

Editor  
Charis Vlados

# Local Development Dynamics

D. Chatzinikolaou, N. Deniozos,  
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Democritus University of Thrace, Greece

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# Contents

## Introduction

(1)

## Chapter I

### Local support mechanisms for entrepreneurship: The approach of local development and innovation institutions

*F. KATIMERTZOPOULOS & Ch. VLADOS*

(6)

Articulation of economic policy at the macro, meso and micro level (6)

Growth and competitiveness of firms in the light of the mesoeconomic and microeconomic policy approach (8)

Development of economic policies and approaches for small and medium-sized enterprises (SME) at the local-regional level (10)

The economic policy of specific countries and entrepreneurship support organizations: The cases of the US and the EU (14)

Institutes of local development and innovation (18)

Methodology (20)

Discussion and conclusion (21)

Limitation (22)

Appendix/Questionnaire (24)

References (28)

## Chapter II

# From the traditional regional analysis to the dynamics of local development: Foundations and theoretical reorientations

*Ch. VLADOS, N. DENIOZOS,  
D. CHATZINIKOLAOU & A. DIGKAS  
(32)*

Introduction (32)

Methodology (33)

Central theoretical perspectives in analyzing the spatial phenomenon: A critical overview (34)

The neoclassical approach (34); Behavioral theory (38); The institutional and evolutionary theory (40).

Important theoretical milestones of traditional approaches to regional analysis (41)

Theories based on trade (42); Models based on comparative advantage (42); Theory of development stages (43); Export based theories (43); Theories of technological change (44); Profit and product life cycle theories (45); Theories of cyclical fluctuations and techno-financial cycles (46); Neo-Keynesian theories (46); Neo-Marxist theories of uneven development (47); Theory of dependence (48); Theory of spatial dimension of labor (50); Theories of regulation (50).

Critical conclusion: From the traditional perspective of regional analysis to modern approaches of local dynamics and evolution (52)

The evolution of local business systems and clusters (54); The production and reproduction of local innovation dynamics (55); Bottom-up development (57); The structurally reproduced inequality on a local scale (59); The inherently conflicting social character of local development Dynamics (60); The multiple political dimensions of local development Dynamics (60).

## References (63)

### Chapter III

## Crisis, innovation, and change management in less-developed local business ecosystems: The case of Eastern Macedonia and Thrace

*Ch. VLADOS, F. KATIMERTZOPOULOS,  
D. CHATZINIKOLAOU, N. DENIOZOS & Th. KOUTROUKIS*  
(77)

Positioning the problem: crisis, innovation, and change management in less-developed regional socioeconomic systems (77)

### Literature review: Regional underdevelopment and poor business ecosystems in crisis conditions (80)

Less-developed regions and crisis (84); The problem of innovation in less-developed regional business ecosystems (86); Change management and policies to foster entrepreneurship in less-developed regions (88).

The analytical triangle of the crisis, inadequate innovation, and incomplete change management (90)

### The case of small and micro enterprises in Eastern Macedonia and Thrace via field research (93)

The profile of the less-developed regional business ecosystem of Eastern Macedonia and Thrace (93); The case of small and micro enterprises in the region of Eastern Macedonia and Thrace: field research and findings (96).

Conclusions, limitations, and prospects of expanding the research (104)

References (107)

## Chapter IV

# Strategy perception and implementation on less developed business ecosystems micro and small enterprises: The service sector of Eastern Macedonia and Thrace

*Ch. VLADOS, & D. CHATZINIKOLAOU*

(116)

Locating the research question and methodology (116)

Literature review and construction of the questionnaire (119)

Methodology: field of investigation and identity of the research  
(128)

Field research results (130)

Conclusions and limitations (135)

Appendix (136)

References (150)





# Introduction

This volume—which is a collection of published articles by the “Stra.Tech.Man Lab” research team—focuses on and examines the dynamics of local systems as the principal contributors to overall socioeconomic development. Our goal is to clarify that local development is a phenomenon that goes beyond the traditional regional analysis and the “conventional” neoclassical theorization of maximization; the dynamics of local development seems to belong in the evolutionary socioeconomic science. The evolutionary and trans-disciplinary approach to local development dynamics focuses on the examination of local-level phenomena while seeking to comprehend how local systems (local innovation environments, local business ecosystems, local clusters) shape their potential of innovation and competitiveness. In our perspective, the scientific discipline of local development studies how socioeconomic systems in today’s era of globalization innovate and compete in their different spatial articulations.

In particular, the volume contains four articles:

I. *Local support mechanisms for entrepreneurship: The approach of local development and innovation institutions*

The purpose of this article is to examine the innovative potential of small and medium-sized enterprises, which starts

primarily from the micro (firm) and meso (globalized sectors of economic activity and business ecosystems in regional configurations) levels of a socioeconomic system. In this context, we argue that a developmental economic policy is inadequate when it focuses exclusively on macro-environmental measures and quantities.

This finding leads us to propose the establishment of Local Development and Innovation Institutions (ILDI), as a repositioned local development policy. These mechanisms could operate in the Greek regions to enhance the innovative capacity of the locally-established firm in a systematic way, especially in the context of the Greek socioeconomic systemic crisis. Besides, we measure through qualitative field research the perception that particular firms are cultivating internally about the need to improve their competitiveness. We find that most firms perceive the necessary changes quasi-totally only in the amelioration of their macro-environment. They do not insist on improving the micro conditions, such as the strengthening of their business culture, their ability to ameliorate their strategic planning aptitudes, their technological potential, and their managerial dexterities. These shortages constitute the basis for these firms' competitiveness backwardness. We think that this fact underlines the need for specific Greek regions to establish the proposed ILDI mechanism, which could coordinate public and private bodies of the local socioeconomic system (universities, banks, local government, and local firms) by focusing on fostering the innovative potential of local entrepreneurship.

*II. From the traditional regional analysis to the dynamics of local development: Foundations and theoretical reorientations*

Next, we present a historical overview of the milestones of regional analysis and compare them with modern approaches to local development dynamics. Specifically, we present the following approaches of regional development: theories based on trade, models based on comparative advantage, theories of developmental stages, theories of technological change, theories of technological change, theories of cyclical fluctuations and technological cycles, neo-Keynesian theories, neo-Marxist uneven development theories, dependency theory, spatial dimension

theory of labor, and theories of regulation. Subsequently, we argue that the following approaches to local development dynamics address the phenomenon more thoroughly than traditional regional development. In particular, we examine (i) the multiple political dimensions of local development dynamics, (ii) the evolution of local business systems and clusters, (iii) the production and reproduction of local innovation dynamics, (iv) the aspect of bottom-up development, (v) the structurally reproduced inequality on a local scale, and (vi) the inherently conflicting social character of local development dynamics.

In conclusion, we find out that nowadays, the conventional and traditional regional analysis seems to be gradually changing focus, content, and interpretative perspective. We suggest that the regional analysis of the past seems increasingly saturated and incapable of proposing policy solutions that originate primarily from the potential of local development, innovation, and entrepreneurship. To this end, these mostly multidisciplinary approaches of local development seem to be progressively prevailing, leading the contemporary dialogue of the dynamically evolving localities to the forefront of development economics.

*III. Crisis, innovation, and change management in less-developed local business ecosystems: The case of Eastern Macedonia and Thrace*

We present in this research the co-evolving “crisis-innovation-change management” triangle and incorporate it conceptually into a less-developed local/regional business ecosystem. Specifically, we take into account the case study of the region of Eastern Macedonia and Thrace, which is one of the least developed regions in Greece and Europe, and we conduct field research to see how locally-established firms perceive the aspects of the crisis, innovation, and change management. As expected, in less developed local business ecosystems, small firms find it difficult to define these concepts; this fact leads us to assume that this is an obstacle to innovation. The “crisis-innovation-change management” triangle asserts that innovation and the prerequisite mechanisms of change management are strongly necessary for the exit of a structural crisis at all the interdependent levels (local, regional, national, and global). Therefore, we argue that the delay in developmental terms of this particular business ecosystem is

justifiable based on how members of local firms perceive the aspect of the socioeconomic crisis, their innovation, and change management.

*IV. Strategy perception and implementation on less developed business ecosystems micro and small enterprises: The service sector of Eastern Macedonia and Thrace*

Finally, in a similar methodological orientation, we try to identify how micro and small firms in a less-developed local business ecosystem perceive and implement some of the fundamental dimensions of modern strategic planning. We analyze different critical concepts of strategic management and construct a “strategy perception and implementation index,” which consists of 16 corresponding queries. Then, we present field research conducted in micro and small enterprises in the region of Eastern Macedonia and Thrace in Greece. To this end, we find that the “physiologies” of these firms are adjacent to each other since they exhibit similar scores and attributes. We also notice a tendency of these firms to systematize their perception and implementation of strategy since they begin to approach some of the benchmarks set by the international literature of strategic management. However, there is still a significant distance that separates the actual strategic crafting and implementation of these firms and the literature’s standards of the international “best practices.” As a result, based on how these local firms perceive their strategy, we can explain partially the comparatively low local development potential of the region. Besides, with the method proposed in this article, we can analyze, evaluate, and ultimately attempt to reinforce the strategic formulation aptitudes that local firms have, regardless of their particular size and sectoral scope.

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# 1

## Local support mechanisms for entrepreneurship: The approach of local development and innovation institutions<sup>1</sup>

Fotios **KATIMERTZOPOULOS**

Charis **VLADOS**

### Articulation of economic policy at the macro, meso and micro level

**T**his chapter examines the possibility of exercising an economic development policy beyond the macroeconomic approach. According to the classic definition of Tinbergen (1967), economic policy is the deliberate manipulation of several instruments to the success of specific goals. Of course, economic policy is composed of the decisions of (intervention or deliberate abstention from intervention) the state and the organizations, which have as main object the regulation of conditions of production, distribution, or utilization of resources, as De Boissieu (1978) clarifies.

Often the “abstract approach” to economic policymaking is based on the assumption that the main goal of those practicing it, is the maximization of social prosperity, in the frame of economic restrictions. In reality, the practicing of the economic policy usually avoids the strict determination of particular desirable prices and commits to a base for strict evaluation. In practice, the formulation

of economic policy is never the neoclassical process of “maximization under constraints,” but a more “grounded” process of choice of “satisfactory solution” (Simon, 1947).

The articulation of an effective economic policy requires a comprehension of specific differences between the “coincidental” and the “structural” economic policy. The former includes short-term objectives related to the current economic situation (context), while the latter is based upon long-lasting and long-range policy objectives that concern the structural/institutional objectives of economic policy (Clark, 1940; Leon, 1967; Pasinetti, 1981).

Would it be better to seek the “uni-dimensional purity” in the constitution of economic policy or the other direction? To seek, that is to say, an absolute “positivism” or absolute reduction from an ethical perspective? To claim, in other words, complete “technical objectivity” or full integration in the form of “extreme voluntarism”? As Galbraith (1987) argues, this would be an error, mainly because this is unfeasible and ineffective and from both directions.

However, in order to better understand the formation of economic policy and the manner of its practice, this research mainly focuses on meso and micro-approaches, rather than on macro-approaches.

Macroeconomics is the study of the economy as a total and the policy that is mainly determined by goals such as high and increasing national product level (i.e., real GDP), high employment with low unemployment and stable or gently rising prices (Samuelson & Nordhaus 2000). The macroeconomic policy however undoubtedly has a short-term direct effect on the business world: through monetary policy and in particular, interest rates (Shane, 1996), through taxation (Schuetze & Bruce, 2004), as well as through the consolidation of a climate of stability (Parker, 2006; Stiglitz, 2000).

However, until now, the macroeconomic policy is a topic of disagreement between economists and politicians. In recent years, macroeconomics is in turmoil. In some fields, such as those relating to the basic elements that influence economic growth, economists widely agree on the forces and trends. In others, especially those relating to cyclical economic fluctuations, the rivaling schools of

macroeconomics compete for the foundation of suitable policies that lower unemployment and inflation (Samuelson, 1998).

Therefore, the regard for a macroeconomic policy cannot be exhausted, in our opinion, for the achievement of new innovation-driven economic policy. A microeconomic and meso-economic policy seems to acquire great importance for firms progressively.

In principle, the microeconomic approach relates to a specific approach to economic problems that focus on the analysis of the behavior/action of the entities operating in the economy (individuals and firms). It refers to the study of the factors that determine the relative prices of goods and factors of production, focusing on the partial relevant markets (Varian, 2009). The meso-economic assumption concerns mainly the particular approach towards economic phenomena in their intermediary, and dynamic and evolutionary socioeconomic dimension (Mann, 2011; Yew-Kwang, 1986), the factors determining the structural dimensions and the “intermediate” sizes of the tested economic system, as well as the economic activity sectors, their concentration, the localities where they accumulate and penetrate, and the evolving forms of competition and innovation within them (Hamel & Prahalad, 1994; Ruigrok & Van Tulder, 1995).

## **Growth and competitiveness of firms in the light of the mesoeconomic and microeconomic policy approach**

The macro, meso, and micro-approaches can be implemented effectively and efficiently through the perspective of socio-economic development and competitiveness. Overall, economic growth is linked to the moral and social changes of the population, which enable it to cumulatively increase, in duration, the actual total product (Perroux, 1965). Growth may be intrinsic: each country develops according to its own choice and in proportion to actual values, ambitions, and aspirations of its people. Growth also may be global: objectives and problems are fixed concerning world problems and reflect the general nature of development. The society in which the development occurs is not isolated but is part of the network of relations and forces around the world, including



the most economically developed societies, as well as those that are more economically deprived (Iraida, 1982).

Substantially as Vaitsos (1987) clarifies: The concept of development is not neutral, nor does it express abstract meanings that can easily and unambiguously be visualized in simple and “objective indicators” of socioeconomic activity. Instead, growth has evaluative nature and stems from specific social realities to which it refers (Sen, 1983).

Relatively, with the trend of economic policy approaches towards competitiveness, it could be said that this concept refers to the capacity of an economic unit, enterprise, region, or nation to be superior, as compared to other similar units, in terms of a commonly accepted objective/indicator. For example, a prominent business goal is profitability, while for nations is the high per capita income. Overall, and in a broad perception context, we could say that the competitiveness of each socioeconomic formation and on each level of analysis is linked to survivability, reproduction, and development through the evolving conditions of its external socio-economic environment (Competitiveness Policy Council, 1994; Reve & Mathiesen, 1994; Dunning, 1997).

However, many analysts criticize the “narrow” macroeconomic perspective of competitiveness. They call for a complete approach by deepening the study in terms of the firm level (micro) and terms of sector and region (meso-level). Competitiveness at the firm-level is approached as the capacity of the firm to show better performance than its competitors (higher productivity and more significant efficiency in the use of capital, or bigger share of the market, and higher sales and profits). About the micro-approach, the industrial competitiveness of a country or a broader economic space is simply a matter of how competitive are the domestic firms (Reve & Mathiesen, 1994).

Reve & Mathiesen (1994) characterize macro-approaches of competitiveness as “traditional” because they are exhausted in the analysis of competitiveness only in “macro-terms,” mainly in the relative prices of productive factors while neglecting the in-depth examination of the interior environment of firms. With that in mind, the authors consider that the macro-approaches try to boost industrial competitiveness directly through a macroeconomic

policy that focuses on low inflation and low-interest rates. This policy practice, however, is not sufficient anymore. They counter-propose a policy that initializes small-scale competitiveness at the firm and sector-based level, in other words simultaneously at the micro and meso level. In their approach, they place particular importance on the quality of products and the organizational knowledge of firms. They propose the study of three defining factors that usually pass the “traditional” perspectives: The existence of persons within firms, the creation of aggressive, customer-driven firms, and the creation of dynamic industrial networking between different firms (clusters).

In turn, Best (1990), in the article “reaching new competition” that studies the American economy, considers the relative deterioration of productivity as being more critical than insufficient savings and the internal or external debt. Best’s approach focuses on the sphere of production, and the role of the firm’s internal organization. Therefore, this analysis has a micro and strategic orientation. The prevailing contemporary phenomenon, according to the author, is the emergence of “new competition,” which differs from the old one, in two points: The organization of the firm in the forms of coordination in the various stages of the production chain, the organization of the industry and the types of industrial policy. In the background, Best (1990) identifies the overthrow of the principles of “old competition.” The “new competition” in this perspective proposes strategic interventions and is characterized by market-making activities as opposed to merely reacting to market signals. In this approach, the structure of sectors plays a vital role, as does the existence of geographic concentrations of economic activity and the “social capital” (Delapierre & Milelli, 1995; Storper, 1997; Michalet, 1999).

## **Development of economic policies and approaches for small and medium-sized enterprises (SME) at the local-regional level**

One of the most ever-lasting guidelines for structuring a business economic policy includes and analytically absorbs the dimension of locality in the search for reinforcement of

competitiveness and growth of modern firms. First, the approach of “industrial districts” contributes to this approach. The industrial district describes a social entity that includes a number of characteristics, such as a) the existence of a variety of specialized small and medium-sized enterprises organized around a locally dominant industrial sector, b) a dynamic collaboration and synergy between the local community and the region’s enterprises, particularly with regard to the sharing of shared values and culture, c) an industrial organization founded in a mixture of competition and collaboration, and d) an “industrial atmosphere” that emanates from the training and the accumulation of skills (Marshall, 1920).

According to Becattini (1973), the industrial district is a territorial concentration of mainly small to medium-sized enterprises that function in an industrial sector and which are specialized in the different phases of the productive process of this sector. Therefore, the “Italian school” proposes a local perspective of approaching competitiveness. Becattini sees a model of endogenous growth behind the significance of “industrial district” that can, at least partially, be interpreted as coming from specific characteristics of “sociological” or socioeconomic order. At the same time, the French and American schools propose the analyses of the located productive system (“système productif localisé”) and local growth, respectively. Based on Courlet (2008), in the corresponding “French School,” the located productive system is actual incorporation of firms grouped in the territorial neighborhood and, simultaneously, around one or more relevant “industrial” profession. These firms maintain relations with each other for a shared social-cultural environment of innovation. These relations are not merely of market origin but are also informal and produce “positive externalities.”

Moreover, the concept of “innovation environment” (milieu innovateur) out of this conceptual basis emerges. This environment of innovation can be defined as a localized total of multiple firm action and knowledge, which is open to its external and incorporates know-how, rules, and “relational capital.” That is to say, the concept of “environment of innovation” attempts, in this way, a synthesizing and evolutionary socioeconomic explanation

of dynamic territorial growth. This regional growth is a result of innovative processes and territorial socioeconomic synergies that have local scope. The necessary components of the local innovation system are mainly its reported specialization in the management of the productive process from different perspectives; commercial, organizational, and, in general, relational sides of an always materialized productive process. Rules also determine the behaviors of institutions, decisions of perpetrators, as well as the relations that these elicit from each other—confidence, reciprocity, solidarity, collaboration, and competition—and relational capital that corresponds to the knowledge that each “environment” member distributes to other members. Aydalot (1984, 1986), who is considered the founder of this stream of thought, suggests that it is not the firm that innovates but the “environments of innovation” surrounding it since the accumulated knowledge in the “local environments” always constitutes the base of progress. Based on these precedents, we understand that the approach of “environment of innovation” via systematic local innovation is one of the most appropriate ways to enhance the adaptability and competitiveness of partial socioeconomic formations within the broader global environment.

At the same time, the “business ecosystem” concept (Moore, 1996) is a well-known and useful modern approach that incorporates the priorities of the local development phenomenon. The significance of the business ecosystem has its roots in the natural ecosystem and ecology since it uses biological analogies to study various observed phenomena related to firms. An ecosystem incorporates different organisms that “live” in the same region while these organisms can interact with each other, as well as with the environment in which they can be found (Peto, 2008).

Based on the above consideration, Hannon (1997) declares the existence of a multitude of shared characteristics between economic science and ecology; both sciences dynamically study organisms and systems having methods of reproduction and resources, while the total output of the ecosystem can be considered as parallel to the GNP (gross national product) of an economy.

Moore (1996) argues that a business ecosystem is an economic community supported by interacting organizations and individuals. In his opinion, a business ecosystem consists of primary producers, competitors, customers, and other interested parties. The key to a robust business ecosystem can be found in the leading company that plays a significant role in the process of co-evolution. Additionally, Moore formulated a second supplementary definition in which the business ecosystem is an extended system of reciprocally supported organisms (e.g., trade unions of workers, communities of consumers, suppliers, governmental institutes) that participate in a partially-deliberate self-organized, but coincidentally shaped environment.

Moore's (1993) initial definition places substantial emphasis on the interaction with the environment, while the second emphasizes the self-organization and the decentralized decision-making. According to Moore, the business ecosystem cycle is comprised of four stages. In the first stage of birth, more efficacious energies beyond those which lead to the satisfaction of the customers must be made. In the second stage of extension, the possibility of expansion of the firm is tested. In the third stage of leadership, the ecosystem strives for stability and the creation of profit. The fourth and final stage of renewal or the death results from the appearance of new ecosystems.

There are significant differences between nature and business-related ecosystems. Initially, the perpetrators of business ecosystems are characterized by astuteness and the ability of planning and forecasting. In business ecosystems, there is significant competition for the conquest of potential members and aims at innovation, while natural ecosystems only target survival. Moore (1996) identifies the conscious choice as the main difference between business and natural ecosystems.

By focusing on creating value for customers, Gossain & Kandiah (1998) attempt to extend Moore's theory. The benefit of this business system as a whole is that it is orientated towards helping a company survive. The collaborators and the suppliers are only included in this business ecosystem since the connectivity between them is considered as the motive force of the entire

system. The survival of each company is considered to be based on the profit of the entire business ecosystem.

The business ecosystem, therefore, functions as a corporate network where each entity operates in a field, and each field interacts with several other fields. Thus, the changes that occur in a company's field immediately spread to other areas, where other companies can benefit as members of the ecosystem (Lewin & Regine, 1999). However, the failure of a member also affects the ecosystem. Companies mainly aim at knowledge-creation, innovation, and success, and hope to dominate others and to exploit their potential. This fact presents a significant challenge in the unpredictable and ever-changing business ecosystem environment. The business ecosystem is a dynamic structure that is evolving with the aim of its development and improvement over time (Peltoniemi, 2004).

Iansiti & Levien (2004) argue that the success of the ecosystem is based on productivity, which affects the success and robustness of any firm. The ecosystem survival capacity in light of various (internal and external) shocks, accepts the risk of destruction, as well as the possibility of creating opportunities and new contacts through cooperation and not protectionism

## **The economic policy of specific countries and entrepreneurship support organizations: The cases of the US and the EU**

Economic policy, as a necessary ingredient for the support of businesses "at source" in the "cell," could present a multifaceted and long-lasting past in many countries around the world. We examine in particular some crucial directions and examples of such orientation policies in the US in the EU, before formulating our final proposal.

The US adopted formal entrepreneurship support policies much earlier than any other country; as early as 1932, the Organism of Economic Reformation was founded, in the frame of the "New Deal" of the then President Roosevelt (Jackson, 1941). Over time, the US's economic policy appears to manage, to maintain, and effectively replicate the force of competitiveness of

the US economy, adapting particularly effectively to the priorities and the means of policy.

The reports of the US's Council of Competitiveness from the beginning of the 1990s have already captured and effectively answered the significant issues of competitiveness for a country in the frame of globalization, in a way that appears notably "advanced" even until today ([Competitiveness Policy Council, 1992](#), p.2-11). Combined thematics and sectors-key in this total policy are rendered explicitly, the creation of a favorable firm environment, the policy of education and training, the maintenance of technological avant-garde and long-lasting, structural targeting ([Competitiveness Policy Council, 1992](#), p.35-36).

