluster analysis aims to enlist the existing observations in clusters by using the information that already exists in some variables. At the current case, these variables are the hyper-variables of factor analysis. It is successful when it results in the formation of groups where the observations inside its group are as homogenous as possible but, at the same time, the observations among different groups differ between each other.

Figure 5 presents the final cluster analysis centers, regarding development policies fields by the public local authorities in the study cities. From the results we notice that among the seven groups – centers – there are clear differentiations. Figure 6 presents ANOVA testing, where we notice that the two hyper-variables hold high significance ( $F \geq 2$ ,  $df = 303$  και  $p = 0.01$ ).

**Figure 5:** Cluster analysis Final Centres (N=310)

	Centres						
	1	2	3	4	5	6	7
MANAGEMENT	,08922	<b>1,23865</b>	<b>-1,09924</b>	<b>1,48923</b>	,33583	<b>-1,10935</b>	-,00057
CONTROL	<b>-,83608</b>	<b>-,88900</b>	-,60538	,61625	,44865	,71474	<b>2,05816</b>

**Figure 6:** ANOVA Testing

	Cluster		Error		F	Sig.
	Mean Square	df	Mean Square	df		
MANAGEMENT	41,409	6	,200	303	207,223	,000
CONTROL	40,860	6	,211	303	193,935	,000

Figures, 7 up to 10, present the number of firms per cluster in relation with their city, production activity, number of employees (for the year 2004) and established period. This analysis takes place in order to identify, each time, and the character of firms that compose each group but also to investigate what firms are responsible for the results of figure 5 and what conclusions we came up with based on these results.

**Figure 7:** Number of firms per cluster and city

		Number of firms per city							Total
		1	2	3	4	5	6	7	
City	VARNA	21	2	27	4	10	16	7	87
	BARI	27	13	19	5	15	11	6	96
	LARISSA	8	12	7	12	14	7	10	70
	VOLOS	9	10	6	7	15	8	2	57
Total		65	37	59	28	54	42	25	310

**Figure 8:** Number of firms per main production activity

		Number of firms per main production activity							Total
		1	2	3	4	5	6	7	
Main production activity	Industrial / manufacture	29	22	35	14	26	24	18	168
	Commercial	20	8	16	6	15	7	1	73
	Services	9	3	6	4	6	6	3	37
	Tourism	7	4	2	4	7	5	3	32
Total		65	37	59	28	54	42	25	310

**Figure 9:** Number of firms per cluster and size (number of employees)

		Number of firms per size							Total
		1	2	3	4	5	6	7	
Number of employees in 2004	0-49	48	16	34	16	35	29	10	188
	50-249	14	16	23	9	16	11	12	101
	> 250	3	5	2	3	3	2	3	21
Total		65	37	59	28	54	42	25	310

**Figure 10:** Number of firms per age (period of starting up)

		Number of firms per age							Total
		1	2	3	4	5	6	7	
Period of starting up	2000-2005	5	4	8	2	5	4	1	29
	1990-1999	25	9	29	8	15	16	10	112
	1980-1989	15	5	11	7	16	8	4	66
	Before 1979	20	19	11	11	18	14	10	103
Total		65	37	59	28	54	42	25	310

More specifically the clusters that derived from cluster analysis are the following:

**Cluster 1:** This cluster is characterized by the domination of the firms of Bari and Varna (48/65) that belong especially to industrial and commercial sectors and less to services. These firms do not show any extreme values for the two hyper-variables, however, their dissatisfaction from the factors which from hyper-variable *CONTROL* is obvious, while, as far as the values of hyper-variable *MANAGEMENT* are concerned, their stance seems to be indifferent and neutral. The majority of these firms employee up to 250 persons were established in the period 1990 to 1999 and some before 1979, that is, they are firms relatively 'young' but also firms with a traditional and diachronic profile in the market. In effect, the main characteristics of the firms' stance of cluster 1 are the dissatisfaction and the detachment from the role and contribution of local authorities on issues concerning the management and control on a local level. This is significant for two reasons: a) it comes from firms of various productive sectors and different experiences in the market, a fact which points out a timeless incompetence, on the part of local

authorities, to contribute effectively to the firms' development and b) this incompetence refers to both the decision makers of the city of Varna, where the management and control practices are new and unknown, and the ones in the city of Bari where the experience and the know-how are, of course of, a higher level.

**Cluster 2:** In this group we find firms mainly industrial and an average of over 100 employees with year-long presence in the market and located in the cities of Bari, Larissa and Volos. These firms estimate that, for the factors which constitute hyper-variable *MANAGEMENT*, the local authorities' responsibility is great and directly linked with their own competitiveness. As a result, these firms link their policy planning, the development of co-operations between public and private sectors and the effective management of natural and human resources, with achieving high competitiveness. On the contrary, they estimate that *CONTROL* of the existing organizations and investments by local authorities act negatively towards their own development (-0,88). In this cluster, the firms make a clear distinction between the ability of local authorities to manage specific development sectors and their ability to control some others. They are firms with long presence in the market, which means that their evaluation is a weighty one. Their evaluation highlights the existence of a significant problem in the issue management and control of local development and since most of the firms are Greek the aftermath of this problem concerns mainly the Greek reality and the role of local authorities.

