

Determinants of Firm Influence in Local Economic Governance and Development: Evidence from Two British Industrial Districts.

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Abstract

Recent policy initiatives in the UK have sought to place greater emphasis upon private sector actors engaging in local governance processes and hence shaping local economic development paths. Using unique survey data from two UK industrial districts we explore the extent to which local firms exert influence over local development strategies, and by utilising an ordered probit model, the determinants of this influence. Our results suggest a role for (local) business associations, the building of reciprocal relationships and networks among firms, and more heterarchical governance structures to enhance local democratic engagement.

Keywords: governance, influence, development, business associations

1. Introduction

Recent policy initiatives in the UK have sought to place greater emphasis upon private sector actors engaging in local governance processes and hence shaping local economic development paths. Private sector involvement has, of course, long been part of the lexicon surrounding UK local development strategies, stretching back to at least the early 1980s (Syrett and Berotti, 2012). However, since 2010, there has been a renewed emphasis upon the primacy of (local) business-led schemes as part of the government's 'localism' agenda. This is apparent, for instance, in the new rhetoric surrounding the recent city-devolution proposals, but also in earlier (and related) government initiatives, including Local Economic Partnerships (LEPs), City Growth deals, and the establishment of Enterprise Zones (Pike et.al, 2015).

In part, the 'localism' agenda recognises firms as being at the core of local economic activity. As such, they have an inherent interest in local development issues, especially: the development of local infrastructure; (locally based) publicly funded business support services (including public R&D facilities); the use of urban space; marketing and tourism; and in specific industrial clusters, co-ordinating industry wide strategy. Resolution of these issues are matters of local governance, and will help to shape the overall strategic direction of a locality. This is particularly important within the wider context of rebalancing the UK economy, especially in relation to revitalising lagging manufacturing regions where decentralisation is now seen as part of the solution (Bailey et.al, 2015). Yet, it remains unclear as to the extent to which local UK firms actively influence and shape local development policy initiatives, and through which mechanisms their influence is exercised. It has, for instance, been noted that a degree of apathy exists among (local) UK business towards local governance (Raco, 2003), while policy-makers lament the more passive role and lack of collective endeavour among UK business communities concerning local development vis-à-vis their European counterparts (Heseltine, 2012). In this regard, and partly based upon the experiences of the Italian industrial districts, it is often claimed local governance (and development) is enhanced through promoting what Cooke and Morgan (1998) term 'associational economies', with local institutions (including business associations), social capital, and strong (local) business networks playing a prominent role.

This paper seeks a broader understanding of private sector engagement in local governance and development. It does so through an empirical analysis of local governance within the context of two industrial districts based in the British 'Midlands': the North Staffordshire Ceramics industry, based in Stoke-on-Trent; and the Birmingham Jewellery Quarter in Hockley, Birmingham. Industrial districts are interesting candidates for analysing local governance processes, where the interests of industry and the wider locality are often entwined regarding socio-economic development. Moreover, both industrial districts have until recently, struggled to meet the challenges posed by globalisation, with 'weak' local governance structures previously being identified as a hindrance to future development (De Propris and Wei, 2007; Hervas-Oliver et.al, 2011).

Using data from an administered survey of firms in both districts, this study explicitly explores the extent to which local firms shape local industrial development strategies and the conduits through which this is achieved. In doing so, we estimate an Ordered Probit model to examine the local factors that allow some firms a higher degree of influence in local governance and development. Thus, we seek to place the ‘localism’ agenda alongside the earlier literature linking local governance and development, while also offering a novel (and empirical) contribution to the debate on how firms might (practically) shape development trajectories. The remainder of this paper is set out as follows. Section 2 reviews the literature, exploring the links between local networks, business associations, social capital, and governance. Section 3 introduces our case studies. Section 4 outlines our methodological approach, the data, and econometric specification. Section 5 presents and discusses the results. Section 6 briefly concludes.

2. Conceptual Issues

2.1 Economic Governance, Networks and Local Development

In exploring the ability of firms to engage in ‘localism’ and shape local development strategies, it is first helpful to clarify the concept of (local) governance. Le Gales and Voelzkow (2001, pp. 6–7) provide a broad perspective, defining governance in terms of the ‘*institutions which coordinate or regulate action or transactions among subjects within a system*’, before identifying institutions such as markets, firms, the state, and the wider community as being the main components of a typical ‘governance system’. It is the inter-play between these various constituents which shapes local development. However, what is of most relevance is the local economic governance structure; specifically the distribution of economic power among (local) networks and (economic) relations, where this resides among (local) actors, and the implications this has for local determination (Sugden et.al, 2006).