The US provides direct support to entrepreneurs and small firms via a body of policy acts guided by the Small Business Administration governmental service. The SBA's mission is the maintenance and the intensification of the national economy, facilitating the establishment and viability of small enterprises. The activities of service are summarized with "3C": capital, contracts, and consulting. One of the essential functions of the Small Business Administration is the offering of loans that are made through banks, credit unions, and other lenders collaborating with the SBA. Borrowing by SBA is supported by a governmental guarantee. Following the financial freeze in 2008, through the Recovery Act and the Small Business Job Act, the SBA has increased its loans to be able to provide up to 90% guarantee on loan to strengthen small firms' sufficient access to capital. As a result, the service at the end of 2008 recorded the highest historical volumes of borrowing. The SBA has at least one office in every US state. Additionally, the service provides licenses to participate in counseling programs, including 900 Small Business Development Centers, which are usually in colleges and universities, 110 Women's Entrepreneurship Centers and a specialized organization, SCORE, which includes approximately 350 separate parts, and which is a voluntary network of consultants, of retired and experienced business executives. These advisory services are provided annually to more than a million entrepreneurs and small business owners ([Markiewicz, 2011](#)).

Respectively, in the area of EU policy articulation to boost competitiveness, there is a wide variety. We also briefly examine some crucial aspects starting from the 1990s. As early as the middle of the 1990s, according to the highly advanced for the era perspective of Jacquemin (2001), the debate on the European approach of competitiveness must always start from three key findings: First, the European approach for competitiveness should not consider international trade as a game of “zero-sum,” unlike some harsh neo-interventionist, protectionist views. The White Paper on “Growth, Competitiveness and Employment” (1993) considers the opening of international trade with developing countries as beneficial for the EU. Secondly, competitiveness is not a concept that mobilizes public opinion in Europe. It needs clarification of the relationship between the boosting of competitiveness and the economic and social objectives that it serves. Thirdly, in global terms, EU competitiveness is used as a tool for creating an attractive environment in terms of activities and employment, leading to sustainable development. To this end, it needs improvements in the efficiency of national economies by the strengthening of underlying factors of competitiveness, such as material infrastructure, research, education, and training.

Jacquemin (2001) further suggests that the effort to enhance competitiveness cannot “be exhausted” in labor productivity growth (i.e., growth in value-added per working hour). Apart from the importance of “low-cost” rate of work in the effort to increase productive efficiency, other additional factors play an essential role, such as the factors of reinforcement of competitiveness that are connected with the “non-price competition” and which, with difficulty, are impressed quantitatively (quality of product, efficiency of commercial networks, variety of types of production, sectorial and geographic specializations). This fact provides the ability to integrate innovations in the overall business strategy and, finally, establish an efficient internal organizational structure capable of implementing innovative marketing strategies.

In particular, at least twenty-five years ago, these conceptual directions maintain their clarity. European firms must reconcile productivity with flexibility and should increase the potential for cooperation between all workers to target “new productivity.” At



the same time, Jacquemin (2001) proposes the overtaking of traditional “industrial policy” towards the needs of creating an innovative business environment. The author clarifies that the conventional approach of strengthening “national champions” and specific sectors should be progressively replaced by encouraging the dissemination of information, the effort of assimilation of “best practices,” incentives for innovation, promotion of joint R&D networks (public and private research institutions), facilitating “new entrepreneurship” and improvement of access to foreign markets.

Nowadays, the EU utilizes the “Small Business Act for Europe” policy, the purpose of which is to provide a stimulus towards the development of small and medium-sized European firms. The “Small Business Act” is the EU policy framework that is specifically designed to help SMEs grow and stimulate job growth. In the “Small Business Act,” the EU member-states and the Commission implemented actions between 2008 and 2010 to reduce administrative burdens, facilitate SMEs’ access to finance and support their access to new markets (European Commission, 2011).

The “Small Business Act” represents the first coherent policy framework for SMEs, both in the EU and its Member States. Following its adoption in June 2008, substantial progress has been made via actions to strengthen SMEs in various sectors. Firstly, 100,000 SMEs have benefited from the financial instruments provided by the framework program for competitiveness and innovation, and which has led to the creation of more than 100,000 jobs. Secondly, due to the late payments directive, public authorities are now required to repay their suppliers within 30 days, thereby improving firms’ cash-flow. Thirdly, in most EU member-states the time and costs of establishing a company have significantly reduced; the average time for setting up a private limited company in 2010 came to be seven days and the average cost of 399 euros; whereas in 2007 this took 12 days and a cost of 485 euros. Fourthly, simplified online procedures and opportunities for joint bidding have facilitated SMEs to access public procurement. Finally, the new center for European SMEs in

China helps European SMEs access the Chinese market ([European Commission, 2011](#)).

Although all member-states have recognized the importance of a rapid implementation of the “Small Business Act,” the approach and results achieved vary considerably from one member-state to another. According to statements made by the European Commission, it is determined to continue giving priority to SMEs. However, it is clear that it should take further measures in many sectors of priority, to adjust the “Small Business Act” according to recent economic developments, to improve the business environment for SMEs and particularly, in countries with significant disabilities such as Greece ([European Commission, 2011](#)), and to align it with the priorities of the “Europe 2020” strategy. It can achieve better SME access to investment and growth finance, to loan guarantees through the aid system, with plan of action for the better access of SME in the financing; providing among others, access to venture capital markets, as well as targeted measures to inform investors about the opportunities offered by SMEs, and with the creation of easy access loans via mechanisms of European Union from all the banks, independent of size.

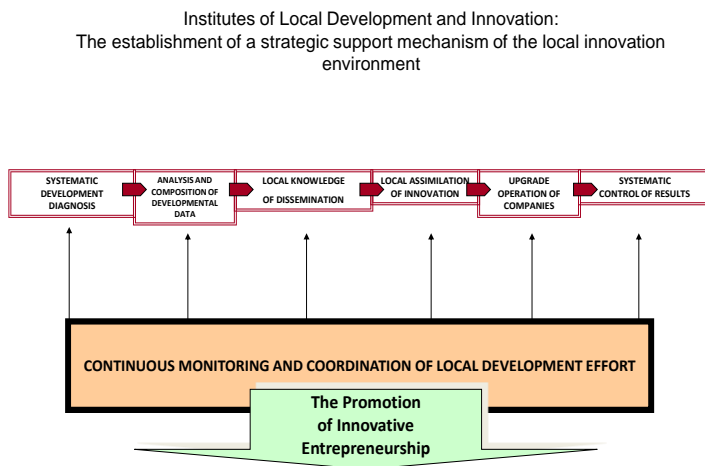
Also, an anti-bureaucratic “smart regulation” should be diffused and fully implemented to enable SMEs to concentrate on their core activity and partake of the full benefits of the single market structures ([European Commission, 2011](#)). Overall, the European environment and the corresponding political will of the EU institutions is ripe for strengthening specialized small and medium entrepreneurship support mechanisms in the member-states, assimilating a structural and flexible perspective that is locally focused and dedicated to the diffusion of innovation and development.

## **Institutes of local development and innovation**

This research thus leads to the proposal of building mechanisms of systematic development, knowledge, and innovation at the local level. These dimensions, we feel, could prove the most critical aspect of the overall exit from the Greek crisis.

## Ch1. Local support mechanisms for entrepreneurship

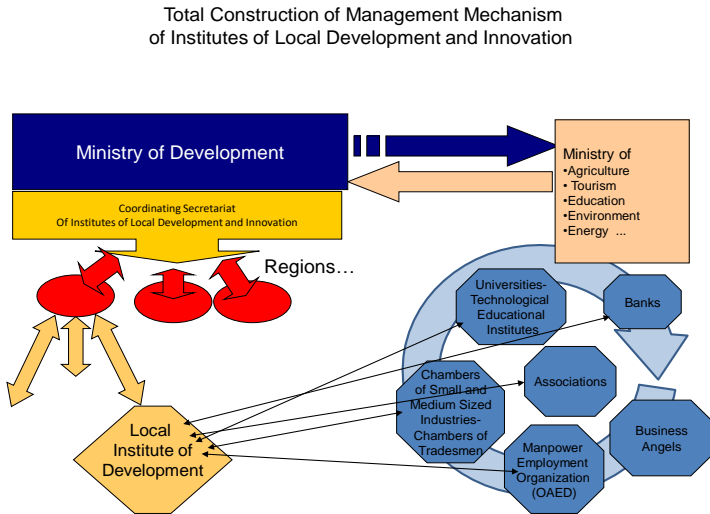
In particular, we propose the establishment of local mechanisms of developmental coordination diffusion of information, and modern operational know-how, achieved by focusing on the promotion of innovative entrepreneurship and the extraversion of the Greek locally-installed firms. The Institutes of Local Development and Innovation (ILDI) are mechanisms of economic policy that could be refocused to target the following: i) stimulate competitiveness of the Greek local operating SMEs, ii) increase the attractiveness for new investment, and iii) strengthening systematically the local production grid, for a large number of regions in Greece (Βλάχος 2007,2014) (Figure 1).



**Figure 1.** *Institutes of local development and innovation: The establishment of strategic support mechanism of the local innovation environment*

The center of gravity and the claim of this interventionist mechanism (ILDI) should be the direct aid of the local firm and business agility via the enrichment with sufficient resources, tangible and intangible, with facilities, equipment, and specialists that are currently mostly scattered and uncoordinated in various state institutions and agencies. This intervention could include an integrated support cycle of Greek SMEs (European Commission, 2011).

The ILDI's, like developmental “Citizens Service Centers” will focus on the area of business and production, as mechanisms with a regional and local focus that can be “points of contact” for coordinating all actors, organizations, and services related to the innovative and developmental reality (Figure 2).



**Figure 2.** *Total Construction of Management Mechanism of the Institutes of local development and Innovation*

In practice, the ILDI constitutes a new frame for the composition of actions and developmental initiatives. However, to be proved genuinely useful, it must from “be endowed” with a particular institutional framework of operation that ensures it can be proved quickly, reliably, focused on the cooperation, based on the complementarity of resources and needs, as well as the increase of the added value of all structural interventions.

## Methodology

In the frame of the ILDI proposal, we created a questionnaire to determine if the local firms are interested in the approach of creating such a local level structure in Greece. Initially, we divided the questionnaire into four sections.

The first category includes questions of macroeconomic nature and, more specifically, the needs of firms in the national context in

terms of political stability, economic balance, technological competence, and social cohesion.

The second section again includes such questions of macro-environment. In this category, we questioned the opinion of the business owner on tax reduction, lower lending interest-rates, more flexible conventions of work and a lower wage, facilitation of banking financing, reinforcement of domestic demand.

The third unit includes questions of sectoral business agility (meso-economic approach); we asked the business owner questions on how much they would like: i) sector-based policies that would strengthen the firms of a specific sector, ii) aid measures for investment in the specific sector through new European programs, and iii) aid of aid for exports.

The fourth and final section focuses on the micro-environment. We asked the business owners how much they would like for their company financial consulting, more and improved training for their staff, consulting, cooperation with universities, and research centers.

We placed an open type question at the end of each section. The business owner had to answer how important he or she considers the factors combined (i.e., questions of each section) for his/her firm, and why.

The remaining questions in all categories are scored based on the scale, from 0 (that corresponds to less significant) to 5 (highly significant). In each question, the business owner replies in two measuring tables, one for what he wants today and one for what he wanted five years ago. This time-comparison margin arises as a parameter in order to measure what the “today’s” entrepreneur thought he wanted five years ago. The goal is to consider how the business owner perceives these aspects and what impact they have on the business culture.

In this research, the sample is small and medium-sized enterprises in the tourism industry, operating in Greece.

## Discussion and conclusion

Concerning the above results, in this research, it could be said that: The macro-level shows that the behavior of firms has a high tendency to change five years ago. In particular, almost all the

firms would like economic stability (at the national level), technological competence, and social cohesion. The specific macro-environment seems to be one area that, compared to five years ago, shows the need for drastic changes to proper functioning, in particular through measures such as reducing tax and lending rates and facilitate bank financing.

The results in these two sectors may be high because of the severe economic crisis prevailing in Greece. The results also show that a desire for change within the firms is much stronger than five years ago. This propensity to aid enterprises appears to exist more in need for measures that concern investments in the sector, and the application of sector-based policies for the aid of business agility.

Finally, at the micro-level, firms seem to want a partial implementation of microeconomic measures. Sixty percent of firms (30% increase compared to five years ago) would like much more funding advice. About business cooperation with universities and research centers, approximately 30-50% of firms directly ask for such support.

The results of the questionnaires in the microenvironment, about those of the macro-environment, show a lower tendency for change within the firms, something which may be because firms “understand” economics in macroeconomic terms rather than in meso and microeconomic terms. The one-sided perspective of many firms is owed to the lack of comprehensive business culture, education, and knowledge on what changes are needed at the local level to evolve and innovate because they give more attention to macroeconomic terms

## Limitation

The small sample of study of enterprises in Greece constitutes the main limitation of this particular research; this is because the approach of study is quantitative-qualitative, which cannot be undertaken on a larger-scale in the present phase. However, the present research is not a longitudinal study that could be used to compare the answers for today and five years ago. In this way, we attempted to determine how business culture has been influenced in the past and what the prevailing perceptions are today.

### **Future research**

A future study can use a larger sample and also examine how the Institutes of Local Development and Innovation (ILDI) are developed locally and in what form, as well as determining the feasibility of such structures. It can also consider the perspective of cooperation at the regional level, and compare the ILDI proposal with various mechanisms and structures that exist in other EU countries.

## Appendix/Questionnaire

### Questionnaire: How much interesting appears the approach of Institutes of Local Development and Innovation (ITAK) in Greece?

Way of Marking:

0                      1                      2                      3                      4                      5  
Not                      Very  
Important                      Important

#### 1st Section:

1) I wish political stability at the national environment.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

I wish economic balance in national environment.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

• I wish technological sufficiency in the economic environment.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

4) I wish social cohesion in the national environment.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5



## Ch1. Local support mechanisms for entrepreneurship

5) Overall how do you think that these factors together are important for your firm and why (describe in short)?

### 2nd Section:

1) I would like a reduction of taxation.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

2) I would like lower interest rates of lending.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

3) I would like more flexible conventions of work and lower wages

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

4) I would like facilitation of banking financing.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

5) I would like reinforcement of domestic demand

5 YEARS AGO:

0	1	2	3	4	5

## Ch 1. Local support mechanisms for entrepreneurship

TODAY:

0	1	2	3	4	5

6) Overall how do you think that these factors together are important for your firm and why (describe in short)?

### 3rd Section:

1) I would like exercise of concrete sector-based policies that would strengthen the firms of my sector.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

2) I would like concrete measures of aid for the investments in my sector, through the new Community programs.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

3) I would like concrete measures of aid of exports for the firms of my sector.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

4) Overall how do you think that these factors together are important for your firm and why (describe in short)?

### 4th Section:

## Ch 1. Local support mechanisms for entrepreneurship

1) I would like advice for financing of my firm.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

2) I would like better and more professional training for the persons of my firm.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

3) I would like advisory services for my firm.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

4) I would like collaboration with universities and inquiring centers for my firm.

5 YEARS AGO:

0	1	2	3	4	5

TODAY:

0	1	2	3	4	5

5) Overall how do you think that these factors together are important for your firm and why (describe in short)?

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# 2

## From the traditional regional analysis to the dynamics of local development: Foundations and theoretical reorientations<sup>2</sup>

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### Introduction

The first quarter of the 21<sup>st</sup> century appears to emerge as a field of multiple restructurings and reorientations of all the realities and the underlying explanatory theories. The restructuring of globalization, which initiated during the end of the past decade, has caused profound alterations in the ways economics and all other social sciences understand their field of research (Bhattacharya, Khanna, Schweizer, & Bijapurkar, 2017; Laudicina & Peterson, 2016; Rodrik, 2011; Sapir, 2011; Vados, Deniozos, & Chatzinikolaou, 2018b, 2018a).

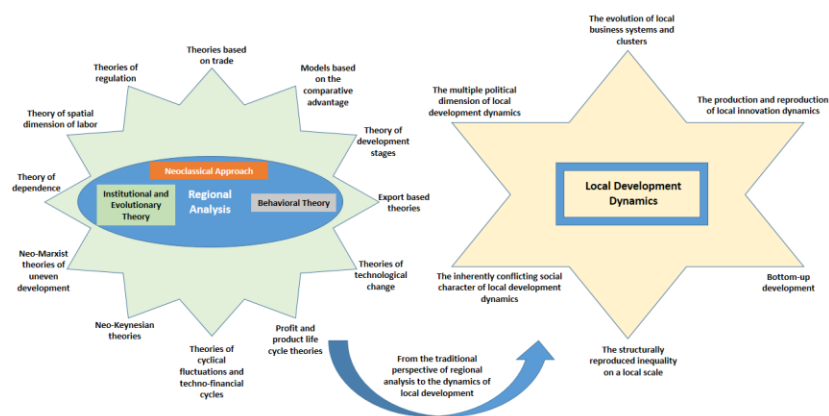
One research field where a theoretical rejuvenation is underway is the broader nexus of socioeconomic spatial sciences (Boschma & Frenken 2006; Briant, Combes, & Lafourcade 2010; Crespo, Suire, & Vicente 2014; Lazzeretti, Sedita, & Caloffi 2014; Martin 2009). Within these developments of economic geography, the traditional optic of regional analysis is shifting towards the study of local dynamics and causing too many rebalances. This new way of synthesizing the elements of space we think that drives to a whole

Ch.2. From the traditional regional analysis to the dynamics of local development... new and “integrated paradigm” of development that we are going to unfold in this manuscript.

In essence, we think that this is an incubation of a profound theoretical change in spatial analysis, in terms of Paradigm mutation of Thomas Kuhn (1963, 1977, 1996), since the period under study is progressively adopting new concepts, approaches, methods, and exploratory routines, which are often derived from other areas of socioeconomic sciences and the synthesis of analytical methodologies of competing theories and perspectives. The aim of this article is, therefore, to critically review the core schools of thought and their theoretical derivations in the context of traditional regional analysis, and to examine the basic dimensions of the emerging local development perspective.

## Methodology

In this work we will attempt: (a) a critical examination of the central analytical perspectives to the spatial phenomenon, (b) to describe the deriving theoretical stations in the traditional approach of regional analysis, and (c) to draw some conclusions that reflect the theoretical transition from the perspective of traditional regional analysis to the contemporary local development perspectives (Figure 1).



**Figure 1.** *From the traditional perspective of regional analysis to the dynamics of local development.*

## **Central theoretical perspectives in analyzing the spatial phenomenon: A critical overview**

Classical economists did not specialize, at least up to the twentieth century, in the issues deriving from regional economic activities, since they believed that capital and labor could be moving freely and automatically inside the regions that can create most of their revenue. The relationship between space and location dynamics, in the first generation of related studies, appears as the theoretical body of three central approaches that include the neoclassical, the behavioral, and the institutional and evolutionary schools of thinking. The following section attempts to present concisely and critically these theoretical perspectives of understanding regional disparities, as well as their interpretations of long-term economic changes.

### **The neoclassical approach**

This approach attempts to present a general framework for determining the most proper location for economic activity, based on narrow and unidentified historically economic components.

The “black box” firm is the neoclassical theory’s focus, based on supposedly full information and ability to maximize individual aspirations, coupled with decisions based solely on interpretive models of lowering operating costs. All the variants of neoclassical approach, both old and modern, have common theoretical root which combines, on the one hand, mechanistic microeconomics, where the enterprise is perceived as static and timeless transformer of output inflows and without any strategic perspective and, on the other hand, national inward-looking traditional macroeconomics, where the individual macroeconomic phenomena are rarely linked to transnational and deeper socioeconomic or institutional perspectives and interpretations (Belleflamme, Picard, & Thisse, 2000; Boschma, 2015; Henderson & Thisse, 2008).

Von Thünen (Thünen, 1826; Clark, 1967), Launhardt (1882), Weber (1909, 1929), Lösch (1954), and Palander (1935) are the founders of the regional dimension of neoclassical approach. In particular, the works of von Thünen and later of Lösch & Dunn

Ch.2. From the traditional regional analysis to the dynamics of local development... (1954) to the distribution of land uses around an urban center are the first comprehensive attempts to scientifically formulate spatial theory (Κόνσολας, 1997), while the works of Wingo (1961) and Alonso (1964) constitute the fundamental core of the subsequent relevant analysis.

The neoclassical location-based theory focuses on the cost side, which is being determined by the territorial limits and profitability of each area. The neoclassical aspect does not, however, measure the degree of influence of local firm internal factors, such as the entrepreneurial growth and strategy, which represent the most decisive factors of the business relocation. In recent years, many prominent economists (Fujita & Krugman, 1995; Fujita, Krugman, & Venables, 1999) have reconsidered the neoclassical views of location theory within the analysis of new economic geography, based on explanatory models where location factors such as transport and labor costs and the size of the market are the primary drivers of the decision to relocate.

In the background, however, the neoclassical theory, both older and recent, is following six analytically rigid assumptions as a structural basis. It is a conceptual tool that integrates the model of International Trade, formulated by Heckscher and Ohlin, and completed by Samuelson (the HOS model).

In particular, the conventional neoclassical theory establishes its approach traditionally on the following common working assumptions:

1. The productive factors cannot move from country to country
2. Perfect market competition is prevailing
3. International specialization of production is static, while technology is “open to all” and without restrictions
4. The firm is an automatic and ahistorical mechanism
5. There is no kind of institutional dimension in the functioning of the economy
6. There is no historical dimension in the spatial socioeconomic formations.

Based on the assumptions of the traditional neoclassical school, the primary product of neoclassical analysis, the Heckscher-Ohlin-Samuelson (HOS) model, lies in the so-called theorem of

Ch.2. From the traditional regional analysis to the dynamics of local development... “endowment” of national productive factors that every space holds in a “static” way. This theorem also produces the rule that each spatial entity has to specialize in the production and export of those products that use a relatively abundant productive factor. Therefore, this static logic understands international specialization as a condition that leads, supposedly directly, to optimized allocation of productive factors for individual uses –under free trade conditions and cross-spatially. The productive factors in this model stay, of course, eternally immobilized within their national frameworks, while the trade of goods fully substitutes any need for moving the capital from one country to another.

The HOS analysis accepts the fundamental directions of Ricardian theory largely, but with a significant difference: it assumes that production functions for a given product and from country to country are identical. This fact implies silently an automatic and unimpeded diffusion of technology at an international level: something that has little to do, of course, with the present-day conditions. In practice, if the HOS model assimilates the realistic assumption of technology varying to produce a good from country to country, then any definition of national productive factors endowment loses its explanatory power. Therefore, this analysis is particularly restrictive and incapable of approaching the present-day cross-spatial dynamics in the context of globalization<sup>1</sup>.

Undoubtedly, the HOS model is logically consistent internally and uses its cognitive tools remarkably. However, these conditions are insufficient now. The neoclassical working assumptions, although they keep prevailing, cannot interpret the globalized socioeconomic systems today, where at least six conditions differ significantly from the past.