**Cluster 3:** The evaluations formulated for the two hyper-variables in cluster 3, are negative. These values come from firms in Varna and, to a lower percentage, in Bari, which are mainly manufacturing and commercial, of big size (over 200 employees) and the majority of them were established between 1990 and 1999 but some of them before 1990. The values of the hyper-variables show a dissatisfaction of these firms on matters of *MANAGEMENT* and *CONTROL*. We can support that these negative estimations mainly come from firms in Varna, taking into account the fact that the role of local authorities throughout Bulgaria and therefore in Varna as well is rather weak as far the reinforcement of local development is concerned

**Cluster 4:** The composition of cluster 4 is characterized by firms from all cities but the majority of them from Larissa and Volos, with a domination of the industrial-manufacturing sector. Most of these firms employ up to 50 persons and were established before 1979. Contrary to the firms from Varna and up to a point to the ones from Bari, these firms give positive values to both *MANAGEMENT* and *CONTROL* hyper-variables. More specifically, they give a very high value to hyper-variable *MANAGEMENT*, showing this way that degree of ability of local authorities in matters of planning and implementation of policies but also building partnerships with the private sector, are all factors which influence positively the competitiveness of these firms. The main characteristic of this cluster is the trust shown, mainly by Greek cities' traditional firms, in the development policies of local authorities diachronically. Of course, it would be risky to base the whole dynamic of these policies on these firms' evaluations only but owing to their year-long participation in the market their stance is considered significant.

**Cluster 5:** In the composition of this cluster there are firms from all four cities. They are mainly industrial-manufacturing firms and services but a large part of them belongs to other productions sectors. The majorities of them employs up to 200 persons and were established before 1990. The firms in this cluster are characterized by an intense indifference for the significance of the factors both in matters of planning and management and in control. The positive values they give to the two hyper-variables clearly do not express a negative attitude of these firms towards the factors which form the profile of the two hyper-variables, but in no way, either, do they express any positive influence of these factors on the competitiveness of the firms in this cluster.

**Cluster 6:** In this cluster, as in cluster 3, Varna's firms dominate and the majority of them are industrial/manufacturing with fewer than 50 employees and established in the periods 1990 to 1999 and before 1979. As in cluster 3, the firms of Varna express their dissatisfaction towards the factors of hyper-variable *MANAGEMENT* giving it a high negative value (-1,10), while, at the same time give a quite high positive value (0,71) to the factors of hyper-variable *CONTROL*. Combining the estimations in clusters 3 and 6, we can support that for the firms of Varna, both small-medium and large size, the factors referring to the management of planning and co-operations with the private sector as well as the management of natural an human resources, in the present stage are not linked to competitiveness of the city's firms. As a result, the total image shows that the ability of local authorities in Varna is limited and weak. A fact that influences negatively both the development of local firms and the development of the city itself.

**Cluster 7:** In the last cluster there is a domination of Larissa's firms but there are also some firms from Bari and Varna. The total number of these firms is 25, a rather small number, which does not let us reach any general conclusions. The firms in this cluster are mainly manufacturing and many of them employee up to 250 persons, were established between 1990 and 1999 and before 1979. These firms give a high positive value to the factors of hyper-variable *CONTROL*, showing that the ability of local authorities in issues of control and improvement of the functioning of public organizations in conjunction with the control of investments on local level, have a positive influence on their competitiveness.

By examining the attitude of the two hyper-variables towards each cluster of firms, there derive the following:

First of all, the hyper-variable *MANAGEMENT*, in four out of the seven clusters, receives high extreme values, two positive and two negative. Positive values are given by the firms in clusters 3 and 6, and negative ones are given by the firms in 2 and 4. The number of firms in clusters 3 and 6 is bigger than the number in 2 and 4, a fact that leads us to the conclusion that ...the majority of firms belonging to clusters 2,3,4 and 6 give high significance to the factors of planning and co-operations development, with a high responsibility on the part of local authorities in the nature of this influence (positive or negative) for the firms, but on the other hand, by most of the firms this influence is considered negative.

Combining these results with the analysis per cluster that preceded, we come to the conclusion that ...The factors comprising hyper-variable *MANAGEMENT* - for a large number of industrial/manufacturing firms in the Greek cities mainly but also in Bari, with long presence in the market - have a positive influence in firms' competitiveness.

On the contrary, these policies have ...a negative influence mainly for the manufacturing firms of Varna and Bari with up to 250 employees and established between 1990 and 1999 or before 1979.