Within the context of industrial districts, a closely related concept is ‘network governance’, particularly the nature of relationships across a co-ordinated network of actors engaged in interdependent production (and distribution) activities (Jessop, (1998))¹. The nature of governance within these networks can have significant implications for (local) development. In this regard, Sacchetti and Sugden (2003, 2009) provide a useful distinction between the two ends of the governance spectrum of such relationships - from hierarchy to heterarchy. First, in hierarchical modes, Sacchetti and Sugden characterise ‘networks of direction’, where economic power and influence is concentrated among a few actors who are able to shape local trajectories to suit their own strategic aims. An example might be a ‘hub and spoke’ cluster where a core monopsonistic firm dictates the terms of engagement to a subservient set of smaller partners who have little scope to influence the (local) production process (De Propriis, 2001). In extreme cases, the cluster’s trajectory may become ‘locked in’ to serving the technological requirements of the core firm(s), failing to diversify and thus increasing its vulnerability to external shocks (Bailey et.al, 2015). The implications for local trajectories (of

¹ ‘Network governance’ also applies to relationships extending across geographical boundaries although these are not considered here.

the concentration of economic power) can also become very real if, for example, core firms decide (or threaten) to relocate production overseas and/or pursue global outsourcing strategies (Christopherson and Clark, 2007).

In contrast, Sacchetti and Sugden (2003, 2009), see ‘networks of mutual dependence’ as representing more heterarchical modes of governance. These networks are typically described as a series of ongoing (largely horizontal) socio-economic relationships where there are mutual interdependencies in production, co-operation and shared resources, trust, and reciprocity. Economic power is considered as being relatively diffuse and symmetrical, facilitating joint actions and allowing a wider set of actors to participate and shape local development in an inclusive process. Firms may – through emerging consensus - collectively influence the strategic direction of a locality. The classic (historical) example of such (localised) heterarchical networks are the traditional Italian industrial districts, considered (briefly) below. In short, the degree to which (local) firms may influence local development is embedded within the nature of (local) dyads and local economic governance structures.

2.2. Business Associations

One of the main conduits for influence (in local development) are a locality’s set of business associations (Bennett, 1998a). In an industrial district these include not only local Chambers of Commerce, but also industry trade associations and district R&D centres and, in a looser sense, informal industry forums. Bennett (1998a, b, and c) notes these local associations exist to provide members a set of collective services and, as a by-product, a representation function to lobby/influence state and other interlocutors on policy-related issues affecting local development.

To overcome the free rider problem, where users have little incentive to contribute to the provision of collective goods, membership generally incurs a fee for which members gain exclusive access to services (though these may incur additional usage charges). This is often the prime motivation for membership since business associations typically provide collective services at lower cost due to staff expertise, economies of scale, and lower transaction costs than private providers (Bennett, 2011). This exclusivity of services – which Bennett (1998b) refers to as *the logic of services* - generally subsidises the representative function (*the logic of influence*), which is non-excludable and particularly susceptible to free-riding. The bundling of both (private) service and (public) representative functions thus ensures the association’s viability. In contrast, associations or looser groupings (of firms) which predominantly focus upon representing collective interests (with no or little service provision), tend to be held together by social bonds and norms, and their success is judged by their ability to exert influence over policy and (local) development (Newbery et.al, 2013).

From a governance perspective, the representative function is most significant since it provides an industry with credibility and socio-political legitimacy in the public domain (Aldrich and Fiol, 1994). In the political sphere, this legitimacy may enhance industry lobbying with state (and other) interlocutors for support/contracts and allow associations to inform and shape legislation (and regulation) at local, national, and supra-national levels of government (Bennett,

1998a)². Given this potential influence, key questions arise as to whose interests are represented and which member firms are involved in (and influence) socio-political processes. Member firms themselves are either passive or active participants in a business association's (socio-political) activities, with the decision to participate reflecting the balance between gaining influence (and prestige) within industry circles against the time, staffing and financial commitments they are prepared to offer in support of collective action.

Participation also very much depends upon the nature of governance within an association and its effectiveness in achieving positive outcomes (for the industry). Here, contradictory tensions arise where associations seek to be inclusive and representative of a broad and diverse membership base (*'the logic of membership'*) while also trying to formulate a clear and coherent position on matters of negotiation with external parties (Olson, 1971). For some firms, an open and inclusive forum is attractive and this may raise the level of active membership but, if such governance structures adhere too closely to the *'logic of membership'* there is a dilution of the *'logic of influence'* since the association's ability to articulate a consistent collective voice among disparate actors is compromised (Tomlinson, 2012). In such cases, the association may become less effective in policy circles, leading to some firms withdrawing/becoming less active in collective activities. Conversely, where a business association's representative function is geared predominantly towards the *'logic of influence'*, there is a danger those negotiating on the association's behalf (vis-à-vis interlocutors) may become co-opted by the state apparatus and in re-negotiating and compromising over collective positions, they may become detached from the wider membership (Streeck, 1989).

In the UK, these tensions have led to wide fragmentation in business representation and general apathy in (local) business circles regarding participation in policy discourses. Part of this apathy reflects a long held view that 'policy agendas', both local and national, are hierarchical and generally reflect the interests (and influence) of larger firms (Raco, 2003). However, larger firms tend to have more resources and wider public visibility, which they can utilise to assume collective responsibility for representing (local) industry interests. In cases of mutual concern and where there is wide consensus, resource-constrained smaller firms may thus reap the spill-over benefits of such representation. The danger is that where business associations become overly dependent upon the resources of larger firms, the latter will shape the agenda to pursue largely their own interests (Bennett, 1998b).

