Available online at www.sciencedirect.com
ScienceDirect
Journal of Policy Modeling 33 (2011) 866–888
Journal of Policy Modeling
www.elsevier.com/locate/jpm

Capital allocation in the Greek regions

Panagiotis Liargovas [1], Irene Daskalopoulou *

University of Peloponnese, School of Economics and Management, Department of Economics, Terma Karaiskaki Street, 22 100 Tripolis, Greece

Received 1 October 2010; received in revised form 2 November 2010; accepted 22 March 2011
Available online 8 April 2011

Abstract

The present study analyses the location of new economic activities in the 51 Greek prefectures (NUTS III level) as the outcome of agglomeration economies and other factors that are acknowledged as determinants of new firm location. Cross-section data referring to the location choices of firms in manufacturing, commerce, services and tourism within 2005 are used. Results indicate that agglomeration effects largely determine a region's attractiveness and appropriateness as an investment location. In addition, the effect of other factors such as demand, expected profit and cost conditions is identified as important. Interestingly, regional characteristics seem to affect in different ways the location of start-ups belonging to different industries.

JEL classification: R3; R1; L26; M13

Keywords: Start-ups; Capital location; Agglomeration economies; Regional development; Greece

1. Introduction

Regional economic growth and development is inexorably linked to entrepreneurial activity (Acs & Audretsch, 2003; De Groot, Nijkamp, Strough, & Stough, 2004; Porter, 2003; Turok, 2004). It is now widely acknowledged that increased entrepreneurial activity coincides with the existence of competitive and dynamic economies able to survive and succeed in the contemporary era of worldwide competition. New enterprises are essential to the economic output of regions as not only do they appropriate existing resources, but also they harness new ideas and generate

* Corresponding author. Tel.: +30 2710 230129; fax: +30 2710 230139.
E-mail addresses: liargova@uop.gr (P. Liargovas), daskal@uop.gr (I. Daskalopoulou).
[1] Tel.: +30 2710 230128/230135/230136; fax: +30 2710 230139.

0161-8938/$ – see front matter
doi:10.1016/j.jpolmod.2011.03.011

innovations (Baumol, 2002). These associational positive effects have caused policy planners to place special emphasis on supporting entrepreneurial activity. This has lead to viewing clustering or the co-location of firms in a region as an ex ante successful mechanism of addressing regional problems (Martin & Sunley, 2001). Nonetheless, as McCann and Sheppard (2003, p. 656) stress '*regional policies formulated on the basis of these arguments, which are explicitly intended to influence firm location behaviour, are often built on very weak analytical frameworks*'. Elaborating on the micro-foundations of industrial clustering they provide important insights not only of the strengths but also of the limitations characterising the currently fashionable models of clustering (McCann & Sheppard, 2003).

The theoretical discourse on industrial location theory (McCann & Sheppard, 2003; Gordon & McCann, 2000) and the analysis of entrepreneurship (Nijkamp & Poot, 1998) suggest that a thorough understanding of the drivers of entrepreneurial activity, and especially at the regional level, is still missing. In a recent report prepared for the European Commission, it is acknowledged that available knowledge offers ambiguous conclusions as regards the driving forces of entrepreneurship across different countries, industries and time (ECORYS, 2003).

Despite the obvious interrelationship between spatial characteristics and the regional facets of entrepreneurship (Audretsch, Thurik, Verheul, & Wennekers, 2002), the basic conceptions of regional competitiveness and entrepreneurship are studied largely in the absence of a geographical framework (Sorenson & Audia, 2000). Even within the economic geography strand, where the importance of the spatial context is particularly stressed, research largely focuses upon typical industrial districts and the study of their success and tends to overlook other regions that lie outside them (ECORYS, 2003). Consequently, further research is needed in order to understand the effect of the spatial context upon entrepreneurial activity (Acs & Audretsch, 2003; Breschi & Malerba, 2001) with regional location patterns being a topic to which particular emphasis should be placed.

This is especially important for Greece, which faces severe regional competitiveness challenges, with many regions suffering from socio-economic decline. Indeed, regional convergence in Greece is an open debate. Contradictory empirical findings (Petrakos & Psycharis, 2004) tend to preserve a rather vague picture as to the appropriateness of the type and mix of regional and industry level support policies towards regional economic convergence. Analysing the distribution of facilities and infrastructure in Greece, Petrakos and Psycharis (2004) point their lack in almost all regions of the country leaving urbanization and localization effects to be an advantage of large centres such as Attica and Thessalonica. Further, Liargovas and Andreou (2007) argue that regional cohesion in Greece is blocked by the lack of infrastructure while they underline the importance of industrial diversification against the consequences of negative shocks in a region's economy.

Within this context, a better understanding of agglomeration economies as the drivers of capital allocation in the Greek regions will provide informed outcomes as regards the ways in which regional and industry specific support policies should be designed. The main hypothesis analyzed here is that the effect of regional characteristics upon the location of new firms differs depending on the industry under study. In that sense, analysis focuses on the micro-regional determinants of entrepreneurship in Greece while we also distinguish between different industries in order to provide more informative findings regarding the industry – specific drivers of new firm location. Using data on the amount of capital invested in the 51 Greek prefectures (NUTS III level) within 2005 we have estimated location quotients referring to capital investments in four industries namely manufacturing, commerce, services and tourism. These location quotients are analyzed using different sets of regional characteristics approximating agglomeration economies and other factors that the available literature identifies as firm location determinants. Results do confirm the