1. Productive factors (capital, natural resources, technology, and entrepreneurship, and, to a certain extent, labor) no longer recognize national borders.
2. Complicated forms of incomplete competition –in

<sup>1</sup> For the basis of this theoretical framework see specifically the works of Bertil Ohlin (Ohlin, 1933), of Paul Samuelson (Samuelson, 1949), who influenced greatly the neoclassical approach, and the classic work of Krugman and Obstfeld (Krugman, Obstfeld, & Melitz, 2018).

Ch.2. From the traditional regional analysis to the dynamics of local development... particular, the increasingly sophisticated forms of globalized oligopolistic competition—dominate the world.

3. There is an international specialization of production that is continuously and evolutionarily changing, within an increasingly dense, systemic, and interdependent environment.

4. The firm, the motor of the economy, is a complex entity, an evolutionary and adaptive subject that closely resembles a living organism.

5. Institutions are acquiring an ever-increasing critical impact on the dynamics of the development/crisis of different economies.

6. The historical specificity and trajectory of each socioeconomic structure are crucial for successful integration in globalization.

In the background, the neoclassical theory is unavoidably sterilizing at least three main analytical dimensions of the dynamics of globalization; that is why it appears now mostly saturated in interpretative terms.

Firstly, key actors in globalization are insufficiently explained. The private enterprise is explained through a static production function, and nothing more, the institutional interventions of the social (state or other) entities, at every level of the system operation, are marginalized, and the historical dynamics of the spatially established socioeconomic systems are simply ignored.

Secondly, neoclassical science “forgets” about the globalized interconnections between socioeconomic spaces. All economic phenomena are separated from social ones, while the narrow economic aspects are perceived within a rigid ethnocentric framework, where the nation-state is not one of the analytical levels (local, national, regional, global) but the strict, exclusive basis of neoclassical analysis.

Thirdly, the increasingly disruptive sectoral innovation in globalization is not observed by the neoclassical tradition. New technology is almost always equated with new capital equipment and nothing more. There is no study about the aspects of knowledge creation, experience, and learning, while new technology in the context of sectoral competition is strictly exogenous (like “falling off the sky”), innovation means almost always some “narrow-thinking” acquirement of new machinery

Ch.2. From the traditional regional analysis to the dynamics of local development... with a statically embedded knowledge, and finally the concept of crisis remains within the context of neoclassical tradition a theoretical condition “to avoid” and not the necessary basis for the production and reproduction of new socioeconomic conditions.

In conclusion, all of these analytical constraints remove from the contemporary branches of neoclassical school any possibility of a sound theoretical understanding of the dynamics of globalization. In practice, the “conventional” neoclassical thinking is alienated from modern globalized reality, at every level.

Therefore, the critique of neoclassical economic thought today continues to grow, even in traditionally conventional theoretical fields (Gilpin & Gilpin, 2001). Nevertheless, neoclassical theory, to this day, still maintains a dominant position in the “orthodoxy” of conventional economic science. As a result, neoclassical tradition is not only wrongfully considered “scientifically responsible” in the fields of international trade and investment but also the broader fields of globalization and spatial development.

## Behavioral theory

Behavioral theory, in its spatial perspective, not only perceives enterprises as active subjects with incomplete information and limited choices of rational optimization but also as active coordinators of the production process that deviate from the mechanistic willingness of short-term profitability maximization.

This particular theoretical perspective was developed, among others, by Simon (1955), to whom is usually attributed the introduction of this perspective, by Cyert & March (1963), and by Townroe (1983) who underlined the importance of enterprise internal factors, such as personal choices and capacity, conditions that contradict with the factors of cost highlighted by neoclassical tradition.

For Simon (1947, 1973, 1996), the entrepreneur is neither capable of gathering the necessary information for a decision, nor his or hers analyzing time is abundant and, therefore, the idea of optimal choice together with the notions of maximization and minimization is simply an ideal construction that has no practical application.

On this direction of understanding, it is clear that a firm does not have –and could never have– direct access to any “perfect information” and that there is no “perfectly” rational decision, but on the contrary, every business person draws initial information from the problem and then acts accordingly. Nobody in practice is capable of acquiring infinite information, of infinite precision, and has infinite abilities and time. Nothing in everyday reality is absolute and perfect in the organizational administration. Simon called this logical thinking of decision a “satisfying solution,” which is far from claiming any “ideal” solution. He argued that any administration is *de facto* limited to a sufficiently good solution, without being able, by nature, to claim any “optimality.” Thus, Simon replaced the rigid model of one-dimensional “economic man,” that until then was unquestionably assimilated by the classical administrative perspective, with the act “within reasonable limits” notion (Nonaka & Takeuchi, 1995).

Therefore, the basis of the behavioral theory is how the firm perceives, compiles, and evaluates in “real conditions” the information and factors that influence the choice of location. Subsequently, the relevant models of “garbage can” and organizational “sensemaking” emerge in management theory. Specifically, Cohen, March, & Olsen (1972) question Simon’s perspective and propose the “garbage can” model, which underlines the unreasonable and vague nature of human problem resolution and decision-making within the organization. They argue that any organization consists of a set of feelings and issues related to situations where first someone makes a decision, and then this decision comes to the surface. In this model, the opportunities for choice are equal to the “garbage,” and the problems, solutions, and decision-makers are the “garbage can.” Nothing in this process is similar to any straightforward and linear decision-making process, such as classical management implies. This model perceives, on the contrary, the organization as a system that gives retrospectively meaning to the events and not a system of planning and rational decision-making (Weick, 1993).

Thus, in general, behavioral theory manages to drastically enrich the theory of spatial phenomena, by analyzing the decision-



Ch.2. From the traditional regional analysis to the dynamics of local development... making process of specific –operational and structural– actors within socioeconomic “gameplay.”

## **The institutional and evolutionary theory**

The institutional and evolutionary theory in spatial analysis “liberate” analytically the historical dynamics of the spatially established socioeconomic systems. The institutional theory begins its hypothesis by a dynamic environment where decisions are not taken by enterprises but are due to the values and cultural background where the enterprise operates. This stream of thought during the 1980s came into the surface by trying to explain the spatial economic processes with the lenses of social institutions.

In the institutional approach, location decision results from business investment strategies, which derive from negotiations with suppliers, the state, trade unions, and other institutions, while taking into account business-related factors such as prices, wages, taxation, and infrastructure. As will discuss in more detail below, the related and deriving from institutional approach school of “industrial districts” focuses on relationships between firms and local society, in the sense of formal and informal social, economic and political relations as determinants of long-term economic development ([Amin, 2000](#); [Becattini, 2002](#)).

The evolutionary theoretical perspective is following a converging direction. In particular, as an evolutionary model, we mean the scientific methodological framework in social sciences that attempts to apply to the study of socioeconomic phenomena the principles governing the appearance and reproduction of biological types of the earth ecosystem, through the principles of genetic differentiation and natural selection.

In particular, the branch of evolutionary economics is now part of the backbone of modern economic science ([Friedman, 1998a, 1998b](#); [Witt, 2008](#)), although retaining several elements of fertile “heterodoxy,” inspired mostly by evolutionary biology. Evolutionary economics is studying specifically the complex socioeconomic interdependencies: competition, development, structural changes within an environment of permanent scarcity, and a methodological perspective that resembles the “living” and “biological” procedure ([Hodgson, 1999](#)). In particular,

Ch.2. From the traditional regional analysis to the dynamics of local development... evolutionary economics focuses on the study of processes that transform the economy and society, with reference not only to the firm but also to industry, employment, production, commerce and distribution, social stratification, and social mobility through the actions of various actors/players.

This theoretical perspective also lays the ground to perceive the dynamics of globalization as a process of “biology,” where there are central concepts such as “natural selection,” survival, development, and reproduction of both the actors and their underlying structures. In this context, innovation can also be perceived as an “organic” phenomenon within a continuous evolutionary process.

On this basis, evolutionary economics also studies necessarily the technological and institutional innovation where constant creation and test of a variety of ideas or applications exist. If the dynamics of survival are more potent than the effort consumed, and the competitive alternatives, then these ideas and applications are successful –otherwise, they get rejected. In this way, the focal point of analysis shifts to non-equilibrium processes that transform the economy “unceasingly from within” (endogenously). These transforming processes arise in turn from the choices of various actors (players) that guide structural change.

The evolutionary perspective, in contrast with the institutional approach, is only recently active in the matters of economic geography. According to Martin (2008), many economic geographers until recently tended to consider the notions of “evolutionary economy” and “institutional economy” identical; this fact explains the minimal interest of the evolutionary approach to economic geography.

## **Important theoretical milestones of traditional approaches to regional analysis**

The previous three central theoretical perspectives, with their competitive and complementary co-evolution, acted as a nursery for multiple distinct approaches to the phenomenon of regional development. These precisely are the approaches we present in the following lines of this paper.

### **Theories based on trade**

According to Adam Smith (1776), the principle of absolute advantage based on specialization and different production costs, economies of scale, and redistribution of production and trade can increase the level of current incomes (Debaere, 1998; Rivera-Batiz & Romer, 1991; Skinner, 1988). On a similar basis, Ricardo (1817) put forward a differentiated approach, that is, the principle of “comparative advantage” on a national basis, supporting that if a nation does not hold absolute advantage on any productive sector, then it is better to utilize a comparative advantage by focusing the production on less perfect productive field. Subsequently, Bertil Ohlin (1933) linked trade to the movement of productive factors between national regions, based on two assumptions: (a) to the high degree of mobility of productive factors and (b) to the full integration of markets of national regions, despite any local variations.

Regarding the results of trade, Paul Samuelson (1948, 1949) proposed that international trade tends to equalize incomes. The “neo-factor proportions” theory extends the Heckscher-Ohlin theory by adopting the real and rejecting its unrealistic assumptions. In recent years, international trade research has focused on what Krugman (Baldwin, 1988) called “silent revolution” and includes theories that accept, as opposed to the classical view and dominant theory of comparative advantage, the hypothesis of increasing returns to scale. In this respect, Krugman's theory of new economic geography (Krugman, 1991) relates to a regional or transnational level the increasing returns to scale with transport cost while gives great importance to the factor of demand for defining the patterns of trade.

### **Models based on comparative advantage**

In models based on the principle of comparative advantage, the import of a good in a country or region depends, *ceteris paribus*, on the level of demand for that good, while the share of transport cost, although it may reduce the volume of trade, it will not stop the exporting of that good. On the contrary, Chipman (Chipman & Winker, 1992), Davis (Davis & Weinstein, 1996) and Deardorff (1995, 2004, 2005) applied and tested empirically the theory of

Ch.2. From the traditional regional analysis to the dynamics of local development... increasing scale returns, arguing that these economies direct producers to concentrate the production process to one or more products in an area. If a national region has high-level demand for the same products, then it transforms into an ideal location for the production process and initiates an export activity (Krugman, 1980).

However, if transport costs burdening trade are present, then a high-level demand for a particular good causes opposite predictions. For comparative advantage theory, the economy will be importing the goods, while for new economic geography, the economy will start exporting activity (Davis & Weinstein, 1996).

### **Theory of development stages**

Rostow proposed perhaps the most well-known relevant development theory as a conceptual basis also for regional development, based on five stages that form the paths of a nation (or even a region) toward economic development. The idea of economic development through a series of stages by Rostow adopted the views of various German economists of the late 19<sup>th</sup> century (e.g., the works of Friedrich List).

Although Rostow formulated a more systematic theory, he did not directly include the spatial aspect of development (Azariadis, Bullard, & Ohanian, 2004; Guillén, 2001; Rostow, 1952, 1956, 1959, 1960, 1963).

### **Export based theories**

Export based theories distinguish economic activities to necessary or export-oriented and non-basic or activities related to services for internal consumption.

Export based theories focus, on the one hand, on the demand-side without downgrading how important is the supply-side, but, on the other hand, they did not particularly address the implications of government spending, local entrepreneurship and the impact of technology and innovation on regional development (Armstrong & Taylor, 1993; Chinitz, 1966; Healey & Ilbery, 1990; Muller, 2001).

## Theories of technological change

The review of past and current literature on economic development shows that technological changes are the main driving force of modern economies. This theoretical research of technological changes broadens the field of economic development since it investigates not only how economies interact with a given set of technological changes, but also how these different mechanisms interact socio-economically (Maurseth, 2003).

Kuznets (1973) supported the idea that a technological revolution marks the era of a new economic beginning. He also argued that improving productivity is based on capital sufficiency, capital quality, on the process of organizing production, and the quality of the labor force.

Posner (1961) used the term “technological gap” to describe the idea that international trade is the condition to make monopolistic profits based on technological superiority. On the same issue, more recent studies at the national level have shown that national development results from rapid adoption and diffusion of new technologies, while nations that drive technological innovation on radical industrial-technological applications and new sectors are leading the global economy (Hall, 2004; Reuveny & Thompson, 2001).

The advantage of technological innovation, translated in terms of monopolistic power, is present as much as Posner's “imitation lag” parameter imposes on other countries to imitate and adopt the leading country's technology. According to Posner, the time-frame of “imitation lag” can be distinguished in two phases. The first corresponds to the zero-exports time-frame because of the “demand lag.” Countries not familiar with the new product are unable to adapt their consumer habits and, as a result, the country of origin cannot easily export the innovative product. The second phase refers to the “reaction lag,” which is the time lag of other regions' consumers to express demand for the particular product.

Metcalf & Soete (1984) underline that trade can happen because of the difference between national rates of demand volume diffusion increase and time lags of technology transfer. Krugman (1985) standardized the earlier view of factors affecting the long-term comparative advantage to a model of neoclassical

Ch.2. From the traditional regional analysis to the dynamics of local development... direction where technology between two countries varies not only in degree but also in produced goods and level of technology. Krugman model predicts that technological progress in the leading country, which widens the technology gap with the lagging-behind countries, creates trading opportunities, and as a result, there is a widening gap between the real incomes of the countries in-trade. On the opposite side, however, the convergence process of the lagging-behind countries progressively deprives the advantages of trade (Laursen & Meliciani, 2000; Lee & Vivarelli, 2006; Vivarelli, 2004).

### **Profit and product life cycle theories**

At the level of conceptual approach, innovations and their creators share three features: novelty, improvement, and uncertainty. These hypothetical features direct the issue of innovation in two interpretations. The first relates innovation to the life cycle of a product (Gordon & McCann, 2000), while the second promotes innovative products concerning the environment. Markusen's (1985) theory of "profit cycles" links technologically advanced regions and countries with innovation, trade, and profit cycle of corporations. The "product life cycle" theory includes the characteristics of novelty, improvement, and uncertainty according to a typical form of five phases.

First is the "negative profits" phase and corresponds to the first phase of a firm. Second is the "superprofit" phase when the firm creates an innovative product and a temporary monopoly in the market since there is no competition. The third is the "normal profits" phase when the market matures, there is a consequent lack of dynamism, and new entrants are entering into the market and distracting parts of sales. Fourth is the post-maturity phase and features a level of business profits ranging from normal "plus" to "minus." At this stage, profits from the product either increase due to successful profit-making oligopoly or decrease as a result of the successful competition of other firms. Fifth, finally, is the "negative profits" phase that reflects the sector's stage of uselessness.

Simon Kuznets (1980) was the economist that mainly established this "life cycle" theory in the industrial sector, and his primary finding was that, after the first production and innovation,

Ch.2. From the traditional regional analysis to the dynamics of local development... a product is going to follow a bell-shaped path. First will grow to a great extent and then will follow a bending path until the stage of maturity, just before new products appear in the market.

## **Theories of cyclical fluctuations and techno-financial cycles**

Following a Marxist-type analysis, Kondratiev ([Kondratieff & Stolper, 1935](#)) argued that capitalist-type economic growth is experiencing a period of fluctuation around phases of economic growth and economic downturn. The theory of “long circular fluctuations” or Kondratiev waves was based on the study of per-capita indices behavior and values during the 12<sup>th</sup> century, expanding the findings of this study into the economic, social, and cultural life of societies.

Very close to the theory of cyclical fluctuations is the theory of “logistic cycles” by Cameron ([Cameron, 1970](#)), who believed that, contrary to the theory of cyclical repetition of economic expansions and contractions of the earlier theory, logistic cycles synthesize an analogous movement to the statistical logistic curve, which consists of a prosperity-expansion phase of the economy, followed by a corresponding recession-contraction.

The regions that are leading in terms of exports during the prosperity phase are poles that attract the workforce and new firms, thus increasing their leading financial position. On the opposite side, during the recession period, companies are trying to exploit the capital of existing innovation to new exports due to high competition and reduced demand. This phenomenon can lead to new re-locations and re-balances of the regional development map, while companies that do not produce new goods may disappear ([Harle, Moisis, & Aalto, 2016](#); [Knox, Agnew, & McCarthy, 2008](#)).

## **Neo-Keynesian theories**

Contrary to the classical theory predictions, Keynes, in his “General Theory” in 1936, underlined that a wage cut does not cure unemployment because of the drop in active demand ([Chisholm, 1990](#)). So, contrary to the classical perspective that underlined the role of supply, the role of demand through export

Ch.2. From the traditional regional analysis to the dynamics of local development... development and state intervention is of Keynesian influences ([Filho & Scorzafave, 2001](#); [Thirlwall, 2006](#); [Vines, 1987](#)).

According to Keynesian theory, differences in growth rates of production can lead to regional productivity growth inequalities, resulting in some regions making greater use of economies of scale. A fast increase of regional production growth rates increases respectively competitiveness and leads to a process of higher productivity growth rates and greater competitiveness. In a similar process, development, besides its self-reinforcing dimension, creates powerful endogenous forces that create inter-regional inequalities, and yet, as the cumulative process strengthens wealthy regions, powerful centripetal forces further weaken the under-achieving ones.

The fast-growing regions attract capital and labor due to higher returns and wages, and from this point onwards the process follows a self-supporting path of development where, in a later stage, the sufficiency of capital and labor will lead through the Verdoorn law ([Verdoorn, 1980](#))<sup>2</sup> and economies of scale, to more specialized regional product. On a practical level, according to Verdoorn law, the per-capita income development, closely related to labor productivity, is positively correlated to the product produced. Fingleton and Lopez-Bazo ([Fingleton, 2001](#); [Fingleton & López-Bazo, 2006](#)) argue that the Verdoorn model offers a more realistic description of the regional development process and it is more compatible to specific endogenous models ([Pfaffermayr, 2007](#)). In neo-Keynesian line of thought, Kaldor (1970; [Kaldor, Targetti, & Thirlwall, 1989](#)) also argues that the per-capita regional product depends to the economies of scale growth and gradual specialization, while coupled with the Verdoorn principle a strong statistical correlation between the product produced and (endogenous) productivity growth is taking place.

### **Neo-Marxist theories of uneven development**

The neo-Marxist structural theory of spatial inequalities deals with the respective inequalities by focusing on industrial

<sup>2</sup> Generally, Verdoorn Law supports that in the long run productivity grows proportionally to the square root of output.



Ch.2. From the traditional regional analysis to the dynamics of local development... structures and inequalities between demand and supply. The neo-Marxist theory of uneven regional development is based on the deliberate activities of the capitalist class at the expense of the workers class. Both Marxist and Neo-Marxist theory argue that the market does not play an essential role in interpreting factors of development, as opposed to the labor theory of value, which explains both equilibrium values of products and spatial concentration of a large number of industries (Chisholm, 1990; Kotz, 2003; McDonough, 1995).

Another view of the neo-Marxist theory is that the spatial concentration of production does not result from systematic market orientation or scarcity of natural resources between different regions, but it is a phenomenon induced by the highly-mobile capital, which offers many exploitation opportunities and in particular in the construction industry.

Subsequently, another view is the “lower circuit” that refers to the local needs of the urban population and includes types of labor-intensive industrial activity and small-scale commercial activity. According to Santos (1977), some industrial activities of the “upper circuit” are internal, in the sense that industry is disproportionately concentrated in central metropolises. At the same time, despite the highly-mobile capital, between the “upper” and “lower” circuits, there are significant inequalities because the “lower circuit” activities are unable to attract capital.

To a large extent, the “family” of neo-Marxist analyses of international capitalism has been the victim of its easy success in the “revolutionary” decades of the 1960s and 1970s.

## Theory of dependence

The basic view of dependency theory, which represents almost all the individual theories, is that between the center and periphery there is technology, in the sense of a region's inability to form autonomous and dynamic processes of technological innovation as opposed to central countries that control not only technology but also the production systems (McDonough, 2007).

Frank (1976; 1967) rejects the idea that underdevelopment is a situation equal to tradition or setback, and by adopting the “development of underdevelopment” notion supports “statically”

Ch.2. From the traditional regional analysis to the dynamics of local development... a widening economic gap of dependence between developed and underdeveloped nations. The idea is that global distribution between metropolises and their satellites, despite the change in forms of monopolistic metropolises power, sustains a system of surplus expropriation from satellites to metropolises and specific regions are developing to the detriment of others.

According to the rationale of the dependency theory, dependence itself distorts the productive structures of less developed countries. This fact imposes destructive extroversion to their economies by requiring them to specialize and export to the Center a limited number of relatively low-technology products. Because of their structural dependence, within the underdeveloped economies inevitably sectors of completely different qualitative content and behavior (dualism) co-exist:

- On the one hand, the modern, developed sector that mainly produces for the international market.
- On the other hand, the “predominantly internal,” endoscopic, traditional, and underdeveloped sector.

These two sectors remain “unconnected,” and in this way, the results of any development of the modern sector do not diffuse to the rest of the economy.

One conceptual distinction and co-existence between traditional and developed capitalist forms within a socioeconomic formation (dualism) is undoubtedly useful. However, the assumptions of “discontinuity” and “autonomy” seem misplaced. There are today multiple cases where it is clear that these two supposed “completely separate” productive worlds within a less developed national economy are not as independent and unrelated as this version of Dependency theory assumes.

Instead, almost everywhere nowadays, less developed capitalist enterprises are progressively connecting and co-evolve with more developed capitalist enterprises. Many and increasingly complex sub-contracting relationships, technology transfer, managerial know-how transfer, acquisitions, shareholding activities, and broader strategic alliances are always converging those two separate entities.

## **Theory of spatial dimension of labor**

During the 1980s, the three main analytical categories of regional development, the neoclassical, Keynesian and monetarist theories, faced criticism because of their inability to cope with the recession, the inflationary pressures, the rise of unemployment and international competition. As a result, the theory of labor, which only the neoclassical analysis had investigated, emerged in economic literature.

While the structuralist theories observe the capitalist class dominating the working class, labor theory determines the rate of natural growth of the population and responds to wage-level changes. Central or hegemonic regions with skilled labor attract central administrative services as well as research and development activities, leaving behind the productive process in the remote low-skilled labor regions (Healey & Ilbery, 1990; Sayer, 1992; Storper, 1991). Increasing competition in export markets leads to the search for effective ways to cut production costs, with companies taking advantage of the secondary sector of the dual labor market and relocating their production to regional low-cost labor areas.

## **Theories of regulation**

One of the most fertile, newer theoretical platforms in theoretical research on socioeconomic development is the so-called “School of Regulation,” which emerged during the 1970s in France. One fundamental of this theoretical type of approach is that each socioeconomic system has and mobilizes historically sequential development models.

Specifically, a development model of each economic system is an evolutionary synthesis between an accumulation status and a form of regulation of economic behavior within each historically identified society. According to M. Aglietta (2010), one of the founders of this stream of socioeconomic research, the reason for establishing a “theory of regulation” of capitalism lies in the growing sense of dissatisfaction of more and more theorists against the conventional / established body of knowledge called economic science.