2.3 Institutional thickness and the Associational Economy

Business associations are, of course, regarded as a key component of a much wider concept that Amin and Thrift (1995) identified as 'institutional thickness', which emphasises the local institutional and cultural factors considered critical for facilitating socio-economic development. The localised conditions seen as conducive for growth are: i). strong localised institutions, which comprise a plethora of institutions including business and trade associations,

² For example, Tomlinson and Branston (2014) identify that the British Ceramics Confederation (BCC), the industry body of the UK ceramics industry, worked with firms, a local MP, and others to successfully lobby the British government to exclude the ceramics industry from the Climate Change Levy (a business tax on energy use) in light of its impact on the competitiveness of the sector.

public research facilities, and state sponsored agencies; ii). high levels of interaction among local actors and institutions, which may generate social norms and shared values; iii). mutual awareness of a common ‘industrial purpose’ or strategy among local actors; and iv). structures of domination and/or patterns of coalition which militates against ‘rogue behaviour’ and facilitates effective collective representation. It is argued where these conditions are highly embedded within the locality, this may yield fruitful outcomes in terms of wider networking and greater social capital, knowledge sharing and innovation, and the evolution of an effective and co-ordinated strategic plan for the locality (Henry and Pinch, 2001).

While this institutionalist approach subsequently generated significant debate on the nature, role, and significance of ‘institutions’ in generating growth, it nevertheless provides some useful (wider) insights into local governance processes and how firms may shape local trajectories³. Some of the most celebrated (and successful) regions are the European industrial districts of Baden-Württemberg and Emilia-Romagna. Cooke and Morgan (1998) labelled these ‘associational economies’, due to the high degree of embeddedness among local actors, embodied by close network ties, strong institutions, widely accepted social norms, reciprocity and trust. These characteristics were seen to facilitate innovation and (high) growth, but interestingly, in the case of the Italian districts at least, they were also long regarded as supporting a pluralistic approach to development, in which no firm was dominant and socio-economic development appeared to move together in an integrated and inclusive process (Beccattini, 1990).

Returning to Sacchetti and Sugden (2003, 2009), these traditional Italiannette traits resemble a heterarchical governance structure. Enhancing social capital, in particular, appears to enable firms to exert more influence in (local) development process. For instance, wider networking facilitates greater participation, engagement and interaction among firms in local production processes. The nature of network relationships are also critical, with trust and reciprocity being positively associated with co-operation and joint actions. Such network structures may facilitate wide deliberation and mediation among firms and other local actors on issues of mutual concern. This may (or may not) lead to consensus around a collective strategy and the emergence of a ‘shared vision’ or identity for the industry and/or locality’s development (Rodriguez-Pose, 2013)

2.4 Summary

To summarise, the ability to influence local development processes depends, to a large degree, upon local governance and institutional structures. In this respect, the degree of local embeddedness, the extent and nature of inter-relationships (and social capital) between firms and also with local business associations are all likely to be significant factors in shaping local trajectories. Firms may also exert their own influence through participation in (local) collective

³ Much of the debate around the ‘institutional approach’ revolved around its universal explanatory power with (contrary to theory) reported cases of rich regions and weak institutions and poor regions having strong institutions (and vice versa). See Coulson and Ferrario (2007).

activities. This may also lead to the co-development of a ‘shared vision’ and collective strategy for the locality.

3. Contextual Background

Our research is set in the context of two mature UK industrial districts. The first is the North Staffordshire Ceramics industrial district based in and around the city of Stoke-on-Trent. The district is the centre of the UK ceramics industry, including the production of various types of ceramics products, and related material and equipment suppliers. Crucially given our focus on (local) governance, the district is also home to the industry’s main trade associations (British Ceramic Confederation (BCC), British Ceramic Plant and Machinery Manufacturer Association (BCPMMA), International Clay Technology Association (ICTa)), ceramic research centres (Lucid-eon (previously Ceram Research), Ceramic Skills Academy) and the industry’s trade union (Unity). During the late twentieth century, the district entered a ‘long decline’ (1979-2008) as firms struggled to adapt to the challenges posed by globalisation. This led to the closure of several high profile factories (and firms) and moves by some manufacturers to ‘outsource’ production and/or set up production facilities in the Far East to take advantage of lower labour costs. Since 2008 there have been signs of a potential renaissance in the fortunes of the district, in part due to better collective action by firms (Tomlinson and Branston, 2014).

The second district is the Birmingham Jewellery Quarter (BJQ), a cluster of jewellery firms and allied trades in the Hockley area of Birmingham. As in Staffordshire, the BJQ has been established for several hundred years but has faced a decline in recent decades, again due to globalisation and competition from cheap imports. More recently, the BJQ has also faced pressures over the use of urban space, with more housing development and increasing demands from developers to transform rented workshops into residential use. Nevertheless, the BJQ still includes a large number of jewellery related firms and importantly for our study, is also home to various industry bodies, including the main union (The British Jewellers’ Association), the Birmingham School for Jewellery, the Birmingham Assaye office, the Jewellery Quarter Association, and the BJQ Development Trust (see De Propriis and Wei (2007), De Propriis and Lazzeretti (2009), for more detail).

