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Regional firm performance: the case of Greece

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Abstract

Manufacturing plays a significant role in all economies and are the key generators of employment and income and the drivers of innovation and growth. The scope of the present study is to analyze the performance of the Greek manufacturing firms by sectors (NACE 2 digit sector classification) and by region, based on firm level data. We investigate the effect of certain factors, such as size, age and exports on the efficiency of all manufacturing sectors in Greece. The research is based on financial data of a large sample of 3600 Greek industrial firms, for a time span of 9 years (2003-2011). The empirical research with the use of DEA analysis attempts to rate the 13 Greek regions based on their firm efficiency and explain the reasons behind the differentiation in performance. Further, econometric modeling is used to investigate the effect of age, size and exports on firm level efficiency, for each region. We find that there is a negative effect of exports on efficiency scores, while a positive relation between size and efficiency scores is reported.

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1. Introduction

The concept of territorial competitiveness is a favorable topic to academic policy makers and practitioners. According to Kline and Rosenberg (1986) and Porter (2003), the term regional competitiveness comprises the ability of a region to satisfy the needs and demand of the local and global market, acquiring a high and steady level of income. A region's competitiveness is connected to the competitiveness of its enterprises (Michailidis

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et al., 2014). If firms in an economy are competitive, then the economy is competitive. The concept of competitiveness of regions within a country is similar to that of countries. Competitiveness results in long term economic growth. According to the European Commission (2001), the standard definition of regional and national competitiveness relates to the achievement of high and rising standards of living and high rates of employment on a sustainable basis. The competitiveness of firms in the geographical area is certainly an important factor to consider. Infrastructure and level of human capital are considered as contributing significantly to variations in regional competitiveness (Commission of the European Community, 1994). Recent studies show that other factors, such as technological progress, macroeconomic stability, institutions and innovation, also influence economic growth. The EU integration has increased the level of competition among local economies, since the obstacles to movement of labor and funds have decreased. Therefore, regions try harder to develop competitive policies by increasing their efficiency levels. The debate focuses on the concentration of certain industries in some regions, and gives emphasis on the distinction of firm performance of those sectors among regions. Enterprises' competitiveness depends both on their performance and the environment where it operates. Factors such as local institutions, educational level of its labor force, infrastructure, local society, etc. can be determinants of a firm's competitiveness. Exchange rate movements, prices, costs, level of wages and wage flexibility, comprise factors of international competitiveness. These do not work on a regional level, but we have the inter-regional competitiveness and inter regional factor mobility like labor and capital. These are the elements of domestic competition in regional competitiveness. Literature considers the role of firm factors, strategy and management of resources, as important contributors to firm performance. Additionally, if a firm realizes lower cost than other firms in the same market, then the firm is competitive in terms of prices. According to research findings, firm specific factors explain more than twice the industry factors the variability in profit performance. Lucas (1988) and Romer (1986 and 1990) point out to the role of human capital and the innovation as basic determinants of growth. New enterprises are also essential to the economic development of a region because they create income and employment, harness new ideas and generate innovations (Baumol, 2002). However research findings do not come to a consensus on the nature and measurement of regional competitiveness.

This study attempts to look at the distribution of industrial firms in the regions of Greece, by 2 digit sector, to analyze the average financial profile and performance of each sector in each region. Our aim is to relate the efficiency performance of the sectors to the macro characteristics of the regions. Why Greece? Greece is representing an example of a country which although it showed an above average performance during 1990s and middle 2000s, suffered a severe economic depression since 2008 which has led to its deindustrialization. Greece has achieved considerable progress since during 1990s, (it became member of EU in 1981), which led to its accession to the Economic Monetary Union (EMU) in 2001. There were differences in the speed of adjustment between sectors. So the use of Greek data may lead to an assessment of general applicability of conclusions to other countries with similar economic performance. The competitiveness of regions in Greece depends on many factors such as the efficiency of their manufacturing sectors. In this paper we research the level of regional competitiveness in Greece in terms of their technical efficiency scores. Competitiveness here is measured in terms of technical efficiency, i.e. how efficiently the firm uses its inflows versus its outflow. The method used is Data Envelopment Analysis (DEA). Efficiency produces scores for each region and manufacturing sectors; further, with the help of econometric modeling (Tobit model), we attempt to specify the relation of manufacturing firm efficiency with age, size and exports for year 2011[†].

To our knowledge, this is the first empirical research of this type for Greece, especially with firm level data and covering the before and after 2008 crisis period.

[†] Due to non-availability of data, we focus on a recent year only (i.e. year 2011). Year 2011, however, is important as it shows the performance of Greek firms and sectors after 2008 Financial crisis.

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