This dissatisfaction, in particular, is due first to the inability to analyze economic movement that specific subjects are experiencing in time: in other words, the inability to take into account the real history of economic phenomena. Furthermore, second, the inability to express the social content of economic relations and to interpret economic power and conflicts. On the contrary, the School of Regulation suggests a re-focused economic logic based on the birth and death of institutional forms, within an integrated context of the socioeconomic subject.

According to regulation theory, capitalistic economies develop accumulation stages and build a particular form of balance of production processes and work organizations. Particular attention should, however, be paid on transition periods of intense crises and profound upheavals. This transition/crisis period re-organizes the regional industrial base and accelerates the decline of the earlier accumulation phase of industrially developed regions, leading to new industrially developed or rejuvenated regions that are inevitably linked to the next stage of accumulation (Aglietta, 2000; Benko & Lipietz, 2000; Boyer, 2004; Lipietz, 1986).

Aglietta (1997) proposed four stages of capitalistic accumulation. First is the “industry” stage that corresponds to the grouped workers of a productive system. Second is the “industrialized production” stage, where the need for increased production introduces mechanization. The third is the “scientific administration” and “Fordism” stage, where the scientific administration includes techniques necessary for more efficient distribution of time and ergonomics, while the Fordistic system includes assembly techniques in the production process. Finally, the fourth “neo-Fordistic” stage extends the earlier stage by applying computer micro-technology and results in further widening of productivity and fragmentation of the labor force.

Perrons (1981), in the same direction, argues that the techniques presented in the industrial production process from the mid-16<sup>th</sup> to the early 18<sup>th</sup> century led to an industrial concentration of production in urban locations. In parallel, during the early 1990s, the concept of sustainability also emerges in development theory, mostly by the Brundtland Report (World Commission on Environment and Development, 1987) that defined sustainable

Ch.2. From the traditional regional analysis to the dynamics of local development... development as “development that meets the present needs without weakening the future generations ability to satisfy their own needs.”

**Critical conclusion: From the traditional perspective of regional analysis to modern approaches of local dynamics and evolution**

The previous short description of the historical evolution in theory of spatial development proves a gradual conceptual enlargement and methodological enrichment that tries progressively to include not only the (narrowly perceived) economic dimension but also the social, political, cultural, and ecological dimensions. Older approaches seem to have entered a rapid process of analytic modernization and increased interaction. And not only that, but it seems that a multitude of new theoretical spaces and interests can offer to this methodological transition and restructuring a new variety of categories and tools (Table 1).

**Table 1.** *New tools of regional development. Adjusted from “Καλογερέσης, Θάνης & Λαμπριανίδης” (2016)*

Conceptual tool / field	Short description	Related literature
Institution / institutional economics	These are anthropogenic constraints that structure political, economic, and social interactions. They consist of informal constraints and formal rules (constitutions, laws), while the economy is essentially understood as a completely institutionalized process.	Old institutional economics: (Galbraith, 2007; Polanyi, 2001; Veblen, 1898) New institutional economics: (Best, 1990; North, 1990; Olson, 2003; Williamson, 1985)
Industrial organization and transaction costs	These are the Californian school’s interpretative tools that analyze the reduction in transaction costs resulting from the dense interconnections between firms in high concentration areas	Vertical networking: (Marshall, 1920) Horizontal networking: (Jacobs, 1961) School of California: (Scott, 1988; Storper & Christopherson, 1987)
Innovation and	It refers to changing production	Theoretical core:

## Ch.2. From the traditional regional analysis to the dynamics of local development...

technological progress	patterns, ways of producing technology and innovation and their impact on regions and SMEs	(Philip Cooke & Wills, 1999; Hadjimichalis, 2011; Kaufmann & Tödtling, 2001; Malecki, 1983; Schumpeter, 1934, 1939) Externalities approach: (Florida, 1996a, 1996b; Saxenian, 1990, 1994) RIS approach: (Asheim & Clark, 2001; Cooke, Gomez Uranga, & Etzebarria, 1997)
Social capital	It refers to the collective value of “social networks” (acquaintances of individuals) and the trends emerging from these networks for reciprocity among the members.	Theoretical core: (Coleman, 1988; Portes, 1998; Putnam, 1993) Institutional approaches: (Phil Cooke, 2007) External economies: (Faggian & McCann, 2009; Gordon & McCann, 2000) Technological approaches: (Cohen & Levinthal, 1989; Dakhli & De Clercq, 2004) Learning regions: (Asheim, 1996; Maskell & Malmberg, 1999; Morgan, 1997)
Embeddedness	A firm is more likely to succeed if it is embedded, i.e., if it creates strong ties of cooperation, reciprocity, and trust with the local production system.	Theoretical core: (Polanyi, 2001)
Technological lock-in	It refers to the evolutionary approach of economic geography, according to which the regions are “trapped” in “development paths,” which are affected by the previous development of each region.	Theoretical core: (Boschma & Frenken, 2006; David, 1985; Martin, 2009)

Ch.2. From the traditional regional analysis to the dynamics of local development...

As a result of this reconstruction process, the following central theories are gradually emerging and strengthened, which characterize in our view the current qualitative transition of spatial analysis, from the perspective of regional analysis to the modern approaches of local dynamics and evolution.

## **The evolution of local business systems and clusters**

This approach is re-deploying the concept of local development by drawing its roots from the Marshallian inheritance of “industrial districts” (Marshall, 1879, 1919, 1920). This fact was also the basis of the Italian and French schools of local development (Antonelli, 2006; Aydalot, 1986; Becattini, 1975; Boschma, 2005; Brusco, 1982; Camagni, 1995; Courlet, 2008; McCann & Ortega-Argilés, 2013).

Moreover, an essential contribution of this drastic re-orientation of spatial development is the Porterian “competitiveness diamond” (Porter, 1990, 2000). Consequently, today, these foundations are laying the ground for the study of business ecosystems and clusters (Hannon, 1997; Iansiti & Levien, 2004; Lewin, 2000; Moore, 1993; Rinkinen & Harmaakorpi, 2018; Rothschild, 1990).

These new directions seem to have radically transformed the contemporary context of local development, entrepreneurship, competitiveness and modern politics (Acemoglu & Robinson, 2012; Aghion, Boulanger, & Cohen, 2011; Aiginger, 2015; Dosi, 2016; Peneder, 2016; Vlado, Deniozos, Chatzinikolaou, & Demertzis, 2018a, 2018b), by placing centrally on their systems the “living” enterprise, as a “cellular” element of synthesis of international economic flows (Vlado, 2004, 2005, 2012) (Figure 2).

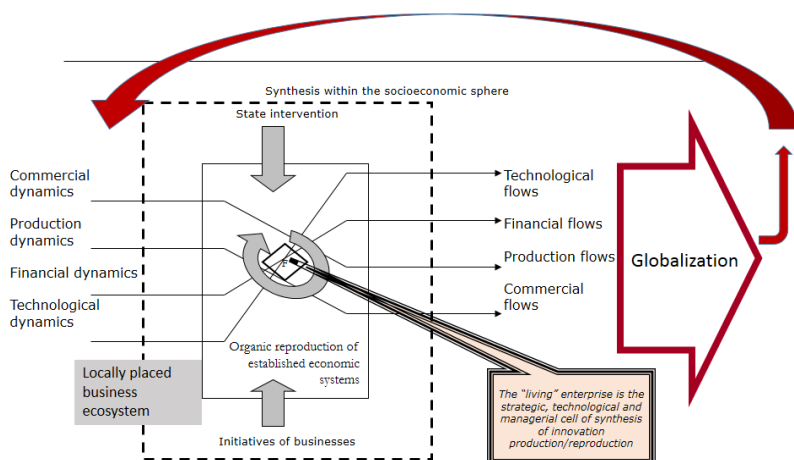


Figure 2. Local dynamics and globalization.

## The production and reproduction of local innovation dynamics

The contemporary theory of local development gives great importance now to the notion of an “innovation environment.” An “innovation environment” can be a spatial set that is open to the outside and incorporates know-how, rules, and “relational capital.” At the same time, this environment hosts communities of actors and their available resources, human, informational, and material. Of course, this is not a “closed universe,” but rather a system in continuous interaction with its external, super-local environment.

The concept of “innovation environment” attempts to offer a synthesis and evolutionary socioeconomic explanation of spatial development dynamics. In particular, by using this concept, spatial development incorporates both innovative processes and socioeconomic synergies that unfold within specific spatial contexts of local scope (Aydalot, 1984, 1986).

Overall, the critical components of a local innovation system can be classified into three main categories:

1. In the know-how, which relates to the management skills of the production process



Ch.2. From the traditional regional analysis to the dynamics of local development...

The system's know-how does cover not only technical aspects but also commercial, organizational, and, in general, relational aspects of the implemented production process. Besides, know-how offers practically the ability to adapt to every kind of change arising from the integration into global dynamics.

2. In the rules that define the behavior of decision-makers and the relationships that they form with each other.

The rules of the system form the basis for particular values of "locality" while setting the prevailing principles of trust, reciprocity, solidarity, co-operation, and competition.

3. In the relational capital, that is, the knowledge each member of the "environment" has for the other members.

This relational capital includes active institutions and contracts of any kind, of market or extra-market content, which are the root of network development and reproduction.

However, who innovates and how can socioeconomic systemic competitiveness and development within globalization be strengthened, according to this theoretical perspective?

Ph. Aydalot (GREMI) ([Aydalot, 1986](#)), who is the founder of this trend of developmental thinking, argues that it is not the enterprise that innovates, but the "innovation environments." In practice, creativity is always rooted in local experience and tradition, and, in particular, the accumulated knowledge of "local environments" is always the basis for progress. In this way, creativity requires meeting, unregulated contact, spontaneous action, and movements that large enterprises, where everything is strictly planned, cannot offer, but are possible in "openly local terms."

Based on the above, we see that an innovation environment approach favors the process of systematically enhancing innovation capacities on a local scale, as the most proper way to enhance the overall adaptability and reproduction of competitiveness of the socioeconomic formations and, as a result, to develop within globalization (Figure 3).

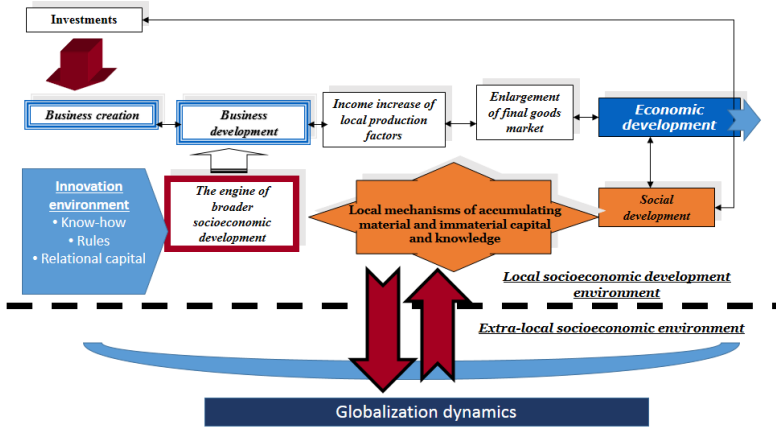
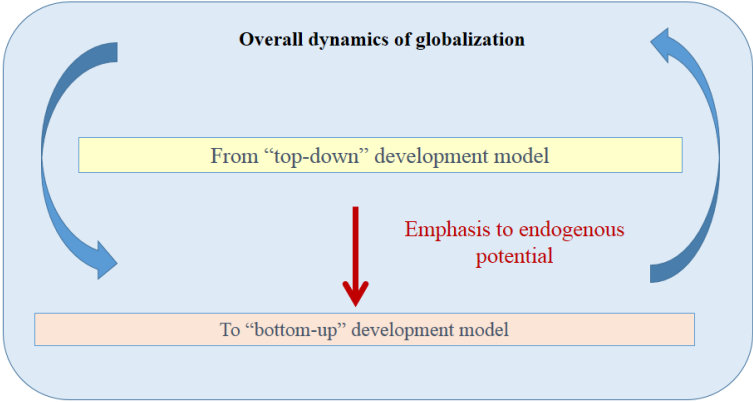


Figure 3. *Innovation environment and local development.*

In this perspective, many contemporary research projects seem to, directly and indirectly, enrich the theoretical view of local development and innovation (Audretsch & Lehmann, 2005; Balland, Boschma, & Frenken, 2015; Carlinio & Kerr, 2014).

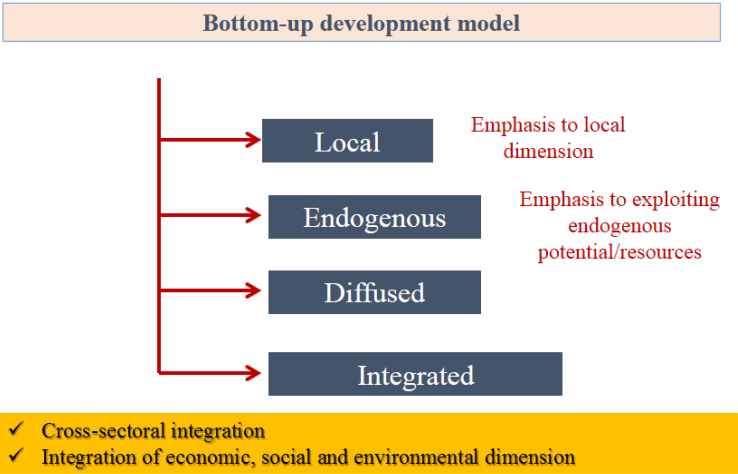
### Bottom-up development

Also, during the last decades of research, it is getting clear the gradual shift of development understanding toward the “bottom.” The progressive understanding of globalization dynamics that is integrating all levels of space on a planetary scale is causing this theoretical shift (Benko & Lipietz, 2000). The latter explains why local development over the last decades is “privileged theoretically,” but this does not mean that development has ceased to evolve on larger scales (national and supranational), both in western economies and least developed nations. However, the observed differentiated growth in various spatial scales that highlighted the privileged local field of reference has happened within the western economies (Figure 4).



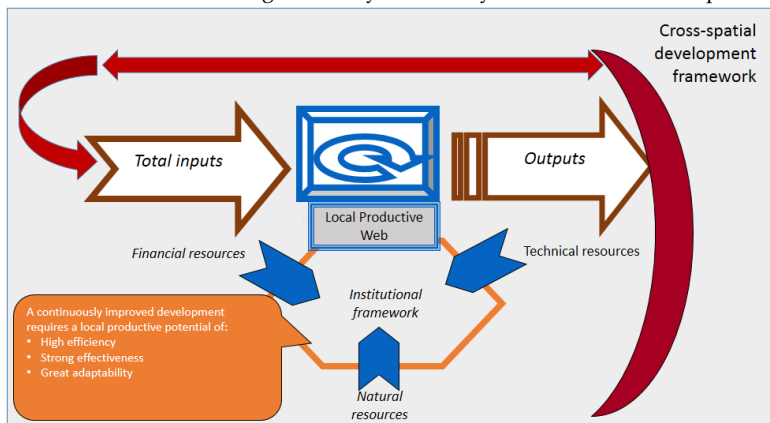
**Figure 4.** *Modern approaches to regional development theory.*

From this perspective, the dimensions of locality, endogeneity, development capacity, and diffusion of growth dynamics acquire entirely new content and interest (Figure 5).



**Figure 5.** *Modern trends of approaching the development problem.*

Furthermore, it seems that to meet local development needs is critical to strengthen and exploit the potential of each local area effectively, in the current context of globalization dynamics (Figure 6).



**Figure 6.** A modern developmental approach focuses on the effective management of local resources.

## The structurally reproduced inequality on a local scale

On a deeper level, it is becoming progressively clear that local development itself concerns and ends differently and unequally for the various subjects of development; be it social categories of people or spatial-social entities (from the neighborhood and city to the national and international scale) (Pike, Rodríguez-Pose, & Tomaney, 2007).

The structurally reproduced uneven development has attracted the interest of economists, sociologists, geographers and regional scientists already from the 1960s and beyond, despite being the privileged field of neo-Marxist critique (Harvey, 2006; Holland, 1976). Since then, scholars have argued that uneven development is inherent in the economic market system and not the result of malfunctioning. Specific areas concentrate and gather economic activities, precisely because of competition (exploitation of economies of scale and concentration), and create “winning” or “losing” regions. Inequality between locations and regions has inherently the evolutionary tendency to widen, but often successful government interventions –although in exceptional cases, market forces are effective as well– can temporarily reverse this trend and reduce inequalities. These observations have also prompted Keynesians of different scopes and ideologies to carry out policies to reduce regional disparities by promoting spatial redistribution options.

Nowadays, a re-positioned theoretically inequality seems to progressively include, in a complete way, all the local dimensions of production and reproduction of development (Araujo, Ferreira, Lanjouw, & Özler, 2008; Tomaskovic-Devey & Roscigno, 1997).

### **The inherently conflicting social character of local development dynamics**

Besides, it has gradually become apparent in the context of regional development that a spatially targeted development intervention has different effects on different social subjects; an intervention that can favor different social groups and, at the same time, marginalize others. This fact also highlights how significant is ideology and politics both for the “reading” of developmental issues and for legalizing interventions (Hadjimichalis & Hudson, 2006, 2014). Moreover, in this sense, planned or non-developmental processes are a field of formation and dialectic reproduction of social contrasts between the actors of socially interdependent geographic scales. These geographical relationships range from indifference and consensus to rivalry and conflict, with intense spatial references.

Moreover, at this level of analysis, it seems that the framework of local dynamics offers now a new, highly fertile point of view (Cox, 1998; Cumming, Cumming, & Redman, 2006).

### **The multiple political dimensions of local development dynamics**

Lastly, an important feature is also diversity and heterogeneity, which characterize the repertoire of local and regional development policies. There is always a different meaning and political context within every integrated policy (Newman, Johnston, & Lown, 2015).

As shown in Table 2 by Pike, Rodríguez-Pose, & Tomaney (2006) (horizontally read), for each different dimension of local/regional development policies, there are distinctions depicted in the second and third column, expressing the extremes of each dimension. However, the distinctions are extreme and bipolar, and of course, there are many intermediate expressions and combinations. For example, the “local-regional” development

Ch.2. From the traditional regional analysis to the dynamics of local development... policy could combine “top-down” and “bottom-up” policies, or a policy “focus” could combine exogenous and indigenous development, and so forth.

**Table 2.** *Distinctions in local and regional development policies. Adjusted from Pike et al. (2006).*

Dimension	Distinction	
Approach	Absolute	Relative
Autonomy	Local, regional	National, supranational
Direction	Top-down	Bottom-up
Emphasis	Strong	Weak
Focus	Exogenous	Indigenous
Institutional lead	State	Market
Inter-territorial relations	Competitive	Cooperative
Measures	‘Hard’	‘Soft’
Objects	People	Places
Rate	Fast	Slow
Scale	Large	Small
Spatial focus	Local	Regional
Sustainability	Strong	Weak

This shifting of the dominant “repertoire” seems associated not only with social and ideological issues addressed before on this paper but also with the issue of regional development itself (Table 2, for example, distinguishes the absolute from relative regional development).

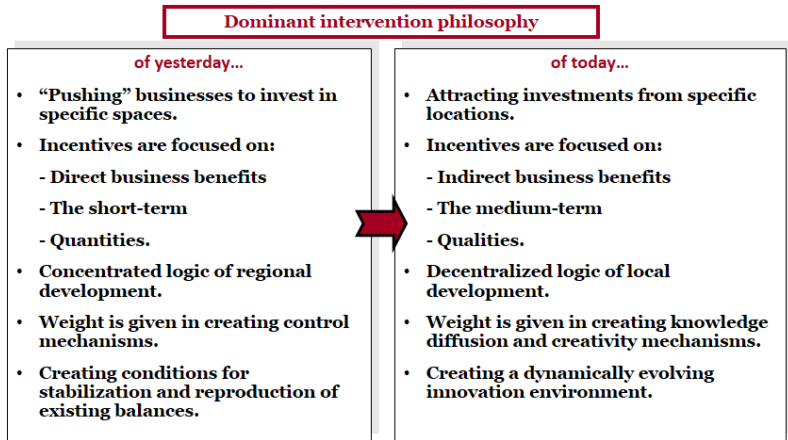
Accordingly, it seems that today, a profound change of vision is gradually getting established. The dominant philosophy of intervention to strengthen local socioeconomic systems, on an international scale, moves away from the traditional regional policy paradigm towards a more sophisticated and complete (Table 3).

**Table 3.** *Regional policy has been changing. Reproduced from OECD (2009)*

	Old paradigm	New paradigm
Objectives	Compensating temporarily for location disadvantages of lagging regions	Tapping under-utilized potential in all regions for enhancing regional competitiveness
Unit of intervention	Administrative units	Functional economic areas
Strategies	Sectoral approach	Integrated development projects
Tools	Subsidies and state aids	A mix of soft and hard capital (capital stock, labor market,

Actors	Central government	Different levels of government; private sector actors, civil society
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A clear conceptual and methodological shift is unfolding; the central priority now is to build local mechanisms to develop knowledge and innovation further (Figure 7).



**Figure 7.** *The emerging reasoning for strengthening all local socioeconomic systems.*

Finally, what we consider worth exploring in the future is to explain even deeper the formation and evolution of various local development theories: to examine, at the same time, the evolutionary course of development, the changing repertoire of development interventions and the political/ideological aspects that are directly related to theoretical tools that support specific practices and interventions.

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# 3

## Crisis, innovation, and change management in less-developed local business ecosystems: The case of Eastern Macedonia and Thrace<sup>3</sup>

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### Positioning the problem: crisis, innovation, and change management in less-developed regional socioeconomic systems

**T**he current crisis and restructuring of globalization have not emerged “in the vacuum.” It has developed and matured structurally upon the former globalization development regime. This regime seems to have exhausted the limits of its previous socioeconomic development potential. The current structural adjustment of globalization is, in essence, a transformation of the last regime accumulation of world capitalism, where new production and consumption conditions and arrangements are progressively replacing the old ones (Bresser-Pereira, 2010; Laudicina & Peterson, 2016). However, the current situation seems to include many shadowy points that the conventional economic theory struggles to interpret sufficiently.

This insufficiency is also the main reason why relatively new research trends in economics seem to gain an ever-stronger interest (Boyer & Saillard, 2002; Dopfer & Potts, 2009; Durand, 2000; Georgescu-Roegen, 1971; Heinzl, 2013; Passet, 1996).

In introductory terms, this article argues that this “new global age” that struggles to emerge nowadays, amid various detents and opposing views, different “sides” and perspectives, predestinates a new phase of globalization which has not yet been fully formulated (Bhattacharya, Khanna, Schweizer & Bijapurkar, 2017; Braudel, 2014). This new phase of globalization is a further evolution phase in the development of global capitalism, where the “newborn” tries to come forth and survive upon the “old” regime. This new state of affairs attempts to open a period of overall relative balanced growth globally (Ocampo, 2011; Pieterse, 2012; Rodrik, 2011).

In this context, all actors and actions at all levels—local, national, international, regional, and global scale— seem to evolutionary co-create and co-transform with their response the formation of this new global economy (Maroufkhani, Wagner & Wan Ismail, 2018; Muller, 2013; Peneder, 2017; Zahra & Nambisan, 2011). In this process, nothing seems to be fully specified and evolutionarily unambiguous: The partial socioeconomic components of this new phase of globalization, within a dialectic process of “theses-syntheses-antitheses” (Morabito, Sack & Bhate, 2018; Norrie, 2009), are trying to impose their choices, to survive, grow and dominate evolutionarily.