4. Methodology

4.1 Sampling Frame and Survey Design

Our data is collated from an administered survey of firms in both districts. Questionnaires were sent to all 282 ceramics firms in the North Staffordshire district and all 138 jewellery firms registered in the Birmingham jewellery quarter (BJQ) as at 1st May 2013⁴. The survey was addressed to the Managing Director of each firm and was administered by post – with an option

⁴ In both districts we sought to survey the whole (known) population of firms. We obtained details of firms from the main industry institutions – the British Ceramics Confederation (BCC) and the Jewellery Quarter Development Trust. We supplemented each list, with firms listed on Yell.com (a public directory). We also included firms that were not on either of these lists, but whose details had been provided to us by third parties such as the local Chambers of Commerce, the city council and personal contacts.

to complete online – in the second half of 2013. Questions related to the previous five years of business trading (2007/8-2012/13) and explored local and industry governance structures, firms’ participation in development initiatives, firms’ networking activities and social capital, along with acquiring background information on each firm. In both districts, we took advice from industry representatives on the framing of particular questions to suit local nuances.

To elicit a higher response, respondents were offered the opportunity to enter a free prize draw⁵, while non-respondents were chased by telephone and reminder letters during the survey period. In North Staffordshire, a total of 121 responses (42.9% response rate) were received, with 112 (39.7%) providing complete information, while in the BJQ there were 68 (49.3%) responses, with 63 (45.6%) firms providing complete information for the current study. These are highly respectable response rates for survey research (Hair, et al., 2007). Tests for non-response bias were based upon comparing the mean responses of the variables under consideration of the early and late respondents, with ANOVA analysis revealing no significant differences (Armstrong and Overton, 1977).

4.2 Model, Variable Construction and Descriptive Statistics

In light of our preceding discussion (Section 2), we seek to explore a firm’s degree of influence on local development processes and the determinants of this influence. Our hypothesis is the level of influence is a function of the extent to which firms are: involved with local business associations and the level of support they receive from these associations; participate in development initiatives and their interests therein; and have social capital (network ties and shared values) with other firms in the district.

We specify a formal model:

$$\text{Degree of Influence} = \beta_0 + \beta_1 \text{Age} + \beta_2 \text{Size} + \beta_3 \text{District} + \beta_4 \sum_{i=1}^n X_{i\dots k} + \varepsilon_i \quad (1).$$

where X_i is a vector of independent variables and considered as having a positive impact upon a firm’s degree of influence in the district’s decision-making processes. Firm Age, size and a dummy variable capturing district affiliation act as control variables. The primary variables of interest are now briefly described (full details in Appendix A).

4.2.1 Dependent Variable

Degree of Influence: Firms were asked the extent to which they had influenced the district’s strategic direction with respect to district wide policy initiatives over the previous five years.

⁵ Employing a prize draw as an ‘incentive’ to participate in survey research raises the issue as whether it exerts undue influence on potential participants’ decisions about whether to take part in the research, which may distort the sample (Alderson & Morrow, 2004). However, such ‘prize draws’ are successful in generating higher response rates and thus reduces non-response bias, and increases the sample quality. This can help to achieve a sample that is more representative of the population being studied than could otherwise be achieved (Groves and Peytcheva, 2008).

The measure is discrete, utilising a 7 point Likert scale, where 1 equates to ‘no influence/non-involvement’ and 7 ‘a very high level of influence in district policy initiatives’.

It is worth briefly deliberating further on the distribution of responses in relation to our dependent variable, which is captured in Figure (1) for the overall sample and each district. Both distributions largely mirror one another, being skewed towards the lower end, with the majority of firms perceiving they have had no or little influence on district wide decision-making. Indeed, few firms appear to believe they hold significant sway in district wide issues with only 8% of all firms in the sample in the top two categories (6 and 7), while 57.1% are in the bottom two categories (1 and 2). Moreover, 20% of firms are in the first category, in which they expressed they had no interest in engaging in local development issues. In essence, this is a raw measure of the degree of apathy (over local development) within each district.

This result is not surprising given the majority of our surveyed firms – in both districts – are relatively small, and participating in district wide policy forums can be very costly in terms of both time and resources. There are some historical attitudes of apathy (by local firms) towards governance in both districts. In an earlier study of the BJQ, De Propris and Wei (2007) found low participation in local (residential and commercial) policy issues, and suggested this was due to firms’ holding perceptions their involvement was not important and/or unlikely to have any influence. This (local) apathy was conflated by industry wide-policy issues (e.g. regulation) largely being made at European Union level, while many area decisions were taken by property developers and the City Council with little (perceived) local consultation (*ibid.*2481). In North Staffordshire, similar issues have also long been observed with regards to participating in district governance (Hervas-Oliver et.al, 2011). More generally, (local) apathy may also be a reflection of the UK’s (historically) overly centralised governance structures, not only at an industry level but also with regards to public policy (Raco, 2003; Centre for Cities, 2014).

INSERT FIGURE (1) HERE

Independent Variables.

Business Association Membership: This is a categorical variable (1-3), distinguishing between firms which are active members of a local business association (e.g a trade association and/or the Chamber of Commerce), those who are merely members, and a base category for non-members (Tomlinson, 2012). Across both districts, our data revealed that 37.1% were active members of at least one business association, a further 40% were registered members (of at least one association) while the remaining 22.9% held no association memberships.