As regards hyper-variable *CONTROL*, no other extreme high value is derived apart from the one in cluster 7. The interesting conclusions are two a) the lack of extreme values (either positive or negative) shows an intense dissatisfaction and perhaps an indifference on the part of the firms towards the ability the local authorities in their cities to combine activities of control and improvement of public organizations and local investment schemes with the development and competitiveness of local firms, and b) this dissatisfaction is more obvious in clusters 1,2 and 3. Combining the image of these clusters with the preceding analysis, we reach the conclusion that the industrial and commercial firms of Varna, established between 1990 and 1999 estimate that the factors of control have no positive influence on their competitiveness. Comparing this picture with the estimation of the specific clusters for the factors of hyper-variable *MANAGEMENT*, we come to the conclusion that

...for the firms in Varna, the factors comprising the two hyper-variables (*MANAGEMENT* and *CONTROL*) have no influence (positive or negative) on their competitiveness.

There is a high positive value (0,71) for *CONTROL* by some firms from Varna in cluster 6, but it alone cannot belie the above conclusion.

On the other hand, the estimation of the firms in cluster 2, which come from the other three cities in this study and have the same profile with the firms in clusters 1 and 3, is negative towards *CONTROL*, but contrary to the firms from Varna these firms recognize the importance of hyper-variable *MANAGEMENT* and the positive influence it can have on their competitiveness.

## 7. Conclusions

The aim of the article was to point out the importance of the ability degree of local authorities in the implementation and materialization of development policies and in the competitiveness of small-medium size firms in Southeastern Europe. We will support that the study leads to significant results as it attempts to determine the role and contribution of local authorities to the competitiveness of firms in a quite significant geographical zone, namely that of south-eastern Europe; while at the same time it contributes to the existing, rather limited, studies concerning issues of linkage between the ability of local authorities to implement development policies effectively so that they benefit the entrepreneurial world as well as the areas they rule. Through the study of a cross section of firms (n=310) in four medium size cities of

Southeastern Europe, Varna, Bari, Larissa and Volos, and by using factor and cluster analysis, the article reached specific conclusions which are the following:

The first conclusion derived is an apparent dissatisfaction, on all firms regarding the role of local authorities and a feeling of questionable contribution to local development. Although the international practice, points out development policies and planning as basic parameters for both cities and firms' competitiveness, with the aid of competent local authorities, the present analysis reaches the conclusion that local authorities in the studied areas is dependent on the central administration bodies and with restricted ability in planning and policy implementation.

More specifically, the factors related with the local authorities ability to plan and implement development policies, to develop and manage co-operations with the private sector but also to manage effectively the natural and human resources of cities (MANAGEMENT), are regarded as very significant by the majority of the firms in the study and especially from Greek firms. The responsibility of local authorities regarding the effectiveness of the above factors is great, at the present stage, and their influence on the firms' competitiveness is negative, except some large traditional firms in Greek cities.

Alongside this, as far the fields of control of public investments taking place locally and the upgrading of the operations of public organizations are concerned, the majority of the firms estimate that the effectiveness of local authorities on these fields has nothing to do with their competitiveness.

In conclusion, we will support that, except for the firms of Varna where the role of local authorities at the present stage is estimated ineffective, the firms of the rest of the cities attribute great importance to issues of urban management, estimating that local authorities' responsibility for the effectiveness of such issues is highly important and directly linked with their competitiveness. It is easily comprehensible that the firms in the study turn their interest to issues concerning the know-how of local authorities which the effectiveness of the policies they implement is dependent on.

Summing up, we will conclude that for small-medium size firms in Southeastern Europe, the ability of local authorities to manage co-operations on local level, to plan and materialize development policies and manage natural and human resources, is directly responsible for the effectiveness of development policies as well as the impact (positive or negative) these policies might have on firms competitiveness.

The above conclusions support Kresl'S views but mainly those of Kotler et al. and van den Berg and Braun, who focus on the restricted ability and know-how of local authorities to act effectively on local level. This fact is obvious in the estimations of all firms and is related, undoubtedly, to the existing regime and political system of the local authorities in each region respectively. The existing aggregate system and the lack of initiative which characterize, to a great extend, the Greek cities, as well as the lack of managerial practices and checks, mainly in the former eastern-Europe countries, are sure to affect development actions and policies on local level, which, in turn, act as a deterrent for the entrepreneurial environment,

creating this way an intense challenging and dissatisfaction towards local authorities, constitute the picture that is derived from the facts of the present study.

Finally, we have to point out that the above conclusions regard primarily the firms and the cities of the study. The specialized techniques of statistic analysis used (factor and cluster analysis) showed, to a great extent, the estimations and the attitudes of a great number of industrial/manufacturing firms, mainly, regarding the specific characteristics, the development policies and the fields on which these policies can be implemented, pointing out the degree of responsibility of local authorities for the cities themselves where the firms act and develop. From this point of view, the conclusions of the analysis are highly important and interesting, contributing to the scientific approaches made up to now, but also determining the fields where there is need for clear planning and implementation of specific policies aiming at the local economic advancement and the competitiveness of both cities and firms.

Furthermore, both the choice of the cities and the cross-section of the number of firms in the study, allow, up to a point, the generalization of the conclusions for the total of small-medium size firms in respective cities of Southeastern Europe. The above remark is important since the study at hand would be more representative if the sample of both the study areas and the firms was larger.

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