This struggle for dominance in this new era of globalization and the consequent change in the rules of the “capitalist game” seems to tend to change drastically, at the same time, the architecture of the political economy discipline and the applied economic policy at all levels (Boyer, 2015; Schmidt, 2018; Van Den Bergh & Kallis, 2013). Indeed, it seems to become progressively more evident to policymakers that the central dialectic node in this overall relocation process is the “living” capitalist firm and the innovative action which articulates, diffuses, and reproduces (Anderson, Potočník & Zhou, 2014; Damanpour & Aravind, 2012).

Under these circumstances, the less-developed socioeconomic systems perceive and react to this global restructuring with a

variety of perceptions, ways, and mechanisms. In particular, they seem to view innovation according to their historically-defined way (Pitelis & Runde, 2017) and the context of their specific developmental trajectory (Andreoni & Scazzieri, 2014). Therefore, there are significantly different, and predestinated within the system, ways to manage the generated change (By, Burnes & Oswick, 2012).

With these clarifications in mind, the question raised by this article includes the following specific aspects:

- i. How does the literature understand the triangle of crisis, innovation, and change management for less-developed regional socioeconomic systems?
- ii. How are these three dimensions explained analytically?
- iii. How do the businesspeople perceive in the context of the regional entrepreneurial system of Eastern Macedonia and Thrace the spheres of crisis, innovation, and change management nowadays?

The following structure presents how this study is going to approach these specific dimensions and queries methodologically:

a) Initially, it presents the literature and analyzes the scientific contributions related to the aspect of regional underdevelopment and poor business ecosystems in conditions of crisis.

b) Then, it approaches the analytical triangle of crisis, innovation deficiency, and incomplete change management.

c) Taking as an empirical field test the less-developed regional business ecosystem of Eastern Macedonia and Thrace, it presents consequently a field survey carried out in a sample of small and micro enterprises in this particular region. It discusses the findings related to the surveyed firms' perception of the aspects of the crisis, innovation, and change management.

d) Finally, it reaches into conclusions and discusses their analytical limitations and possible future advancements of this research.



## Literature review:

### Regional underdevelopment and poor business ecosystems in crisis conditions

There is recent scientific literature that provides a variety of definitions for the case of less-developed regions (Askenazy & Martin, 2015; Szerb, Lafuente, Horváth & Páger, 2018). With a particular focus on the technological aspect of regional development and underdevelopment and exploring the change of innovation process models as an opportunity to break out of path dependency for less developed regions, Pylak (2015) argues that less-developed regions fall within the low-tech model called “primary-sector-based manufacturing regions” and face difficulties when phasing into higher-tech models.

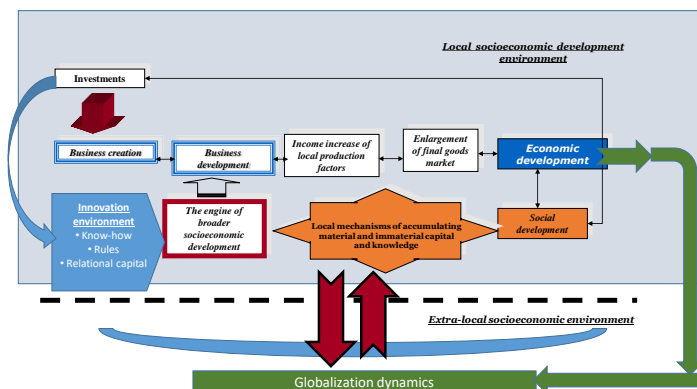
Gaffikin & Morrissey (2001) distinguish between declining and prosperous regions assuming that by definition, the regional economies are smaller than their nation-states and, as a result, they are more open and more dependent on external trade. The success requires an ability to attract external customers, while their labor markets are also more open—the declining regions tend to lose knowledge-intensive and highly skilled workers, while prosperous regions gain them.

Smętkowski (2018), who explores the role of exogenous and endogenous factors in the growth of regions in Central and Eastern Europe, invokes the theory of cumulative causation—which was formulated in the mid-20th century by G. Myrdal (1957) and then formalized by N. Kaldor (1970). In this context, spatial disequilibrium should increase because of the interplay of free-market forces. Therefore, fertile regions become even more vibrant and poor ones more miserable because of a vicious circle of causes. The reason for this is that highly developed regions are attractive to workers since they offer better salaries, especially to those with relevant qualifications. Due to the inflow of a new workforce, the local labor market develops, thus encouraging new enterprises to invest and attracting inward capital and this, in turn, boosts production and, thanks to the benefits of agglomeration, increases productivity, thereby strengthening the region’s competitive advantage and encouraging the influx of more workers. On the

contrary, adverse external effects—associated, for example, with the depletion of the region's resources—can hinder the progression of this model; they can lead to “deglomeration,” that is, the spatial diffusion of development.

From their side, Trippl, Asheim, & Miörner (2016), by exploring how to identify regions with less-developed research and innovation systems, conclude that a Regional Innovation System (RIS) can be seen as less-developed if it is ill-equipped to generate innovations along existing industrial and technological paths. However, this system might also be less-developed in the sense that it cannot support the renewal of the regional economy over time.

Overall, a significant amount of the contemporary literature on underdevelopment seems to converge in highlighting the primary internal dimensions as the leading causes of the underlying regional underdevelopment. The shortcomings and deficiencies in terms of retaining highly skilled human resources, insufficient assimilation of sophisticated business models, and poor performance in terms of growth capacity of strong competitive dynamics seem to be the main interpretive dimensions for regional underdevelopment. Therefore, an innovation environment approach that favors the process of enhancing innovation capacities on a local scale systematically seems the most proper way to enhance the overall adaptability and reproduction of competitiveness of the socioeconomic formations and, as a result, to develop within globalization (Figure 1).



**Figure 1.** *Innovation environment and local development*

Source: Based on Vlados, Denizos, Chatzinikolaou & Digkas (2019)

In this perspective, precisely, there are contemporary research studies that seem to focus and enrich the theory of local development in terms of local innovation capacity (Dauth & Suedekum, 2016).

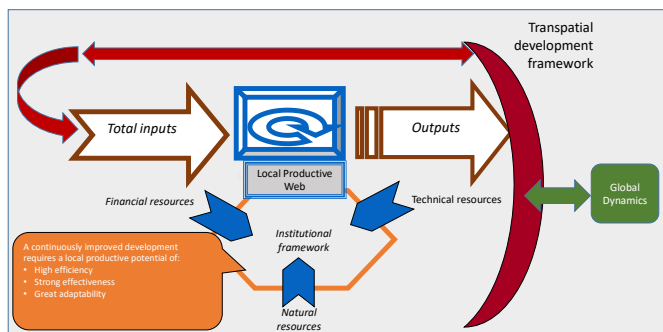
Moreover, the subject of weak but also durable business ecosystems that includes the dynamics of clusters emerges. This subject also examines the aspects of regional underdevelopment and development. According to Harrison, Scheela, Lai & Vivekarajah (2018), who explore the institutional voids that constrain the behavior of economic agents and by focusing on the emerging “business angel” market in Malaysia, a lack of a matching platform to make the connection between investors and entrepreneurs results in a poorly developed entrepreneurial ecosystem.

Spigel & Harrison (2018) argue that the existing research on entrepreneurial ecosystems has been mostly typological and atheoretical and has not yet explored how they influence the entrepreneurship process. The authors conclude that less-developed ecosystems may see an outflow of resources as entrepreneurs realize they must leave the region to grow their firm because of a lack of available investment capital, demands from investors that they relocate, or the need to move to broader labor markets to tap the talent they need.

One of the major disseminators of the concept of business ecosystems, J. Moore (2015), argues that the ecosystem as a whole must draw deeply from advances in science and engineering. The author notes in particular that the lesson of these cases for the connected community is that it is a long-term, patient, and complicated process: but one that is essential to the advances of the community. Without science and engineering input, the whole community stagnates.

Consequently, Iansiti & Levien (2004), in their widely-cited book “The Keystone Advantage: What the New Dynamics of Business Ecosystems Mean for Strategy, Innovation, and Sustainability”, which suggests that just as “keystone species” play central roles in their biological ecosystems large companies such as Walmart and Microsoft deploy “keystone strategies” and shape and regulate their business ecosystems. Based on this, the authors suggest that networked innovation strategies are not without risks and, in particular, the biggest challenge for a niche player is to find itself in an ecosystem characterized by weak platforms or in an environment in which its platforms become in some way endangered.

The contemporary literature about less-developed business ecosystems appears to converge mainly to the lack of resource of innovative entrepreneurship as a determinant factor that leads to a weak evolutionary business ecosystem. In particular, the lack of capital investment, the need to move to broader labor markets to tap the talent the investors need, as well as the shortage in science and engineering input, largely determine the widening of the growth lag. Furthermore, it seems that to meet local development needs is critical to strengthen and exploit the local potential of each area effectively, in the current context of globalization dynamics (Figure 2).



**Figure 2.** A developmental approach that focuses on the effective management of local material and immaterial resources

Source: Based on Vlados, Deniozos, Chatzinikolaou & Digkas (2019)

## Less-developed regions and crisis

Nowadays, the research on the phenomenon of crisis within less-developed regions and business ecosystems is also critical. The relevant approaches and interpretations show a significant variety. Eriksson & Hane-Weijman (2017) analyze how regional economies respond to crises and suggest that although the geography of resistance to crises and the ability of adaptability in the aftermath vary, cohesive (i.e., with many skill-related industries) and diverse (i.e., with a high degree of unrelated variety) regions are more resilient over time. They also find that resistance to future shocks (e.g., the 2008 recession) is highly dependent on the resistance to previous crises. By extension, this suggests that the long-term evolution of regional economies also influences their future resilience.

Salvati (2016), who refers to the Greek case, suggests that the recession between 2008-2012 has widened the gap between the capital Athens and the rest of Greece, while it has mitigated the disparities in per capita income between rich and poor regions. The author concludes that this evidence seems to contrast with literature indicating how dynamic regions came to be less exposed to recession than economically disadvantaged regions. The author finds that the 2008–09 crisis stimulates a rethinking of the

geography of socioeconomic disparities in highly divided countries, pointing out how expansion and recession differently affect the spatial distribution of wealth.

Omstedt (2016), who examines England's North-South divide, by following a perspective that analyzes the partial phenomena of the crisis, claims that although the crisis emerged in a spatially concentrated financial sector, its impacts will be worse in places less associated with that sector. Therefore, the author argues that the crisis will hit mostly the more disadvantaged regions and localities of the country.

Cuadrado-Roura, Martin, & Rodríguez-Pose (2016), who examine the urban and regional consequences of the 2007-2008 economic crisis in Europe, suggest that while contrasts in wealth and productivity remain significant, the crisis has unearthed a considerable diversity in the capacity of regions and cities to adapt to shocks and respond to challenges. Therefore, they conclude that this has also added new facets to how scholars and policymakers approach the problems in Europe's regions.

Therefore, it looks like the crisis of a local system, and its inadequacy in terms of competitiveness is the two sides of the same coin. In this context, the competitiveness of each spatially established socioeconomic formation appears to require a systematic increase in attractiveness nowadays (Malecki, 2017). At the same time, the attractiveness of a spatially defined system cannot be evolutionarily viable without a "mechanism" capable of building/rebuilding the competitive advantages of the firm hosted in the socioeconomic environment.

This way, a local socioeconomic system to be competitive must be able to attract the sustainable and innovative business interest of global reach. In this context, to attract this business interest, any socioeconomic system must demonstrate how it can adequately accommodate the competitive ambitions of its components from a global perspective. Besides, the innovative business interest generates, maintains, produces, and reproduces, the competitive dynamics of the local system (Avdeychik, 2014; Covi, 2016).

## **The problem of innovation in less-developed regional business ecosystems**

In the literature on the underdevelopment of less-developed regional business ecosystems, the overall problem of innovation appears to occupy a central position. According to Rodríguez-Pose & Wilkie (2019), who explore innovation capacity of less-developed regions and, in particular, what drives patenting in the lagging regions of Europe and North America, several factors constrain the innovative capacity of less-developed areas. Most prominent among them are socioeconomic and institutional deficiencies and geographic isolation. The authors argue that these contextual deficiencies relate to the weakness of the “local economic fabrics,” the insufficient stocks of human and physical capital, and the absence of the formal and informal institutions that would typically function as the backbone of “innovation prone” environments.

According to Brown & Mason (2017), there is a critical review and conceptualization of entrepreneurial ecosystems, suggesting that the majority of observers view ecosystems primarily as a spatial concept to explain why certain places have high levels of entrepreneurial activity. This way, rather than having innovation at its core, entrepreneurship is the fundamental driver behind the concept. They conclude that the misconceptions about the nature and functioning of entrepreneurial ecosystems create the potential for misconceived policy interventions, signified by the continued emphasis on start-ups and the lack of genuinely systemic policy instruments. They are noticing that, given their pervasive heterogeneity, there is unlikely to be a “one-size fits all” policy prognosis for developing different types of ecosystems. Finally, scholars need to dissect further, conceptualize, theorize, and empirically examine this complex phenomenon much more closely to move the understanding of this problem forward.

In their turn, Liguori, Bendickson, Solomon, & McDowell (2019) attempt to develop a multi-dimensional measure for assessing entrepreneurial ecosystems. They argue that researchers and theorists have put considerable effort into defining and examining entrepreneurial ecosystems and business clusters development in certain regions. They claim in particular that favorable

entrepreneurship ecosystems drive business and innovation. However, a commonly accepted measure of entrepreneurial ecosystem favorableness is absent. In this context, they search to build a psychometrically robust measure to capture entrepreneurs' perceptions of the surrounding ecosystem.

Finally, Walsh & Winsor (2019) provide insight into a region impeded from embracing the benefits of innovation-driven entrepreneurship in fostering economic development. The authors show that socio-cultural factors may be inhibiting the region from having a functional entrepreneurial ecosystem that can support innovation. They identify specific aspects of culture and social capital weaknesses and search for the potential causes of these impediments. Moreover, they conclude that the fundamental nature of culture may be affecting other elements of the entrepreneurial ecosystem from maturing.

Overall, in the context of the current restructuring phase of globalized capitalism, all actors try to produce new ways of resolving past or new problems in their competitive struggle: that is, trying to innovate. This element becomes crucial for the development of less-developed business ecosystems around the world. In this context, the issue of articulating a development strategy at each level (micro, meso, or macro; Dopfer, 2011; Vladoš & Katimertzopoulos, 2018) in the current restructuring of globalization (Pieterse, 2011) ceases to concern the mechanisms of national reach exclusively. Every socioeconomic formation—in this case, a less-developed socioeconomic business ecosystem—at every level (local, regional, or national) must now design and implement its unique, coherent developmental strategy. Moreover, the “innovative capitalism” seems to require an ever-increasing reproduction, diffusion, and assimilation of knowledge dynamics for all the socioeconomic “actors” involved and hosted in all the partial socioeconomic systems (Argote, 2012; Asheim, Grillitsch & Trippel, 2017). To a great extent, therefore, the dimensions of innovation and knowledge are taking a central position within new theoretical approaches of spatial development (Boschma & Frenken, 2009). In this direction, the ability to innovate and change management mechanisms are becoming a durable engine of spatial development inside globalization (Serrat, 2017).



In this sense, the co-evolving “crisis/development-innovation-change management” triangle can provide a new theoretical platform to understand the developmental phenomenon comprehensively—at all levels of space and, in particular, at the less-developed regional business ecosystems.

### **Change management and policies to foster entrepreneurship in less-developed regions**

Change management and policies to foster entrepreneurship as scientific disciplines did not particularly concern scholars of local development until recently. However, there is contemporary literature that discusses this dimension increasingly—and especially in terms of strengthening local entrepreneurship subsystems. North & Smallbone (2006), who explore how policy-makers can achieve the development of entrepreneurship and enterprise in Europe's peripheral rural areas, argue that a more strategic and coordinated approach towards building the entrepreneurial capacity of peripheral rural areas is necessary, based on a clearer vision of the role that enterprise can play in future rural development.

Huggins & Williams (2011), who explore whether the regional policy in less competitive regions that accounts for issues relating to entrepreneurship and enterprise development is a tool for improving regional competitiveness, find that entrepreneurship policy at the regional level is multidimensional—policies are ranging between the economically or the socially driven. They conclude that, although there is a significant policy activity in these areas across less competitive regions, enterprise policymaking remains relatively undifferentiated across the regions. Therefore, several developments in regional policy take place, especially towards shifting from policies relating to the facilitation of clusters to those focusing on developing regional innovation ecosystems. In extension, they find that regional policymakers are under pressure to measure short-term outputs at the expense of long-term nurturing.

Williams & Vorley (2014) outline the links between economic resilience and entrepreneurship. After studying the case of Sheffield City Region of England suggest that enterprise,

particularly as it relates to entrepreneurs and small firms, is crucial to economic resilience. In particular, the ability of entrepreneurs and small businesses to be adaptable and flexible is paramount to their capacity to absorb and respond to external shocks that, in turn, have a positive impact on the resilience of their locality. Besides, they conclude eloquently that, in more lagging regions, such as traditional industrial areas, weaker adaptation can occur due to embedded path dependency and low levels of existing entrepreneurship.

Horlings & Padt (2013) explore the aspect of leadership for sustainable regional development in rural areas. They examine the “underestimated” human factor in regional development and argue that sustainable development is far more than achieving environmental goals. It is rooted in inner motivations about a better life for the generations to come without undermining ecological resilience. As they argue, despite the significant amount of literature on change management in organizations, these approaches are too limited to explain how to bring about sustainable regional development for two reasons. Firstly, leaders are required to lead in multi-actor regional networks beyond the boundaries of organizations. Secondly, leadership for sustainable development is dealing with many visions and trying to align people around a joint sustainability vision. They find in particular that it is not about realizing ego-driven goals, but about adapting to the higher goal of required societal change, i.e., sustainable development.

Overall, concerning change management in public policy, and according to Kuipers *et al.* (2014), researchers could improve the theory-building on change management in public organizations with more and stronger empirical research that builds on a clear understanding of the practice. They would also need to pay more attention to the outcomes and successes of change in public organizations and to support practitioners in their search for lessons on what makes a change successful.

Besides, naturally, the local focus of change management appears to become more critical. Van der Voet, Kuipers, & Groeneveld (2016) highlight that, despite the importance of organizational change for public management practice,

organizational change is generally not studied as an implementation problem in public management research. Accordingly, public management research concerning organizational change is often focused on changes at the sector or national level, suggesting an extension to other spatial or functional levels.

## **The analytical triangle of the crisis, inadequate innovation, and incomplete change management**

This chapter argues that the three dimensions of “crisis-innovation-change management,” although seemingly treated by the relevant literature as conceptually segregated and independent of each other, they constitute the most critical dimensions of development theorization. Therefore, this synthetic view can be particularly useful for the perception of the phenomenon of underdevelopment in local scale within the emerging “new globalization” phase of the world economy.

The global crisis is the current stage of the socioeconomic “game” that spreads globally and in multiple operational dimensions nowadays. The global crisis calls into question its own balanced, unobstructed reproduction. Moreover, this structural and systemic process is not a superficial and sporadic state of affairs (Vlados, Deniozos, Chatzinikolaou & Demertzis, 2018). In this context, an increasing number of “players” appear unable to fulfill their goals and meet their expectations in terms of their survival and development, and thus actively questioning the effectiveness of their broader strategy. At the same time, their former “appropriate behaviors” prove inadequate and ineffective in their specific field of action, while attempts to interpret the present and predict their future lead to widening failures.

The global crisis and restructuring are the era where old problems seem to come back to the forefront on every part of the globe, while new challenges emerge and spread rapidly (Bremmer, 2014; Lane, 2017). The current global crisis and restructuring thus appear to be at the same time both a period of the drastic overthrow of “yesterday’s certainties” and a phase of redeployment of the entire global system in all its partial functional dimensions. In this approach, this sought-after “new”

(in every space and partial implementation) that will provide a sustainable exit from the crisis is the birth of innovation (Carayannis, 2013). In this context, innovation is the implementation of new ways of resolving old or new problems in more efficient, effective, and “profitable” ways in a broader sense.

This study argues that the absence of innovation effectively implemented nourishes and expands the crisis: In this context, innovation is the only adequate way for the structural and long term exit from the crisis (OECD, 2009; Peris-Ortiz, Fuster-Estruch & Devece-Carañana, 2014). However, this “new” of every form and scope is the necessary dynamic condition that leads the “old” to the irreversible “death” by relieving the society as a whole of the pains of its “deathly agony” of the phase of the crisis. Moreover, this “new” in the course of world history seems always to delay its establishment. As a result, now is an era when the fruitless attempts to overcome the past repeat themselves for long periods. In this context, the expression of Antonio Gramsci (1971, p.270) that *“The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum, a great variety of morbid symptoms appear”* seems particularly valid even today.

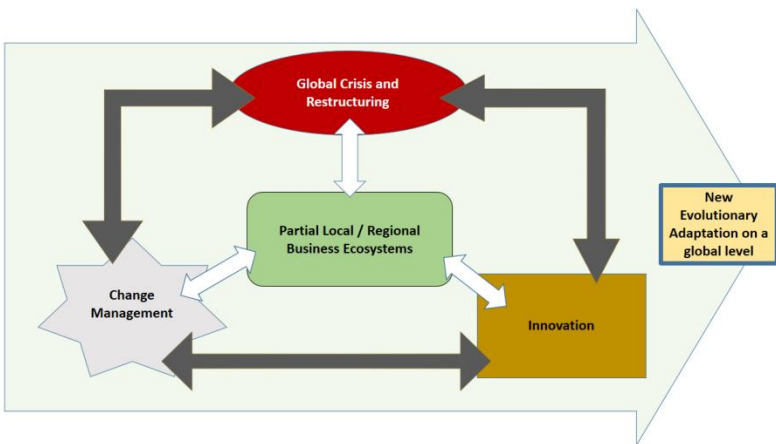
However, how does this “new” emerge, after all? Is it a birth coming after a “lucky coincidence” or is it the product of a more in-depth structural process and change?

In this analytical perspective, innovation (the “new”) seems to be simply the “fruit of the tree” of change management (Burnes, 2009; Worley & Mohrman, 2014). Namely, the chosen method each time to perceive, draw, combine, direct, coordinate and control, at each level of organized life, resources and strengths, in order to cope with the evolving demands of the environment.

In this context, change management is the organic set of thoughts and actions, the mechanisms and methodologies developed (more or less organized and systematically) in order to adapt to the endless flow of change. Besides, when this flow of change creates drastic twists (i.e., when it appears as an outbreak of a crisis), the ability to manage change becomes the necessary and indispensable basis that opens the way (to a lesser or greater extent) for innovation. Thus, without effective change management, innovation always slows down while the efforts to

overcome the “old” are unsuccessful, and the specific strategic failures, technological, and managerial deficiencies perpetuate and reproduce the symptoms of the crisis (Vlados, Katimertzopoulos & Blatsos, 2019).

Through this methodological perspective, managing change is not only connected with the sphere of innovation, but it is always closely tied up with the same dynamics of the crisis (Vlados, Deniozos & Chatzinikolaou, 2018a). The crisis defines, therefore, the specific requirements of its overcoming, setting the specific limits of possibilities and the bar of success (Birt, 2016; García, Maldonado, Alvarado & Rivera, 2014) in all the mechanisms of change management, for all “actors” and for all eras (Figure 3).