Support from Business Institutions: This is a construct variable capturing the extent to which district firms receive support and advice from (and utilise the facilities of) local business institutions. These firm-industry level relations augment the ‘institutional thickness’ of the industrial district (Amin and Thrift, 1995; Parrilli, 2009) and the rationale is firms accessing such support are more likely to become involved in and/or influence in local initiatives. The measure is based upon Tomlinson (2012), utilising 7 point Likert scales using the survey items listed in Appendix (A).

Participation in Development Initiatives: This is a categorical variable (1-3), capturing the extent to which firms have been encouraged to participate in local development initiatives including trade fairs, co-developing public R&D and training facilities, district tourism, and local infrastructure. Firms more actively engaged in such initiatives are more likely to have an influence on district strategy (Sacchetti and Sugden, 2003, 2009).

Interest in District Development Initiatives: This is a categorical variable (1-3), capturing the extent to which firms expressed an interest in district development initiatives (Sacchetti and Sugden, 2003, 2009).

District Ties: This is a categorical variable (1-3) capturing the extent to which firms are networked within the district (Ahuja, 2000). In ‘associational economies’, highly networked firms (within the district) are more likely to influence district strategy.

Shared Values: This is a construct variable capturing the ‘shared values’ within the district. Where firms hold similar values they are more likely to form consensus and exert greater influence over district strategy. It is operationalised using Likert scales (1-7) and survey items suggested by Tsai and Ghosal (1998) and utilised by Molina-Morales and Martinez-Fernandez (2006).

4.3 Operationalisation of Variables and data validation

For the construct variables Cronbach’s alpha (α) was calculated to test for *convergent validity*, which exceeded the accepted minimum of 0.7 in all cases, thereby satisfying the criteria for internal consistency and reliability (Appendix A). In addition, the variance-extracted estimates for these constructs were compared with the square of their respective correlation coefficient thus satisfying *discriminant validity*. *Face validity* was satisfied by utilising previously used multi-scale items (Hair et.al, 2007).

While following well-established methodological precedents in dealing with survey data, such data may suffer from an over-reliance upon managerial retrospective recall, sense-making and common methods bias. To militate against this, we followed Rong and Wilkinson (2011), by testing for the *validity of subjective assessments* of single responses to the survey questions. This involved gathering similar independent data on the key variables from a randomly selected sample of 40 senior managers from surveyed firms across both districts. These responses were gathered by telephone, and this additional control was run for the dependent and key independent variables. We found no evidence of bias in the data and conclude the *validity of subjective assessments* was acceptable. In addition, we also reversed several items in the survey, while also placing questions relating to the dependent and independent variables into separate sections of the survey to negate the possibility of respondents linking the categories (Podsakoff et al., 2003). All respondents were assured anonymity to elicit truthful responses. As a final test, a Harman single-factor test was conducted in which all measures (in the study) were loaded into an exploratory factor analysis, with the result the largest factor accounted for only 28.6 % of the variance, which is within the bounds of acceptability (Hair.et.al, 2007). It is thus unlikely common methods bias is a problem in our data.

5.0 Estimation and Results

Since the dependent variable is discrete and scalar with the higher values clearly indicating firms have greater influence over district strategy, Equation (1) is an Ordered Probit model (Borooah, 2002). The model is estimated using Maximum Likelihood techniques, first by including the control variables and then sequentially, the independent variables relating to business association membership, participation in development initiatives, and finally, social capital. The results are reported in Tables 1 and 2, with the estimated β values reflecting the relative importance of each variable in each simulation.

INSERT Tables (1) and (2) HERE

Overall, the models perform well, with both the pseudo R squared measures – the Nagelkerke and Cox and Snell statistics – improving with the inclusion of additional explanatory variables. In terms of the control variables, the estimated results (Table 1) indicate no significant differences in a firm's degree of influence between the two districts, while firm age is insignificant. Not surprisingly, firm size is significant indicating larger firms appear to have a greater influence over district decision-making (Table 1, Col 1). However, this effect diminishes (becoming insignificant) as other explanatory variables are added to the model, suggesting other factors may compensate for firm size.

We now turn to the primary variables of interest included in simulations (2) to (4) in Table (1). First, it appears that while membership of a local business association provides a channel for firms to influence decision-making (Column 2), this effect becomes insignificant in the later simulations. However, there is significant evidence (across all simulations) to suggest those firms which are active members of such organisations (i.e. those members which take a prominent role in committees, meetings and association initiatives) are more likely to exert a degree of influence over district wide-policy initiatives (Columns 2-4). Firms which receive support, advice, and use the services of local business institutions are also significantly more likely to have a greater degree of influence (Column 3). There is also evidence those firms which are approached and encouraged to participate in district wide initiatives, and also those firms which express frequent (and even occasional) interest in such activities are also significantly more likely to influence local development (Columns 3 and 4). Finally, both measures directly capturing social capital - shared values and district ties (where firms have high and regular engagement with other local firms) are both positive and significantly related to the degree of influence (Column 4).

Table (2) reports the results exploring the importance of actual participation in specific district wide initiatives⁶. Again, the simulations confirm the significance of active business association

⁶ In these simulations, two variables (*'Participation in Development Initiatives'* and *'Interest in Development Initiatives'*) are dropped to avoid multi-collinearity issues with the addition of the new variables capturing actual participation in specific district wide initiatives.

membership and social capital (shared values). The results infer that firms which have medium or high level participation in district wide collective marketing (Columns 1 and 2), tourism initiatives (Column 3), and local infrastructure (Column 4) are also significantly more likely to exert an influential voice in local decision-making. In addition, this inference is also true for those firms with a high degree of participation in district wide development and operation of R&D facilities and training (Column 2).

For completeness, the marginal effects are reported for both sets of results (Tables (1) and (2) in Appendix (B) and are calculated for each variable at each discrete point of the dependent variable ($\Pr(Y=1 \dots 7)$). Interpreting these marginal effects, for instance, in the case of business association membership (model 1) suggests being an active member increases the likelihood of a firm being in the highest category 7 ($\Pr(Y=7)$) - which indicates a very high degree of influence in decision making - by 2.1 percentage points. In context, and relative to the mean probability (3.4%) of being in this category (see Figure 1), this represents a 62% increase in the probability of being in the highest category. Similarly in model (1), for those firms which have a high (and regular) number of local district ties, the likelihood of being in the highest category ($\Pr(Y=7)$) increases by 29.4% relative to the mean probability (3.4%) of being in this category (Figure 1).

5.1 Wider Discussion

Overall, where firms seek to influence (local) policy and the strategic direction of their locality, our results confirm the importance of networking and active participation in the associational aspects of the local economy (Amin and Thrift, 1995; Cooke and Morgan, 1998). For instance, whereas membership of a local business association provides an opportunity to engage with other actors, it is active members of such organisations - those members which take a prominent role in committees and meetings - which are able to exert a significant influence over district wide-policy initiatives. This is also the case where firms are actively engaged in local business networks, reciprocal relationships, and participate in district initiatives. Through engagement in such activities, firms may form a consensus and/or a shared vision for the district, which in turn, is also more likely to influence district strategy (Rodriguez-Pose, 2013).

These traits, of course, have long been a purported feature of governance processes in the Italian districts, where local firms and other stakeholders often work in conjunction with municipalities over regional development (Bellandi, 2011). This type of local democratic engagement has generally been less prevalent in the UK, although the recent trend towards devolution has begun to emphasise that it is local actors, particularly firms, which are in a better position to shape local socio-economic trajectories (Heseltine 2012; Pike et.al 2015). This is particularly relevant with regards to reviving older industrial districts, where closer collaboration and engagement on local and industry issues (and initiatives) such as on skills development, new technologies and production operations can help to shape and transform manufacturing activities so as to meet the challenges posed by globalisation. Such collective actions thus enable firms to co-determine their district trajectory, which, in a favourable scenario, can lead to a higher development path (Bellandi, 2011). More broadly, in industrial districts, where there has been a 'shake-out' of traditional (large scale) manufacturing activity,

there are often (governance) issues relating to the use of urban space. In the Birmingham jewellery quarter, for instance, there have been longstanding tensions around whether to preserve the (remains) of the industry or to allow vacant buildings to be utilised for residential development (De Propriis and Wei, 2007). As (post-industrial) cities and districts seek to re-draw their urban spaces, there is often a delicate balance between matching the interests of industry, residents and tourism and as important stakeholders, district firms themselves have an inherent interest in shaping such matters.

However, there remains much apathy in both districts with regards to policy and the ability to shape district trajectories. Apathy reduces democratic engagement in the local governance process, which - more broadly - could hamper the attempts of the UK's city devolution deals to encourage local determination. If firms are to play a greater role in local development, then it is clear (local) business associations remain the main channels of influence. Historically, in the UK, these associations have been regarded as the preserve of large(r) firms, with the 'voices' of smaller firms not always being heard (Raco, 2003). Nevertheless, they can be a vehicle for facilitating new dyads between (local) actors, enhancing social capital, encouraging participation in local initiatives and promoting wider deliberation (and coalition building) over local strategies, which may militate against the impact of (large) firm size (over district wide strategies). This scenario may require business associations to 'reach out' to wider voices by moving towards more 'inclusive' and 'heterarchical' structures to enhance participation (Sacchetti and Sugden, 2009). In existing 'hierarchical' structures, there may be some scope for UK business associations to do so and seek to incorporate wider (disparate) interests, although in building new coalitions, some caution will no doubt be exercised so as not to dilute the associations' overall efficacy in influencing state interlocutors and policy (Section 2.2).