**Figure 3.** *The new form of evolutionary adaptation on a global level*

Hence, the underlying assumptions and explanatory motor of the present study, in its key points, can be briefly described as follows:

- The three indivisible spheres of reality (global crisis, innovation, and change management) are always in historical coexistence and concurrence.
- There is always a particular historical-evolutionary character of the dynamics at the global socioeconomic space (Boschma, 2004; Faissal Bassis & Armellini, 2018; Mack & Mayer, 2016) implemented simultaneously at all the structurally

interconnected spatial levels: local, regional, national and supranational.

- The dynamics of overall socioeconomic development define a complex, competitive architecture according to the partial local/regional ecosystems that try to adapt to this newly emerging reality evolutionarily (Bhawsar & Chattopadhyay, 2015).
- The necessary explanatory substratum of any partial development perspective at the local and regional level appears now as a complex view of globalization studies. This perspective studies the innovative dynamics and the generated management of change by placing at the center the dynamics of local/regional socioeconomic entrepreneurial ecosystems.

## **The case of small and micro enterprises in Eastern Macedonia and Thrace via field research**

### **The profile of the less-developed regional business ecosystem of Eastern Macedonia and Thrace**

The region of Eastern Macedonia and Thrace is one of the thirteen regions of Greece. This region is less-developed in Greece and Europe (Boden, 2017). It brings together features of a border area, as all the regional units except Kavala are frontier. Border regions (Prokkola, 2019; Varol & Soylemez, 2019) combine socioeconomic, demographic, and other problems, which contribute to these geographical units to fail more often to keep up with developments in other regions that occupy a more central geographical location. Thus, a border region may be (a) marginal due to reduced relations with other regions and the limited role played by economic, technological, cultural, and political developments, and (b) disadvantageous because of the existence of inherent weaknesses which deprive developmental dynamism.

The fact that neighboring countries have a different social, economic, institutional, and political system is another cause of their regional nature. There is, therefore, a tendency to reduce the economic and administrative relations that develop naturally between neighboring regions, which often makes it challenging to develop cross-border cooperation (Medeiros, 2015; Mörner, Zukauskaitė, Trippel & Moodysson, 2018).

The observation that these regions are facing developmental problems is due to the following particularities:

- Isolation from leading centers of economic activity and decision-making
- Separation of their commercial centers from the natural hinterland, resulting in distortions in the form of trade and the provision of services
- Existence of limited natural resources (even though, in the case of Eastern Macedonia and Thrace this characteristic is not entirely applicable)
- Low level of social services to enterprises due to lack of staffing and limited technical infrastructure
- Problems of illegal immigration and smuggling
- Small economies do not allow the development of economies of scale
- Low quality of transport infrastructure and other infrastructure elements.

The border regions usually lie at the end of the national transport chain and communication systems, components that contribute to the development deficiency of these areas (De Noni, Orsi & Belussi, 2018). Not only that but the combination of elements of peripherality and isolation (Arieli, 2019; Mayer, Zbaraszewski, Pieńkowski, Gach & Gernert, 2019) contributes to increased costs in a border area:

- The increased cost of money expressed as operating costs for the enterprises and the cost of living for residents,
- The increased cost of infrastructure and services due to negative economies of scale,
- Increased opportunity costs because there are fewer opportunities in the economic and other sectors,
- The increased cost of information because information flow arrives relatively late in remote areas and requires additional higher costs, particularly for obtaining specific information.

The table below presents some quantitative data that capture the structural profile of the region of Eastern Macedonia and Thrace by taking as the base year the start of the rapid recession of the Greek economy in 2008 (Vlados, Deniozos & Chatzinikolaou, 2018b) (Table 1).

**Table 1.** *Eastern Macedonia and Thrace – Regional figures*

GDP per capita								
By Region, 2008 & 2016* (EUR, current prices)								
	2008	2016*	CHANGE %					
Greece	21845	16378	-25.02%					
Attica	29215	22204	-23.99%					
North Aegean	17647	12266	-30.49%					
South Aegean	24747	17769	-28.19%					
Crete	19176	13811	-27.97%					
Eastern Macedonia & Thrace	15568	11432	-26.56%					
Central Macedonia	17437	12860	-26.24%					
Western Macedonia	16748	14361	-14.25%					
Epirus	14960	11785	-21.22%					
Thessaly	16363	12662	-22.61%					
Ionian Islands	21759	15182	-30.22%					
Western Greece	16393	12058	-26.44%					
Central Greece	19552	14727	-24.67%					
Peloponnese	17224	13579	-21.16%					
Gross Value Added								
By industry, 2008 & 2016* (EUR, current prices, in millions)								
Selected Industries: AFF: Agriculture-Forestry-Fishing, IC: Information-Communication, M: Manufacturing, C: Construction, TTAFS: Trade-Transportation-Accommodation-Food Services, FIA: Financial and Insurance Activities, PSTA: Professional, Scientific and Technical Activities								
2008								
	AFF	IC	M	C	TTAFS	FIA	PSTA	SUM
Eastern Macedonia & Thrace	499	149	947	439	2094	205	323	4656
2016*								
Eastern Macedonia & Thrace	478	101	749	150	1205	173	215	3071

**Source:** Hellenic Statistical Authority. \*Temporary data

The data show that the region of Eastern Macedonia and Thrace faced a substantial decrease of the GDP per capita between 2008 and 2016 (-26.56%), a more considerable decrease compared with the rest of the country (-25.02%). For 2016, the region recorded the lowest per capita GDP of the country (just €11,432). At the same time, a change by 34% in gross value added in selected productive sectors occurs between 2008 and 2016 in the whole region (from €4,656 million to € 3,071 million). The data illustrate that the productive sector “Trade-Transportation-Accommodation-Food Services” has the largest share in the gross value added of the region.



Moreover, the Greek Regional Aid Map for the period 2014-2020 adopted by the European Commission on May 7<sup>th</sup>, 2014 [C(2014)2642-State aid No. SA.38450 (2014/N), valid until 31/12/2020], classifies this border region “A” because its GDP per capita is less than 75% of the EU average [Article 107(3) of the Treaty on the Functioning of the EU] and is eligible for regional investment aid. Accordingly, the amended Regional Aid Map, the rates of which are 35% when the size of the enterprise is large, 45% for medium-sized enterprises and 55% for small-sized enterprises, apply to all investment projects approved from 01/01/2017 to 31/12/2020 (Δεληθόου, 2018, pp. 382-383).

## **The case of small and micro enterprises in the region of Eastern Macedonia and Thrace: field research and findings**

To understand the analytical triangle of “crisis-innovation-change management” qualitatively, the authors conducted a field survey in a sample of small and medium-sized enterprises within the less-developed regional socioeconomic system of Eastern Macedonia and Thrace.

### ***The identity of the field research***

This survey interviewed a non-weighted sample of 48 micro and small private enterprises operating in the region of Eastern Macedonia and Thrace and obtained data during the winter of 2017. One of the selection criteria was for these companies to employ a workforce of up to 50 employees. The field research did not take into account the particular sector of economic activity, although the majority of the enterprises happened to operate in the “food and beverages” sector of economic activity.

This field research aimed to investigate how the owner or another member of a small enterprise perceive the dimensions of the crisis, innovation, and change management. This field research is exploratory and qualitative (Shields & Rangarajan, 2013), not arrived at employing statistical procedures or other means of quantification (Strauss & Corbin, 1990). In particular, this qualitative research (Baxter & Jack, 2008; Neergaard & Ulhøi, 2007) has only an interpretive character, aimed at discovering the

meaning events have for the individuals who experience them, and the interpretations of those meanings by the researcher (Hoepfl, 1997). According to Rowley (2012, p. 262), who defines a semi-structured interview as “an interview schedule that centers on around six to 12 well-chosen and well-phrased questions to be delivered mostly in a set order,” the interviewer asked general and semi-structured questions in a sample of enterprises. The aim was to study, through personal interviews that reflect the views and assessments of the respondents, how the members of small and micro enterprises perceive the phenomena of crisis, innovation, and change management.

The responsible interviewer initially asked the member of the firm to record the name, the subject, the number of employees, the address, and contact details. Then, the interviewer had to take and record an interview with the member of the enterprise, who had to answer the following questions<sup>1</sup>:

About the perception of crisis:

- i. “How does your enterprise perceive this crisis?”
- ii. “What are the effects of the crisis on your enterprise?”
- iii. “What do you believe are the root causes of the current crisis?”
- iv. “What do you think are the solutions for overcoming the crisis?”

About the perception of innovation:

- v. “How does your enterprise understand the concept of innovation?”
- vi. “In what way and how do you think can innovation help your enterprise?”
- vii. “In what specific ways has your enterprise innovated recently?”
- viii. “What do you think are the main barriers to innovation in your enterprise?”

About the perception of change management:

- ix. “How does your enterprise understand the concept of change (What does it feel to change, above all)?”

<sup>1</sup> The average response time of all questions ranged in approximately 15 minutes per interviewee, and the raw recorded and transcribed material is available to any interested researcher upon request.

- x. "How does your enterprise understand the concept of adapting to change?"
- xi. "How does your enterprise understand the concept of managing change?"
- xii. "In what ways does your enterprise manage change?"

### *Analysis of findings*

Initially, based on the answers to the four crisis questions and regarding the respondents' estimates, the following conclusions are extracted:

I. Concerning how the enterprise perceives the current crisis, the vast majority of responses highlight the decline in the company's turnover and profits and the overall fall in market prices. A typical answer, which primarily reflects the majority, is that *"our revenues are less than earlier years."*

The majority of responses perceive the economic aspect of the crisis merely as a reduction in the customer's purchasing power by also emphasizing the overall social problem where *"a multitude of people cannot provide themselves with the essentials for living"* or expressing pessimism with expressions like *"we have not reached the bottom yet."*

On the other hand, a significant minority stresses that the crisis has not influenced the business, arguing that *"if you are good at what you are doing, there is no crisis"* or *"the crisis has not undermined us at all because we are doing a good job."*

Also, a notable minority gave responses such as *"I think that this crisis debate is more on paper than in reality"* or *"we are enemies for the state"* or *"in order to make up for the lost turnover for the necessary survival of our business we need to think about other ways and extend to other business activities."* This kind of response indicates that there is a relative ambiguity about the very meaning and importance of the current crisis.

II. Regarding the effects of the crisis on the enterprise, the vast majority of responses, in the same manner to the first question, highlights the reduced turnover and leaves the question of their reduced profitability to a much lower position. Many of the respondents report the effects of the crisis upon the business. They point to dimensions such as the reduction of staff, the longer work

hours for the owners, the high taxation, the hostile attitude of the state, the lack of liquidity, the lack of a variety of suppliers, and finally, the limited access to financing programs and bank lending.

It is worth noting that the majority of responses to the first and second questions are overlapping, giving similar responses: i.e., the majority of respondents do not seem capable of distinguishing between the perception and the results of the crisis upon the business.

Also, a notable minority gave responses such as *“if you want to keep your quality standards, then you have to make cuts in staff and other aspects of the business.”* Another stated that *“the management of our company took some quick decisions in 2008 when it saw the crisis ... the company decided to reduce its investment program without, of course, reducing the quality and quantity of production.”* Other responses seemed to deny the reality arguing that *“I am not facing any crisis, and I am satisfied with the results of the business.”*

III. About what they believe are the root causes of the current crisis, the vast majority of respondents blame the governmental agencies and policies. In particular, they highlight the political corruption and poor management in public finances as the critical source of the crisis. To a lesser extent, the respondents highlight the excessive borrowing from the part of citizens during recent years.

However, a significant minority of respondents seem unable to distinguish between the causes and effects of the crisis, as they perceive as causes of the reduced income and high taxation, the closure of many small firms, and the high unemployment.

At the same time, a notable minority gave responses such as *“we have not realized that productivity defines how profitable you are”* or *“everyone says it is a debt crisis, but ultimately it is a crisis of attitude, a moral crisis and a cultural crisis”* or *“the cause is the lack of productive capacity of the country.”*

IV. Regarding what they believe are the critical solutions to overcome the crisis, the vast majority of responses stressed the need for government interventions, focusing on tax cuts, debt reduction, the need to increase public investment, and, more generally, government expenditure. A typical answer in this

direction is that *"We cannot do much. Politicians have to find the right solutions."*

A significant minority, however, identifies as a solution to better organizing the *"modus operandi"* in order to improve competitiveness and make greater use of the private initiative. In this direction, there are typical responses such as *"a basic solution for overcoming the crisis comes from the rightful and healthy business"* or *"only if we look ahead and improve our production we can have a good result."*

Interestingly, a notable minority gave responses such as *"our country has become a subordinate of external institutions and geopolitical interests that do not want to get out of the crisis"* or *"we have to exploit our country's wealth in oil reserves"* or *"the public sector should make deep cuts to stop corruption."*

Secondly, based on the answers to the four innovation questions and regarding the respondents' estimates, the following conclusions are reached:

V. On how does the enterprise perceives the concept of innovation, the vast majority of responses perceive innovation as necessary, giving definitions related to the availability of technological applications (Internet, social media), which would improve the current performance of the firm (mainly increase in turnover).

It seems that the majority of these locally-established small enterprises perceive the correlation of innovation with generating profits, but limited to the concept of innovation as something *"new"* almost exclusively on the product level. In this view, the *"discovery"* of the new arises spontaneously from practical experience and friction with customers, in the absence of a systematic framework for understanding and promoting innovation at all operational levels of the organization.

A significant minority, however, notes that innovation is something quite distant and elusive, the demand for which in the present *"circumstances"* of the crisis will probably only intensify competition and lead to loss of profits.

Interestingly, some sporadic responses point out that innovation can be *"opening up to new management strategies"* or *"a change at all fronts: a movement directed forward"* or that *"innovation is*

*the offer of a product/service that you cannot easily find on a wide market scale."*

VI. Regarding how they think innovation could help their enterprises, the vast majority of entrepreneurs refer to the "facilitation" that specific technological applications (energy, online, mechanical) provide for limiting the personal work of the business owner.

It is worth emphasizing that the majority of responses to this question showed unable to perceive any difference between the first and second questions since the answers are overlapping significantly. They fail to distinguish between the definition of innovation and specific systematic ways that can lead to it.

A significant minority, however, seems to realize that innovation is an improvement in the business organization, focusing mainly on the aspect of company sales and end-user satisfaction, showing a willingness to increase their clientele.

Also, a notable minority gave responses such as *"innovation helps you stand out"* or *"assists every business to be modern"* or *"the adoption of innovation at every stage in the business operation as well as in products and processes is helpful for the development."*

VII. About the specific ways in which their enterprise has innovated recently, the vast majority of respondents appear divided into two categories: the businesses referring to the introduction of new end-products as a critical innovation activity and the businesses tending to face the current crisis as a severely disruptive process for business development that cancels any innovative effort.

A significant minority also notes that their enterprise has innovated recently by introducing technological applications or machinery and, more generally, by upgrading and refurbishing its customer reception area (store).

Interestingly, some sporadic responses point out that *"innovation is a new product"* or that *"we have put emphasis recently on production and to create quality products to be competitive in the global environment we live in."* Alternatively, *"we just sell coffee, we have not discovered anything special"* or that *"we have innovated by introducing product codes different than our competitors' at least in our region"* or

that *"at this point, there is stagnation and I cannot talk about many innovative things. Everything I did was before 2010"*.

VIII. In relation to the main obstacles to innovation in their enterprise, the vast majority of the respondents focused on the lack of financial resources (typically, they noted factors such as financial difficulties, the public sector with the over-taxation of entrepreneurship, the economic crisis, the legal framework, lack of liquidity, lack of capital and borrowing).

A significant minority, however, points out that it is not so much the external factors that affect the operation of the business and its innovation, as much as the entrepreneur's approach and attitude.

Some minority responses in this direction appear more "progressive" by stating that *"the main obstacles come from the obsession with old selling techniques, old merchandise management, that is, everything that is attached to the old one."* Alternatively, *"normally there should be no obstacles for a professional, you have to set small goals and slowly accomplish them"* or *"the obstacle is knowledge. If there is an obstacle to innovation is to find the man who will bring knowledge."*

Based on the answers to the four change management questions and regarding the respondents' estimates, the following extracted conclusions are useful:

IX. In connection with how the company understands the concept of change (what feels that mainly changes), the vast majority of responses focused on the changes brought by the crisis in the organization: the reduction in turnover and profit, increasing pressure for better quality and, at the same time, a continually demanding price squeeze.

However, a significant minority sees the change positively, arguing that change provokes good business and which should not be static. A typical response in this direction is that *"I do not feel that anything has changed in business for the worst, just because of the crisis."* At the same time, some minority answers seem not even understand the question and the concept of change, not managing to respond in an integrated manner.

X. As to how the enterprise perceives the concept of adaptation to change, the vast majority seems to try adapting to the changes brought by the crisis by cutting expenses (mainly by

reducing staff and wage cuts) to achieve lower prices for their products and services. They, therefore, show that they perceive the change passively: emphasizing that *"we did not choose to change, either way, we have to adjust."*

A significant minority, in terms of the number of received responses, also emphasizes psychological factors, saying that *"you need to adapt passionately, manage your feelings, and try continually and with dedication."* Some other minority responses emphasize that *"we are adapting by pushing our prices down and, at the same time, to succeed in achieving innovation,"* or *"we need to be flexible, to adapt to situations in order for the business to be profitable so we can face the crisis."*

XI. Regarding how the enterprise understands the concept of change management, the vast majority of responses focus on managing change as a cut in the company's staff, and a squeeze of its operating costs. Typically, the answers highlight in several cases that *"by reducing staff we can survive and we are now waiting for the positive elements to respond to new market demands."* At the same time, the majority of replies note that managing change is challenging, mainly due to the limited profitability of the company.

A significant minority appears to approach change management more thoroughly, focusing on its organizational dimension. Specifically, the typical responses are: *"to change the organizational chart a bit"* or *"to implement an excellent plan so that we can manage all that change"* or *"with flexibility and adaptability some people in each field have to undertake initiatives and leadership."* Some interesting minority responses also note that *"we are years in this pattern, we are just adjusting according to our suppliers"* or *"managing change means I do not leave to luck what I want to succeed."*

XII. Concerning the ways that the enterprises manage the change, the vast majority of responses focus on cost containment issues, with virtually no reference to using systemic methods to increase operational efficiency. Typically, they stress that *"we are waiting for the state's support"* or that *"fewer people are doing fewer jobs"* or *"cutting down the costs as much as we can."*

A significant minority, however, refers to methods such as *"continuous education and interactive seminars"* or *"we need to develop*



*a strategy" or "to keep track of developments in a scientific context." At the same time, some responses stress that their company has improved "by offering things that would not need to offer them otherwise to be able to deal with the change that has created the crisis." Also, some minority responses indicate that "we have made no significant changes to our business" or "the company manages change with caution, attention, study, and careful steps."*

## Conclusions, limitations, and prospects of expanding the research

The purpose of this research was to highlight how a sample of small and micro enterprises hosted in a less-developed regional business ecosystem (the Greek region of Eastern Macedonia and Thrace) perceive the spheres of the crisis, innovation, and change management.

From the field research that the authors carried out in this region, the following conclusions synthesize upon the knowledge acquired from the scientific literature and the answers made by the respondents concerning the "crisis-innovation-change management" analytical triangle:

A. The way these businesspeople perceive the phenomenon of crisis in the field is far from the fundamental approaches and findings of the existing literature. The majority of the responses highlighted a shallow perception of the crisis as a strictly "exogenously determined" process (Amable, 2017). Accordingly, the businesspeople of the sample perceived the crisis as dominated by financial terms and, above all, as something that compresses their turnover and the immediate purchasing power of their customers. The majority of these businesspeople did not perceive the structural dimensions related to the crisis and especially the low competitiveness of this regional socioeconomic subsystem.

B. The way these businesspeople perceive innovation appears to have a predominantly sporadic and reflective character. This concept of innovation focuses, almost exclusively, on the "superficial" condition of "technical improvement" without any more profound insistence on the parallel organizational and socioeconomic dimensions and requirements (Anderson, Potočník & Zhou, 2014; Damanpour & Aravind, 2012). The majority of the

small enterprises that took part in this present research seem to perceive innovation as an external factor that they cannot either control or determine. As such, they are unable to distinguish the global socioeconomic reasons and processes that make their particular regional business ecosystem weak in terms of production, diffusion, assimilation, and expansion of their innovative potential.

C. The way these businesspeople perceive change management in the studied field also seems superficial and shortsighted. Their perception of change management is merely reflective because the “conjuncture” of the crisis forces their companies into “tactical folds” and retreats and, more generally, “passively” responses (Bennett, 2002; Laubacher & Malone, 2003). Thus, in the vast majority of cases, the applied change management method involves only measures of compressing product costs and limiting operating costs, without any greater ambition to improve business efficiency over time systematically.

D. Based on the previous observations, the entrepreneurs of these micro and small enterprises in this field research demonstrated difficulty in understanding the evolutionary interconnections between the crisis, inadequate innovation, and incomplete management of change that to the reproduction of underdevelopment in their business ecosystem.

In conclusion, this study has helped to validate the gap between the scientific view of the crisis, innovation, and change management and the perception of businesspeople daily practice in small and micro enterprises inside a less-developed regional business ecosystem. At the same time, it offers the first empirical qualitative mapping to refine this field research in the future.

In conclusion, the authors must point out that this is a limited analysis of interpretation resources and prediction because of the non-weighted sample and the “introductory character” of the field research. In a weighted sample of enterprises, either in terms of size or in terms of industry, or a combination of the two, a field survey could draw more operational conclusions about how the businesspeople of everyday practice perceive the “crisis-innovation-change management” analytical triangle within a less-developed regional business ecosystem. The authors could reassess

their hypothesis in the field through structured questionnaires that the evolutionary adaptation of a less-developed regional socioeconomic business ecosystem is a matter of the co-evolving conditions of the crisis, innovation, and change management.

Therefore, to cover specific research gaps in the future, this research could explore with greater completeness where the less-developed regional business ecosystems are lagging in terms of perceiving the “crisis-innovation-change management” analytical triangle and how this perception concerns the generated phenomenon of regional underdevelopment.

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# 4

## Strategy perception and implementation on less developed business ecosystems micro and small enterprises: The service sector of Eastern Macedonia and Thrace<sup>4</sup>

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Dimos **CHATZINIKOLAOU**

### Locating the research question and methodology

This chapter aims to distinguish the extent to which micro and small enterprises in less developed business ecosystems are utilizing some of the fundamental theoretical dimensions of strategy design and implementation, as expressed in the relevant literature on the subject.

Business strategy is the far-reaching direction of an organization to make the most of its inherent virtues by avoiding exposure to its weaknesses within the ever-changing external environment (Reyes Avila & Preiss, 2015; Vlados, 2019; Vlados & Chatzinikolaou, 2019b). Therefore, business strategy is a dynamical matching game between the evolving internal and external business environment, in a way that manages to make the organization reach where it wants (Gandellini, Pezzi, & Venanzi, 2012; Ismail & Kuivalainen, 2015). However, the ambition to

develop and implement an integrated strategy is a complex and demanding task for all the organizations involved and concerned.