Returning to our cases, there have been recent moves to address past deficiencies in the governance of both districts. For instance, in 2010, the Ceramic Development Group was established in North Staffordshire. This is a collective body of stakeholders from the local institutions (the BCC, the NSCC and Lucideon), and district ceramic manufacturers (both large and small), which meets regularly and acts as the focal point for discussing district issues and co-ordinating responses to industry challenges (including EU and government policy directives). It has also become a forum for co-ordinating and managing collaborative bids for district wide funding relating to skills development, energy efficiency and marketing (Tomlinson and Branston, 2014). Similarly, in Birmingham the *Jewellery Quarter Development Trust (JQDT)* was created in 2011 and brings together representatives from a number of district stakeholders, including the Jewellery Quarter Association (JQA), the Jewellery Quarter Neighbourhood Forum (JQNF), the Jewellery Quarter Marketing Initiative (JQMI), the Birmingham Assay Office, the School of Jewellery, and Birmingham City Council (BCC). The JQDT is managed by a Board of unpaid Directors from these stakeholder groups, and carries out "a range of activities for the benefit of all *who live, work, learn within, invest in and visit the area*".⁷ The JQDT, like the Ceramic Development group, facilitates wider

⁷ See <http://www.jewelleryquarter.net/jqdt/>

engagement in shaping district wide strategy and hence both represent a real development in the governance of their industrial districts.

6. Conclusions

Utilising a unique primary dataset of 175 firms in two traditional UK industrial districts, this paper has explored the extent to which local firms exert influence over local (industry) policy initiatives and their district's trajectory, and empirically, the factors which determine the degree of influence. While both districts – unsurprisingly - exhibit a degree of apathy in relation to these issues, we nevertheless find that the traditional characteristics of the 'associational economy', such as social capital and (local) networks, are particularly important for facilitating local democratic engagement, with (local) business associations being principal spheres of influence. Such associations are conduits for local engagement, with active members often able to exert influence over district wide-policy initiatives. These conclusions are especially pertinent with regard to the revitalisation of traditional industrial districts, and also in the current (UK) policy climate, where there has been a renewed focus on the private sector's role in devolution, local governance, and socio-economic determination.

In drawing these conclusions, we note some limitations of our study and offer some tentative suggestions for future research. First, our results relate to a relatively short time interval (5 years), with a specific focus on the dependent variable; the degree of influence exerted over (local) policy initiatives. It can, of course, take years to formulate, deliberate upon, shape and implement policy. Our analysis captures a fixed 'snapshot' of local firm influence in this process. It is highly likely the dynamics of relationships and the degree of influence (over policy) will change over time, especially as new firms enter/exit the sectors and new (industry) issues become in vogue (which may impact upon firms (and sub-sectors) differently). Further work might therefore seek to capture more of the dynamics in local policy determination processes, possibly through a longitudinal study. Secondly, our empirical analysis is drawn from the perspective of the firms in the study and, in addition to the aforementioned limitation in terms of reliance on managerial recall and sense-making, it would be useful in future work to align such data with insights from other stakeholders (e.g. local policy-makers) in the process. This lends itself to a more qualitative approach. Finally, it is important to remember our results are specific to the two cases. Both are traditional Marshallian industrial districts, which have faced a significant challenges in recent years, and where much apathy towards new re-generation initiatives remains. Our results should be seen in this context, and a degree of care should be taken in drawing generic conclusions.