In this context, this article aims to ask how business strategy unfolds in less developed business ecosystems. Concerning the ecosystem concept, Moore (1993) argues that a business ecosystem, like its biological counterpart, moves gradually from a random collection of elements to a more structured community. A business ecosystem is an economic community supported by a foundation of interacting organizations and individuals. Interdependence and symbiotic relationships are attributes that exist in business ecosystems inherently (Fragidis, Koumpis, & Tarabanis, 2007). Moreover, those companies holding leadership roles (the “keystone species” according to Iansiti & Levien, 2004) may change over time, but the community attributes value to the function of ecosystem leader because it enables members to move toward shared visions, align their investments, and find mutually supportive roles (Moore, 1997). Businesses must continuously adapt and evolve to flourish in their ecosystem. This adaptation requires the organization to engage in an ongoing dialogue with its environment and with others with which it shares this environment (Marín, Stalker, & Mehandjiev, 2007).

When the firms living in a business ecosystem are less competitive, then the business ecosystem is comparatively weaker or less developed. According to Harrison *et al.*, (2018), a lack of a matching platform to make the connection between investors and entrepreneurs results in a poorly developed entrepreneurial ecosystem. Spigel & Harrison (2018) argue that less-developed ecosystems may see an outflow of resources as entrepreneurs realize they must leave the region to grow their firm successfully because of a lack of available investment capital, demands from investors that they relocate, or the need to move to broader labor markets to tap the talent they need. Moore (2015) argues that the ecosystem as a whole must draw deeply from advances in science and engineering; otherwise, the whole community stagnates. According to Brown & Mason (2017), the entrepreneurial ability and good strategy of firms to “sense and seize” new growth opportunities resonate with the premise underlying the entrepreneurial ecosystems.

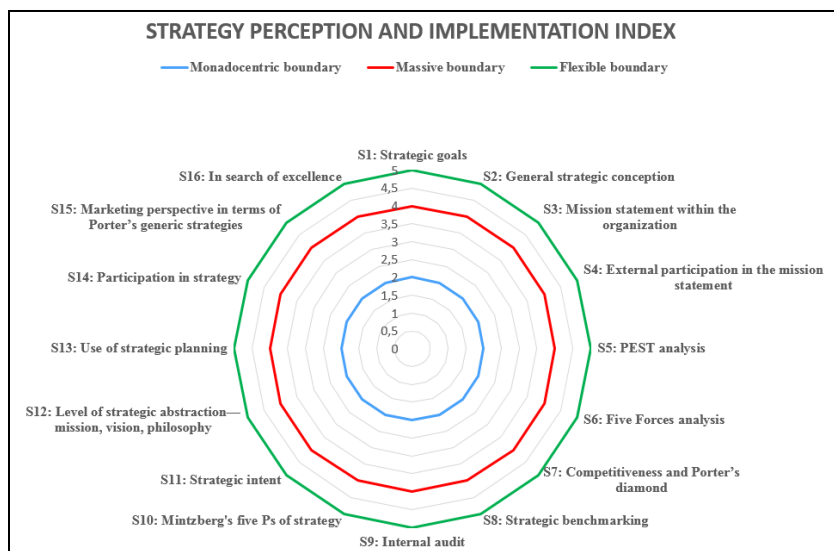
Therefore, the way the socioeconomic organizations in a business ecosystem articulate their strategy is crucial. However, how do micro and small enterprises seem to shape and implement their strategy? The literature identifies a divergence between the theory and the practice of strategic management in small enterprises. According to Analoui & Karami (2003), while the volume of literature on strategic management in large organizations is extensive, the literature on SMEs is rather limited. They argue that while some writers have concluded that small firms do not commonly practice strategic management, some studies have found a positive relationship between strategic planning and performance in these companies. In a similar vein, Mazzarol (2003) argues that strategic management theory appears to apply to small firms experiencing growth and change. However, due to the relative immaturity of most small firms, their “natural” state is one of learning by doing and inventing their future on almost a daily basis. Consequently, Kraus, Reiche, & Reschke (2008) suggest that SMEs usually maintain a lower level of resources, have more limited access to human, financial, and customer capital, and lack a well-developed administration. Thus, the application of formal planning instruments is often missing, especially up to a specific “critical size.”

This article synthesizes upon the concepts of less developed business ecosystems and small business strategic planning and raises the following question: How do the locally established micro and small enterprises of a less developed regional business ecosystem understand and implement their strategy?

Concerning the structure and methodology, this study will initially present 16 central dimensions of strategy making according to the strategic management literature. These 16 strategic dimensions lead to the construction of 16 corresponding queries and create a composite index of strategic perception and implementation. The study then assigns a value to this index by accommodating the results of field research conducted in micro and small enterprises of the service sector in the region of Eastern Macedonia and Thrace. Finally, we discuss the findings and highlight the prospects for future research.

## Literature review and construction of the questionnaire

Many analysts continue to approach and enrich the theory of organizational strategy perception and implementation. In this context, we present 16 strategic dimensions by utilizing significant contributions from international literature. After the brief examination of each point, we produce a question that is part of an integrated questionnaire used by a field survey. With this in mind, we create a composite strategy perception and implementation index, consisting of 16 independent strategic dimensions (Figure 1). We consider these dimensions in this study as equivalent.



**Figure 1.** The strategy perception and implementation index. The “monadocentric-massive-flexible” business boundaries.

According to Vladoš (2004; Vladoš & Chatzinikolaou, 2019a), in less developed socioeconomic systems (such as Greece) a peculiar type of entrepreneurship continues to survive and prevail, the “monadocentric” type. The “monadocentric” firms rely heavily on their strategic intuition, make sporadic technological choices, and use management techniques based solely on their practical experience. Therefore, they are only capable of building and sustaining a less competitive and adaptive “triangle” of strategy,



technology, and management (Stra.Tech.Man). In particular, the author suggests the existence of an idiosyncratic “Stra.Tech.Man physiology” that characterizes each socioeconomic organization according to three fundamental spheres of questions.

❖ The strategy corresponds to “where is the organization today, where does it want to go, and why?”

❖ Technology corresponds to “how does the organization draw, create, reproduce, and disseminate the available knowledge, and why?”

❖ Management corresponds to “how does the organization manage its available resources, and why?”

Depending on the degree of development of the Stra.Tech.Man triangle, there are “monadocentric” or “massive” or “flexible” types of organizations. Overall, according to the typology of Vlado (Βλάχος, 2006), these three types of firms maintain the following characteristics:

❖ The monadocentric “physiology” of entrepreneurship does not apply at all distinct strategic planning procedures, chooses its technology sporadically, and relies heavily on the practical experience.

❖ A massive “physiology” of entrepreneurship tends to stick to a rigid formalism and inelastic strategic thinking, to a linear and repetitive technological application, while its management follows an advanced specialization and strict quantitative methods of programming and organizing.

❖ A flexible “physiology” of entrepreneurship, which is scarce in the productive system in Greece, follows an evolutionary perception of strategy, participatory decision-making systems, and networking abilities to assimilate technology and expertise.

The index of strategy perception and implementation, which distinguishes between these types of firms, takes into account the following 16 critical strategic dimensions:

- I. Strategic goals: According to Spyropoulou *et al.*, (2018), managers should be concerned about any failures to achieve strategic goals as they significantly reduce financial performance. Mia, Sands, & Iselin (2008) suggest that organizations should closely align their strategic goals with their performance reporting measures and give emphasis to

their performance reporting system. According to Houston *et al.*, (2010), the goal-setting processes in firms are dynamic and trigger intra-firm conflict. Therefore, the strategic analyst should be able to capture the potential facilitating and debilitating effects of each goal-setting process on a firm's goal-directed pursuits.

These theoretical arguments lead to the following question: "Is there a principal strategic goal, and how does the goal-setting process take place in your organization? At what speed does the organization adapt to changes while maintaining a long-term strategic rationale?"

- II. General strategic conception: According to Porter (2000), primitive forms of strategy rely on factor (input) costs, while more advanced forms involve competing based on differentiated products and services and, ultimately, on unique competitive positioning versus rivals. According to González-Dávila *et al.*, (2014), SMEs fall within four strategic types, as proposed by Miles & Snow (1978). The "defender" concentrates on a narrow and limited product-market area; the "prospector" always seeks new market opportunities; the "analyzer" is the adaptive firm that is a symbiosis of the previous two; the "reactor" is the firm that lacks a clear and consistent strategy.

These theoretical arguments lead to the following question: "What is the general strategic conception of your organization? Is your strategy 'flexible' and systematically oriented towards change?"

- III. Mission statement within the organization: According to Karami & Taghi Alavi (2009), the involvement of employees, as well as CEOs/business owner-managers in developing the mission statement, improves the performance of the company. In a similar direction, Hong *et al.*, (2010) suggest that corporate mission and its embedded policies contribute to better corporate performance. Furthermore, according to Hamel & Prahalad (1994), when a company's mission is undifferentiated from that of its competitors, employees may be less than inspired.

These theoretical arguments lead to the following question: "If there is a written mission statement in your company, then who is

involved in developing this mission statement? To what extent do all the human resources of the organization participate in developing the mission?"

IV. External participation in the mission statement: Baetz & Bart (1996) argue that all relevant stakeholders should be involved in creating the mission statement, including customers, who are the most frequently mentioned stakeholders of a mission statement. Bartkus & Glassman (2008) posit that mission statements are both internal policies and guides to direct behaviors and decision making externally directed messages. According to Fitzgerald & Cunningham (2016), mission statements must be clear articulations to internal and external stakeholders of the long-term intent of an organization.

These theoretical arguments lead to the following question: "To what extent has your business mission recognized and expressed your business goals based on regular contact and collaboration with your customers, partners, suppliers, and the wider society?"

V. PEST analysis: Sammut-Bonnici, Galea, & Cooper (2015) argue that PEST (political, economic, social, and technological) factors help to understand strategic risk and evaluate how business models will have to evolve to adapt to their environment. According to Barkauskas *et al.*, (2015), the PEST qualitative analysis must not exclude factors that have anticipated favorable or unfavorable effects and predicted the influence of macroenvironmental factors on a branch of industry, sector, or company's strategy.

The above theoretical contributions lead to the following question: "To which extent does your business strategy take into account and exploit the evolution of extra-sectoral trends and factors in shaping strategic decisions?"

VI. Five Forces analysis: This framework examines the firm's industrial environment by taking into account the bargaining power of suppliers, the bargaining power of customers, the dynamics of substitute products and services, competitive rivalry, and the threat of new entrants. According to Porter (1980), who introduced this analysis, the combined dynamics of these forces determines the profits an industry can offer. When

strong bargaining forces surround the firm, and the organization is incapable of formulating a proper strategy, then these “condemn” the firm in harsh to survive conditions and, therefore, limited growth.

This theoretical argument leads to the following question: “To which extent does your organization monitor systematically the dynamics of its direct competitive environment (customers, competitors, potential new competitors, and substitute products, the networks of trade intermediates and partners, and complementary products)?”<sup>4</sup>

VII. Competitiveness and Porter’s diamond: There is no absolute analytical consensus for a well-established model of competitiveness (Balkytė & Tvaronavičienė, 2010). Regardless of the type of competitiveness—at the national, industrial or firm level—being competitive means that a socioeconomic entity performs, in general, better than its counterpart ones. According to Peneder (2017), competitiveness is the ability of an economic system to develop and, therefore, to achieve high real incomes together with qualitative change. According to Porter (1990), four attributes are leading to an ever more sophisticated source of competitive advantage for a nation. These constitute the “diamond of national advantage” that each nation establishes and operates for its industries. First, the “factor conditions” highlight the nation’s position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry. Second, the “demand conditions” highlight the nature of home-market demand for the industry’s product or service. Third, the “related and supporting industries” highlight the presence or absence in the nation of supplier industries and other related industries that are internationally competitive. Fourth, the factor of “firm strategy, structure, and rivalry” highlights the conditions in the nation governing the how companies are created, organized, and managed, as well as the nature of the domestic rivalry.

<sup>4</sup> At this point, we propose the networks of trade intermediates and partners, and the complementary products, as two additional categories in the “5 Forces Analysis” —towards a “5+2 Forces Analysis.”

These theoretical arguments lead to the following question: “To what extent does your business competitiveness get enhanced from a more sophisticated productive fabric of other organizations, input and output markets, interactions in terms of technology diffusion and assimilation, local external environment, and state-social intervention institutions? Does your business strategy fit into the above-mentioned structural balances at the local operating level?”

VIII. Strategic benchmarking: According to Stapenhurst (2009), in strategic benchmarking, organizations tend to benchmark long-term strategies to find those that seem to result in business success. It typically focuses on areas such as product development, customer services, and core competencies. Watson (2014) argues that benchmarking studies conducted at the strategic or operational level of the organization may compare competitive organizations, internal divisions or processes, industry-wide practices, or general business practices in cross-industry studies.

These theoretical arguments lead to the following question: “To which extent does the articulation of your strategy capture systematically data relating to other “successful” strategies within and outside the industries in which your company operates?”

IX. Internal audit: According to Burton *et al.*, (2012), internal auditing provides insight and recommendations based on analyses and assessments of data and business processes. According to Prawitt, Smith, & Wood (2009), internal auditing may involve topics such as an organization's governance, risk management and management controls over the effectiveness of operations (including the safeguarding of assets), the reliability of financial and management reporting, and compliance with laws and regulations.

These theoretical arguments lead to the following question: “To what extent does your organization activate mechanisms systematically for monitoring and evaluating its internal business operations and present the findings in the form of regular internal audit reports?”

X. Mintzberg's five Ps of strategy: According to Mintzberg (1987), there are five interrelated definitions to understand

strategy. First, strategy as a “plan” that is a consciously intended course of action, a guideline to deal with a situation. Second, a strategy can also be “ploy,” a specific maneuver intended to outwit an opponent or competitor. Third, the strategy can also be a “pattern,” a pattern in a stream of actions, which signals a consistency in behavior, intended or not. Fourth, a mean of locating an organization into its environment is the strategy as “position,” where strategy is the mediating force between the internal and external organizational context. The fifth definition, strategy as “perspective,” looks inside the organization, suggesting an ingrained way of perceiving the world. Mintzberg argues that these definitions compete, but perhaps, more importantly, they complement each other.

This theoretical argument leads to the following question: “What is the degree of activating and exploiting the “5 Ps of Strategy” formulated by Mintzberg in your business strategy?”

XI. Strategic intent: According to Hamel & Prahalad (1989), companies that rise to global leadership begin with disproportionate ambitions to their resources and capabilities. The authors call “strategic intent” the obsession of these organization for winning at all levels. Prahalad & Hamel (1990) introduce the “core competence” concept subsequently. To identify competencies that support the strategic intent, a company must ask the following: how long could we dominate our business if we did not control this competency? What future opportunities would we lose without the core competence? Does it provide access to multiple markets? Do customer benefits revolve around it?

These theoretical arguments lead to the following question: “How does your organization adapt to its changing environment? What are its core competencies? How does it envision the future ahead of its competitors by changing the “rules of the game” with its strategic intention?”

XII. Level of strategic abstraction — mission, vision, philosophy: The vision outlines the shape of the corporation in the future, sets general goals, and leads the strategy and the mission of the business. The mission outlines the primary purpose of the firm, determines the relationship between the company and other

Ch.4. Strategy perception and implementation on less developed business...

organizations, and sets specific objectives (Altiok, 2011; Ingenhoff & Fuhrer, 2010). The philosophy incorporates organizational values and defines general principles and ethical behavior in the operation of the firms. It determines the nature of the relationships with the stakeholders that the business trades, and defines the style of management (Abdullah, Shahrina, & Abdul Aziz, 2013; Campbell & Tawadey, 1990).

These theoretical arguments lead to the following question: "In which of the three complementary dimensions of "vision-mission-philosophy" do you think your organization has higher-level strategic processing?"

- XIII. Use of strategic planning: Strategic planning can be an overwhelming challenge to take into account, simultaneously, the developments of technologies and societal trends, the behavior of competitors, customers, and regulators, all within a changing legal, environmental, and financial framework (Eppler & Platts, 2009). Abdallah & Langley (2014) argue that strategic planning may serve as a means to develop consensus and promote commitment among organization members around strategic orientations. Dibrell, Craig, & Neubaum (2014) correlate strategic planning with "planning flexibility" defining that flexibility as *"the ability of a firm to deviate from its formal strategic plan in response to emerging opportunities or threats."*

These theoretical arguments lead to the following question: "How does your organization take advantage of its strategic planning in its everyday practice?"

- XIV. Participation in strategy: Mantere & Vaara (2008) argue that a lack of participation leads to poorly developed strategies, dissatisfaction among the excluded participants, and consequent difficulties in implementation of the strategy. Ackermann & Eden (2011) suggest that participation in strategy-making results in a greater awareness of what means to be a member of the group and a stronger emotional investment in its membership. Finally, Kaleta & Witek-Crabb (2015) argue that participation in strategy creation and implementation help better accommodate changes in the environment and build up the relational capital of the organization.

These theoretical arguments lead to the following question: "Is the strategic success of the company based on the initiatives by the business owner or by team collaboration and creativity of all the participants?"

XV. Marketing perspective in terms of "Porter's generic strategies": According to Porter (1980), there are three generic strategic approaches to outperforming other firms in an industry. The "cost leadership" strategy requires cost minimization in areas like R&D, service, sales force, and advertising. The "differentiation" strategy creates something perceived as unique by the industry. The "focus" strategy intends to serve very well a particular buyer or group, a segment of the product line, or a specific market. Porter suggests that the firm can successfully pursue more than one approach as its primary objective, though this is rarely possible.

These theoretical arguments lead to the following question: "Which marketing perspective does the company use? Does the company follow the rationale of "selling whatever is sellable" or "the product must cover the customer's and the entire society's immediate and long-term interests" or something different?"

XVI. In search of excellence: According to Peters & Waterman (1982), eight common themes call for specific actions that define the strategic success of a corporation. The "bias for action" is for quick and creative assimilation of environmental change. The "close to the customer" concept understands the customer as the company's partner that ultimately defines the quality. The "autonomy and entrepreneurship" encourages the innovator and the risk-taker. The "productivity through people" sees in the human factor the source of creativity and business success. The "hands-on, value-driven" declares the predominant mission and values of the firm that needs to be flexible. The "stick to the knitting" concept perceives the knowledge of the specific product and its production through the accumulated experience of the business as critical. The "simple form, lean staff" calls for fewer hierarchical levels that can provide fast and efficient communication. The "simultaneous loose-tight properties" declares that firms must exploit both centralization in some processes and widespread decentralization in others.



These theoretical arguments lead to the following question: “To what extent does the company’s strategy trigger and make use of the “search of excellence” principles, viewing them as foundations in business operations?”

## **Methodology: field of investigation and identity of the research**

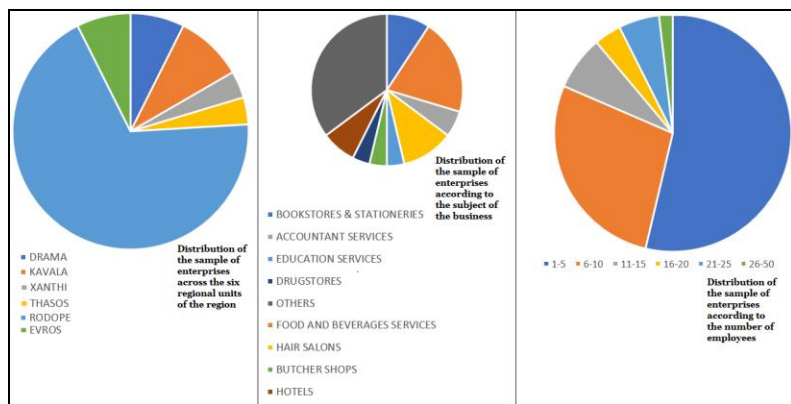
We have utilized the above 16 central questions of strategy development and implementation within the strategy perception and implementation index in specific field research. We have conducted a survey in the Greek region of Eastern Macedonia and Thrace in a sample of micro and small enterprises during the spring semester of 2019.

We focus on the region of Eastern Macedonia and Thrace because is one of the thirteen regions of Greece and is one of the least developed regions in Greece and Europe (Boden, 2017). It is a border region (Prokkola, 2019; Varol & Soylemez, 2019) that combines socioeconomic and demographic problems, which contribute to this region’s failure to keep up with developments in other Greek and European regions. Regions such as Eastern Macedonia and Thrace demonstrate high comparative costs (Arieli, 2019; Mayer, Zbaraszewski, Pieńkowski, Gach, & Gernert, 2019), such as negative economies of scale and higher operating costs for business and living for their residents. According to the most recent data of the Hellenic Statistical Authority (2019), the region recorded the lowest per capita GDP in 2016 (€11,432) compared to the country average which was €16,378 (the highest GDP per capita was recorded in Attica, €22,204). According to Vlados, Deniozos, & Chatzinikolaou (2018), the gross value added in the region of Eastern Macedonia and Thrace for selected industries recorded between 2008 and 2014 a decline of 35.5%.

In this context, as expected, entrepreneurship in less developed regional business ecosystems such as Eastern Macedonia and Thrace faces structural problems, functional deficiencies, and imbalances. In regions with weak entrepreneurial systems, mechanisms formed because of the recognition and necessity for knowledge and innovation-based interactions beyond the market are less apparent (Huggins & Thompson, 2015). According to

Asheim, Moodysson, & Tödtling (2011), less urbanized or peripheral regions demonstrate a lack of dynamic firms and knowledge-generating organizations. On the contrary, Fernández-Serrano & Romero (2013) argue that SMEs in highly developed areas tend to be more innovative, more internationalized, and more efficient than in low-income areas. Overall, the majority of analysts on the subject suggest that SMEs in low-income economies tend to have lower entrepreneurial quality.

With this in mind, we have carried out field research at the less developed business ecosystem of Eastern Macedonia and Thrace to find out the current level and growth prospects of these enterprises that are mostly of “monadocentric” type. More specifically, 54 micro and small enterprises in the service sector participated in the field survey. One of the sampling criteria was that businesses would employ up to 50 employees, have their headquarters in the region of Eastern Macedonia and Thrace, and belong to the service sector. The majority of sample firms have as their basis the regional unit of Rodope; they are active in food and beverages services mostly, and employ from one to five employees (Figure 2).



**Figure 2.** The sample of the 54 firms based on their location, business subject, and the number of employees.

The field research in these 54 firms uses structured questionnaires. It is introductory and qualitative (Shields & Rangarajan, 2013) since it does not seek to discover and propose a case with full interpretative and predictive ability. The purpose of

Ch.4. Strategy perception and implementation on less developed business...

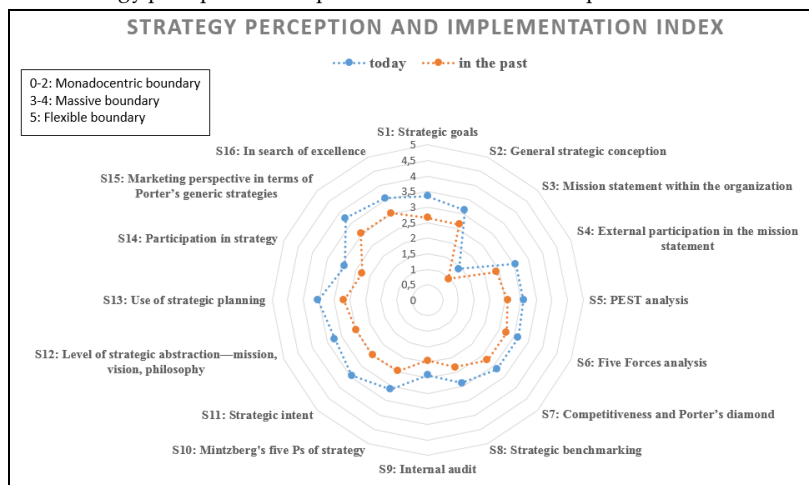
the research is to make a first exploration (Stebbins, 2001) to form more comprehensive case studies with more empirical data in the future (Johnson, 2001; Neergaard & Ulhøi, 2007).

The survey exploits a questionnaire (see Appendix) divided into 16 strategic questions where respondents respond based on their perception on the subject. The questionnaire uses for each of the 16 queries a Likert-type scale (Burns & Bush, 2008; Likert, 1932), where respondents have to respond based on the level of agreement or disagreement in a series of statements about the concept of strategy. In this questionnaire, the scale for the 16 queries is from 0 to 5, where at one end (0, 1, and 2) the answer points to the “monadocentric” character, at the intermediate score (3 and 4) the answer points to the “massive” character, while in the most advanced stage (5) the answer points to the “flexible” character. Besides, each question sets two scales of responses to see how the trend evolves throughout time: “today” is the first scale, and “in the past” is the other scale. Finally, under every query, the respondents must answer briefly to the question “where would you like to be today instead, and why?”

## Field research results

After calculating the average score of all queries, the result is 2.4 in the past and 3.1 today. In addition, all changes to the queries are positive, indicating the desire of these firms to systematize their strategic processes concerning their past, in the directions presented by the literature on the subject. We present below the scores of the 16 strategic questions (Figure 3).<sup>5</sup>

<sup>5</sup> The raw transcribed material is available to any interested researcher upon request.



**Figure 3.** The results of the strategy perception and implementation index in the sample of 54 micro and small enterprises in the service sector of Eastern Macedonia and Thrace.

- I. The response to the question of having a principal strategic goal is changing by +0.7 points, from 2.65 to 3.35. This change suggests a gradual expansion and long-term perspective as a strategic goal in strategic analysis, even in small firms. To this end, a firm answers<sup>6</sup> that *"I would like to be instead in 4. I believe that the existence of a long-term plan combined with the flexibility and adaptability to new data is a strategy that leaves much room for growth."*
- II. The response to the question of whether or not there is a general strategic logic in the organization is changing by +0.48 points, from 2.65 to 3.13. It seems that these firms want to have a strategy, which they even perceive as systematically articulated. To this end, a firm answers that *"The success of my business is due to the plan I have been following all these years, which is based on stability and very good programming."*
- III. The response to the question of participation in developing

<sup>6</sup> The data we add belong in the "job notes" category, which is a method of taking notes while the researcher is in the study. These are short notes, concise and in condensed form used by the researcher in later stages of the research.

Ch.4. Strategy perception and implementation on less developed business...

the mission statement marks a change of +0.47 points, from 0.96 to 1.43—the smallest score among the 16 queries. It seems that these small businesses have only recently begun to perceive the contribution of the corporate mission to the performance of an organization. To this end, a company answers that *“I think that a more documented and written statement of the company’s planning and mission will be necessary over time.”*

- IV. The response to the question of whether the company’s mission expresses the business goals based on systematic collaboration with the broader society shows a change of +0.68 points, from 2.39 to 3.07. The score change suggests a tendency to systematize the development of the corporate mission, especially concerning the business customers interests. To this end, a firm answers as follows: *“we take into account the customer’s opinion by trying to meet as many needs as we can. In our effort to evolve, in general, we have created a complaint paper for our customers.”*
- V. The response to the question of whether the business strategy takes into account the dynamics of the external environment shows a change of +0.52 points, from 2.74 to 3.15. This trend demonstrates the desire of these firms to adapt to their external environment successfully by recognizing their threats and exploiting their opportunities. A firm answers that *“I would like to be more informed about all the above factors so that I know where Greece lies economically, technologically, and politically.”*
- VI. The response to the question of whether the firm collects data concerning its sectoral environment changes by +0.41 points, from 2.74 to 3.15, which is the smallest change among the 16 questions. It seems that these firms design their strategy by taking into account, most of the time, the bargaining powers surrounding the business. One answer in this direction is that *“there are few competitors in the same business subject, so there are not many ways to emerge unless you are remarkably good at your job or have low prices that stand out.”*
- VII. Regarding whether a sophisticated competitive environment enhances the firm’s competitiveness, there is a change of +0.43

Ch.4. Strategy perception and implementation on less developed business...

points, from 2.72 to 3.15. The result shows that there is a tendency to systematize the mechanisms for detecting the dynamics of the environments involved in the organization that leads to an improvement in its production capacities. A firm answers that *"I would like to be at 4. This score reflects the rapid and correct assimilation of technology and always environmentally friendly actions."*

- VIII. To the question of whether the firm articulates strategic benchmarking mechanisms, the score moves from 2.33 in the past to 2.89 today. The result shows that these firms tend to count increasingly on other successful strategies. Answers such as *"I do not think is important to compare the strategies of other businesses"* are the minority, while responses such as *"we get continuous feedback from other successful strategies to improve and modernize our strategic plan"* contribute to the overall trend.
- IX. In the question of using internal audit and feedback mechanisms, the average in the past is 1.94 points, while at present 2.41 points. This change suggests that the internal audit has previously been more superficial without taking into account all of the business functions. The answers, however, do not fully justify this increase in the average score. The typical answers are as follows: *"I do not think that internal audit concerns my business"* and another that *"I do not need mechanisms for assessing the transformations within the company since I work most of the time by myself."*
- X. Concerning whether the company uses different concepts in the strategy based on Mintzberg's definitions, the change is +0.64 points, from 2.47 to 3.11. This substantial change suggests a tendency to increase the activation of different strategic perspectives but without the desired synthesis of Mintzberg's 5Ps. One typical answer by a firm is that *"I get some elements of everything, but especially of strategy as a pattern and perspective."*
- XI. The question whether a firm adjusts its strategy to the environment passively or actively by having as strategic intent to change the "rules of the game" marks the most significant change (+0.94 points), from 2.50 to 3.44. This change suggests that the majority of these firms do not want

Ch.4. Strategy perception and implementation on less developed business...

only to survive, but they also maintain ambitions that are disproportionate to their size and current core competencies.

- XII. Concerning the complementary concepts of vision, mission, and philosophy, the change is +0.74 points, from 2.50 to 3.24. These scores reveal that the strategic processing of these three fundamental spheres is ever increasing. One typical answer by a firm is that *"Based on the strategy I follow, I try to balance them together as much as I can."*
- XIII. Concerning how the firm uses its strategic planning, the responses give 2.28 points in the past and 2.89 at present. The strategic planning for this sample of firms poses a challenge, revealing a tendency for an increasing number of factors contributing to strategic analysis. One typical answer by a firm is that *"The organized orientation and the business plan are factors that lead slowly or quickly to success."*
- XIV. Concerning the question of participation in strategy making, the score moves from 2.28 in the past to 2.89 today. This change suggests that these firms gradually realize that if the initiatives of the business owner are building the strategy solely, then poorly developed strategies can occur. A response that reveals the majority trend that justifies this positive change states that *"I would like to have some help from a staff member that, when combined with my views and experience, can lead to strategic success."*
- XV. The response to the question of marketing perspective marks the highest score since it records 3.04 points in the past while 3.74 points at present. It seems that, in terms of promotion, these firms are trying to both sell at a low price of high quality and diversify their focus on ever-larger segments of the market sufficiently. One answer by a firm is that *"I would like to be at 5. I consider that the contribution to society is a two-way process from which society and business get favored."*
- XVI. In the question of using the "search of excellence" principles, the average score changes by +0.53 points, from 3.03 to 3.56. This trend indicates that, despite their size, these firms are adaptable to change by increasing gradually the actions that lead to strategic success. A response that characterizes the majority gives the following response: *"As a business, we are*

*trying to adapt to change. As far as customers are concerned, we are very close and, therefore, we are aware of their needs and wants. We base our strategy on simplicity and rapid efficiency."*

## Conclusions and limitations

To emphasize the evolutionary view of socio-economic phenomena, Alfred Marshall (1890) argued that there are no leaps in nature ("natura non facit saltum"). In this sense, there are also no leaps of strategic "physiology" for the business organizations, which are living and evolving entities. After using a strategy perception and implementation index based on 16 critical strategy questions, this study arrives at the following conclusions:

- The necessary conclusion is that the average of the sample of firms is not transforming rapidly through time. The partial average scores of these firms strategic perception are adjacent to each other. In 16 Likert-type scale queries from 0 to 5 the scores do not show "explosive" deviations.
- A noteworthy conclusion of the study is that micro and small enterprises in the service sector of the less developed business ecosystem of the Greek region of Eastern Macedonia and Thrace seem to be heading a clear desire to systematize their strategic perception and implementation. The positive change in the overall average score from 2.4 in the near past to 3.1 today suggests this clear tendency to systematize the strategic perception and implementation these firms desire—also combined with the crisis conditions that the Greek economy has been facing over the recent years.
- In particular, the development of the corporate mission from the third question seems to be an aspect of the strategy that hinders this desire since it records the lowest score in the present with 1.43 points. At the other end, it seems that these firms want to use a strategic marketing concept that focuses on ever-larger segments of the market—the 15th question records the highest score in the present with 3.74 points.

We conclude that there seems to be a significant gap between the prevailing "theory" and "practice" of strategy in the field of micro and small enterprises. The strategic management theory, which describes in paradigmatic terms a model of advanced and



flexible entrepreneurship, seems to be inconsistent with the everyday practice of micro and small enterprises and, in particular, those that operate in weaker business ecosystems. However, a contribution of our study lies in the fact that it finds a convergence tendency, even in the context of such a weak and relatively underdeveloped business ecosystem, like that of Eastern Macedonia and Thrace.

In this context, a policy to foster entrepreneurship in weaker business ecosystems could use similar questionnaires in the field, not only based on the respondent's perception, but also by taking into account the perspective of external consultants. Specific mechanisms for enhancing local entrepreneurship could monitor the strategic trends as a whole as well as in specific local firms.

However, this article also has some methodological limitations:

- The sample of 54 enterprises, although specialized in the service sector, is comparatively small and lacks representativeness for the whole region.
- At the same time, this research has a narrow qualitative orientation and does not correlate analytically the quantitative characteristics and performance of the sample enterprises, either overall or individually.
- This research seeks to make a first exploration of the problem, paving the way for future studies on this issue.

Therefore:

- Future studies could deepen and systematize this field research further by taking first a more representative sample of enterprises. This future research could use the strategy perception and implementation index by utilizing more fully financial data in order to identify the correlation between specific strategic practices and financial results of businesses.
- It could create an integrated framework of action research (Coghlan & Shani, 2017; Eden & Ackermann, 2018) to develop new methods to enhance strategy planning and implementation for this size and type of firms.
- Finally, it could expand the study by using the synthesis of strategy, technology, and management (the Stra.Tech.Man approach) by articulating analogous and corresponding technology and management questionnaires and synthesizing

Ch.4. Strategy perception and implementation on less developed business...  
upon the results.

## Appendix

### Appendix 1. The Questionnaire

COMPANY'S DETAILS	
Company's name	
Description/business subject (Greek tax authority activity code)	
Headquarters/Branches (address)	
Website	
Number of employees	
Respondent's contact details (telephone and email)	
Respondent's name-surname	
Job position of the respondent within the company	
Founding year of the company	
State if you wish systematic cooperation with our University's research team at no cost	

Ch.4. Strategy perception and implementation on less developed business...

**How does your company change within the crisis?**

\*Select the corresponding number in the box/cell of the table and comment

*S1: Strategic goals*

The principal strategic goal of the organization is:

TODAY:					
0	1	2	3	4	5
IN THE PAST:					
0	1	2	3	4	5
There is no principal strategic goal	The short-term profitability and/or the reduction of the immediate uncertainty	Between 1 & 3	The steady expansion and the long-term perspective	Between 3 & 5	The rapid adaptation to change while retaining a long-term strategic premise

Do you have a written strategic plan or an integrated business plan?

- Yes
- No

❖ **Where would you like to be today instead, and why?**

*S2: General strategic conception*

Which one of the following generic descriptions do you think best suits your business strategy?

TODAY:					
0	1	2	3	4	5
IN THE PAST:					
0	1	2	3	4	5
There is no general strategic logic	"Free and instinctive": without bureaucracy and limitations	"Sure": with an awareness of the limitations and without unnecessary "analyses and strategies"	"Stable": systematic and planned	"Open": systematic but with considerable scope for assimilation of the new	"Flexible": systematically oriented towards change

#### Ch.4. Strategy perception and implementation on less developed business...

❖ **Where would you like to be today instead, and why?**

--

#### *S3: Mission statement within the organization*

If there is a written corporate mission statement in your business, who has/have been involved enough in its formulation and development?

- A. CEO-President
- B. Top management and business consultants/external partners
- C. Shareholders
- D. Mid-level executives
- E. All the human resources of the organization

TODAY:					
0	1	2	3	4	5
IN THE PAST:					
0	1	2	3	4	5
There is no written corporate mission	A	A + B	A + B + C	A + B + C + D	A + B + C + D + E

❖ **Where would you like to be today instead, and why?**

--

#### *S4: External participation in the mission statement*

To what extent have you recognized and expressed the business goals in the corporate mission statement based on regular contact and collaboration with your customers, partners, suppliers, and the broader society in which you operate?

TODAY:					
0	1	2	3	4	5
IN THE PAST:					
0	1	2	3	4	5

❖ **Where would you like to be today instead, and why?**

--

### S5: PEST analysis

TODAY:					
0	1	2	3	4	5
IN THE PAST:					
0	1	2	3	4	5

[illegible]

- Customers
- Suppliers
- Competitors
- Potential new competitors
- Networks of trade intermediates and partners
- Substitute products
- Complementary products

TODAY:					
0	1	2	3	4	5

IN THE PAST:					
0	1	2	3	4	5

The following information was obtained from the review of the records:

#### Ch.4. Strategy perception and implementation on less developed business...

##### *S7: Competitiveness and Porter's diamond*

To what extent your firm's competitiveness (defined as to distribute profitably in the market products and services in conditions of international competition) is favored, positively influenced, and enhanced:

If the productive fabric of other firms —both related and complementary — that surround it at its local operating level is sophisticated?											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
If the competition from rival firms operating at your local level is intense and of high quality?											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
If your input markets and suppliers are sophisticated at your local operating level?											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
If your output markets and customers are sophisticated and demanding at your local operating level?											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
If there are systematic and developed interactions in terms of technology diffusion and assimilation at the local operating level of the firm (e.g., local technological partnerships, existence of technological culture and assimilation of the know-how by the human resources locally)?											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
If your external local operating environment manages over time to maintain and develop balanced exploitation between:											
a) Its local, natural, and environmental resources,											
b) Its local conditions of social development, and											
c) Its local technological potential elements of evolution?											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
If the state-social intervention institutions manage to respond to the specificities of the local reality within which you operate?											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
If your business strategy manages to adapt appropriately to the above structural balances at your local operating level?											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5

## Ch.4. Strategy perception and implementation on less developed business...

AVERAGE												
TODAY:						IN THE PAST:						

❖ Where would you like to be today instead, and why?

[illegible]

### S8: Strategic benchmarking

To what extent does your business strategy capture data systematically and continuously of other “successful strategies” within and outside your industry (external benchmarking)?

TODAY:					
0	1	2	3	4	5
IN THE PAST:					
0	1	2	3	4	5

❖ Where would you like to be today instead, and why?

### S9: Internal audit

To what extent does your business strategy have and systematically activate mechanisms to monitor and evaluate the functional transformations that take place within its partial business functions (sales department, staff department, financial administration department, etc.) and present its conclusions in the form of regular internal audit reports?

TODAY:					
0	1	2	3	4	5
IN THE PAST:					
0	1	2	3	4	5

❖ Where would you like to be today instead, and why?

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#### Ch.4. Strategy perception and implementation on less developed business...

##### S10: Mintzberg's five Ps of strategy

Which do you think is the degree of practical use and activation of the following dimensions in your business strategy?

Strategy as a plan: It manages to be the preplanned scheme that helps achieve specific goals that have been set.												
TODAY:						IN THE PAST:						
0	1	2	3	4	5	0	1	2	3	4	5	
Strategy as a ploy: It manages to be the system of maneuvers that help you win the battles of competition.												
TODAY:						IN THE PAST:						
0	1	2	3	4	5	0	1	2	3	4	5	
Strategy as a pattern: It manages to be the elaborated business behavior model that ensures consistency and efficiency, especially in the implementation phase.												
TODAY:						IN THE PAST:						
0	1	2	3	4	5	0	1	2	3	4	5	
Strategy as a position: It manages to be the general framework of the company's integration into its environment without reference to "tactical" details.												
TODAY:						IN THE PAST:						
0	1	2	3	4	5	0	1	2	3	4	5	
Strategy as a perspective: It manages to be the coherent space for expressing the ideology and aspirations that exist within the firm and the mentality of the individuals operating within it.												
TODAY:						IN THE PAST:						
0	1	2	3	4	5	0	1	2	3	4	5	
<b>AVERAGE</b>												
TODAY:						IN THE PAST:						

❖ Where would you like to be today instead, and why?

##### S11: Strategic intent

From the three approaches, which combination does your business strategy assimilate in practice?

- A. The approach of the environmental definition of industrial organization; The firm's strategy is tailored to the specific features of its business environment.
- B. The approach of the resources and competencies of the firm:

#### Ch.4. Strategy perception and implementation on less developed business...

The strategy is based on what the business can do better than its competitors can.

C. Strategic intent approach:

The firm's strategy is not enough to adapt to the "rules of the game" and environmental conditions, but envisions the future ahead of its competitors and attempts with strategic interventions to lead to victory by "changing the rules of the game."

TODAY:					
0	1	2	3	4	5
	A	B	A + B	A + C or B + C	A + B + C
IN THE PAST:					
0	1	2	3	4	5
	A	B	A + B	A + C or B + C	A + B + C

❖ Where would you like to be today instead, and why?

#### S12: Level of strategic abstraction —mission, vision, philosophy

Although the following dimensions are complementary, where do you think your business already has high-level strategic processing?

A. Mission statement

- Outlines the primary purpose of the firm
- Determines the relationship of the firm with other organizations
- Sets specific goals

B. Vision

- Carves the shape of the firm in the future
- Sets general goals
- Leads the strategy and mission

C. Philosophy

- Incorporates organizational values, defines general principles and ethical behavior in the operation of the organization
- Determines the nature of the relationships with the parties that the organization deals with
- Defines the style of management

TODAY:					
0	1	2	3	4	5
	A	B	A + B	B + C	A + B + C
IN THE PAST:					
0	1	2	3	4	5
	A	B	A + B	B + C	A + B + C

❖ Where would you like to be today instead, and why?

Ch.4. Strategy perception and implementation on less developed business...

S13: Use of strategic planning

Evaluate the practical use and contribution of the following strategic dimensions to the actual operation of your organization.

The strategy sets out directions: If the mission and/or vision determine where the organization seeks to be in the future, then the answer to how it will arrive there lies in its strategy.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
The strategy supports uniform decision-making and coordinates the activity: In the absence of some stability and particular orientation, it is tough to examine the consequences of each operational option and to make the best decision in a way that is in line with the overall effort.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
The strategy defines the company itself and its position about the competition: The strategy is the "personality" of the organization, and it answers the question "what kind of business we are" in the external and internal organizational environment.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
The strategy reduces uncertainty: Under the prism of a clear business strategy, it is easier to take advantage of an opportunity and protect yourself from a threat.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
The strategy confers a sustainable competitive advantage: It allows businesses to achieve a permanent connection between the external environment and their specific internal capabilities.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
AVERAGE											
TODAY:						IN THE PAST:					

❖ Where would you like to be today instead, and why?

--

*S14: Participation in strategy*

The strategic success of your organization is mainly based on:

TODAY:					
0	1	2	3	4	5
IN THE PAST:					
0	1	2	3	4	5
	The business owner's instinct and imagination	Between 1 & 3	The systematic rules and procedures used by our business executives	Between 3 & 5	Team effort and collaboration and creativity of all within the organization

❖ Where would you like to be today instead, and why?

--

*S15: Marketing perspective in terms of "Porter's generic strategies"*

The prevailing strategy perception in terms of marketing applied by the firm fits more in the following statement:

TODAY:					
0	1	2	3	4	5
IN THE PAST:					
0	1	2	3	4	5
Selling whatever is sellable	Production: "The product produced in large quantities that has low cost and stable quality sells"	Product: "Good quality product sells"	Sale: "The good product accompanied by a systematic and aggressive promotional effort sells"	Market: "The product made according to the customer's wants sells"	Society: "The product that meets the customer's immediate wants but also the customer's and the entire society's long-term interest sell and will sell in the future"

❖ Where would you like to be today instead, and why?

--

#### Ch.4. Strategy perception and implementation on less developed business...

##### *S16: In search of excellence*

To what extent does your strategy trigger and make use of the following principles, viewing them as foundations in your business operations?

Bias for action: Fast and creative assimilation of environmental changes, not just "analysis for analysis."											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
Close to the customer: The customer is our partner and defines our quality.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
Autonomy and entrepreneurship: We encourage innovators and risk-takers, we are not afraid of mistakes, but, on the contrary, we know how to use them.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
Productivity through people: The human factor is ultimately the source of the firm's creativity and success.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
Hands-on, value-driven: The purpose, the values and/or the firm's mission prevail, the means change with flexibility.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
Stick to the knitting: Knowledge of the specific product and its production and our accumulated experience is critical. The occupation with many different objects and occasional moves is disorienting and proving to be harmful.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
Simple form, lean staff: Simple structure, few hierarchical levels, fast and efficient communication.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
Simultaneous loose-tight properties: Exploiting both centralization in some processes and widespread decentralization in others.											
TODAY:						IN THE PAST:					
0	1	2	3	4	5	0	1	2	3	4	5
<b>AVERAGE</b>											
TODAY:						IN THE PAST:					

❖ **Where would you like to be today instead, and why?**

--

*Final strategic results*

	TODAY	IN THE PAST
S1: Strategic goals		
S2: General strategic conception		
S3: Mission statement within the organization		
S4: External participation in the mission statement		
S5: PEST analysis		
S6: Five Forces analysis		
S7: Competitiveness and Porter's diamond		
S8: Strategic benchmarking		
S9: Internal audit		
S10: Mintzberg's five Ps of strategy		
S11: Strategic intent		
S12: Level of strategic abstraction—mission, vision, philosophy		
S13: Use of strategic planning		
S14: Participation in strategy		
S15: Marketing perspective in terms of "Porter's generic strategies"		
S16: In search of excellence		
<b>Average total</b>		

Average score results:

- 0 to 2: Strong evidence that your organization is of "monadic" type
- 3 to 4: Strong evidence that your organization is of "massive" type
- 5: Strong evidence that your organization is of "flexible" type

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# End Notes

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## Local Development Dynamics

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## Charis Vlados

Dr. Charis Vlados holds a Ph.D. (Mention très honorable) for his thesis on the types/forms of evolutionary integration of the Greek enterprises into globalization that took place in the Research and Studies Center on Multinational Enterprises (C.E.R.E.M) of the Paris X, Nanterre. He has established and developed the “Stra.Tech.Man approach” in the field of business dynamics. He has worked with various research institutes and as a business consultant in Greece and abroad for approximately twenty years. He is now lecturer (academic tenure) with the Department of Economics of the Democritus University of Thrace and also teaches at the MBA of the University of Nicosia and the University of the Aegean. He has authored 12 books and has more than 100 scientific contributions in academic research and consulting.

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