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Figure 1

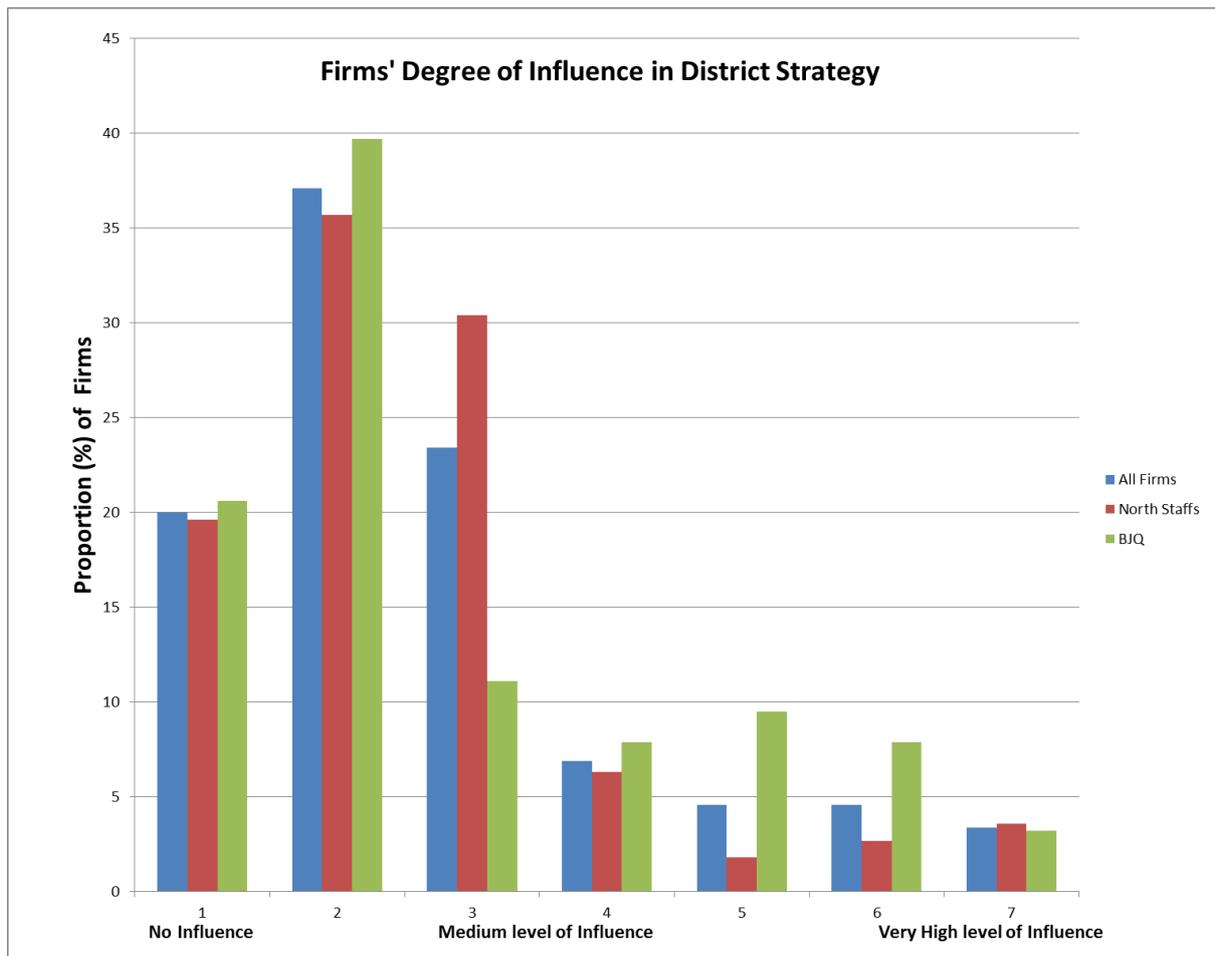


Table 1: Ordered Probit: *Dependent Variable – Degree of Influence in District Strategy*

| Variable | (1) | (2) | (3) | (4) |
|---|--|--|--|---|
| Firm Age | 0.002 (0.002) | 0.001 (0.002) | 0.001 (0.002) | 0.002 (0.002) |
| <i>Firm Size</i> | | | | |
| 100 + employees (Cat 3) | 0.873 (0.308)*** | 0.391 (0.332) | 0.503 (0.336) | 0.487 (0.342) |
| 10-99 employees (Cat 2) | 0.382 (0.202)* | 0.022 (0.218) | 0.088 (0.220) | 0.131 (0.222) |
| North Staffs District | 0.267 (0.167) | 0.292 (0.171) | 0.263 (0.176) | 0.270 (0.179) |
| <i>Business Associations</i> | | | | |
| Business Association Active Member (Cat 3) | | 0.880 (0.247)*** | 0.546 (0.259)** | 0.707 (0.264)*** |
| Business Association Member (Cat 2) | | 0.417 (0.193)** | 0.179 (0.202) | 0.235 (0.205) |
| Support from Business Institutions | | 0.206 (0.1)** | 0.192 (0.103)** | 0.124 (0.106) |
| <i>Participation in Development Initiatives</i> | | | | |
| Approached and Encouraged (Cat 3) | | | 0.462 (0.209)** | 0.445 (0.212)** |
| Approached (Cat 2) | | | -0.136 (0.216) | -0.092 (0.219) |
| <i>Interest in District development initiatives</i> | | | | |
| Frequent interest (Cat 3) | | | 0.829 (0.219)*** | 0.782 (0.221)*** |
| Occasional Interest (Cat 2) | | | 0.410 (0.219)** | 0.495 (0.221)** |
| Shared Values | | | | 0.203 (0.100)** |
| <i>District Ties</i> | | | | |
| High and regular local engagement (Cat 3) | | | | 0.738 (0.380)** |
| Medium and occasional local engagement (Cat 2) | | | | 0.173 (0.403) |
| Threshold (Cut-off) points | -0.504 (0.152)*** 0.591(0.152)*** 1.328 (0.169)*** 1.625 (0.181)*** 1.895 (0.191)*** 2.354 (0.236)*** | -0.342(0.192)* 0.809(0.197)*** 1.604 (0.214)*** 1.935 (0.226)*** 2.240(0.241)*** 2.757 (0.283)*** | -0.053(0.224) 1.181(0.235)*** 2.045 (0.258)*** 2.419 (0.272)*** 2.773 (0.289)*** 3.358 (0.334)*** | 0.612 (0.430) 1.912 (0.445)*** 2.816 (0.464)*** 3.215 (0.474)*** 3.589 (0.487)*** 4.218 (0.520)*** |
| <i>Nagelkerke</i> | 0.121 | 0.225 | 0.345 | 0.409 |
| <i>Cox and Snell</i> | 0.116 | 0.216 | 0.331 | 0.393 |
| - 2 log likelihood (Intercept Only) | 517.376 | 560.353 | 562.550 | 563.936 |
| - 2 log likelihood (Final) | 495.743 | 517.724 | 492.261 | 476.671 |
| <i>Chi-square χ^2</i> | 21.632 (4.df)*** | 42.629 (7 df)*** | 70.289*** (11 df) | 87.266***(14 df) |

| Variable | (1) | (2) | (3) | (4) |
|---|-------------------|------------------|-------------------|-------------------|
| Firm Age | 0.002 (0.002) | 0.003 (0.002) | 0.003 (0.002) | 0.003 (0.002) |
| <i>Firm Size</i> | | | | |
| 100 + employees (Cat 3) | 0.137 (0.339) | -0.012 (0.344) | -0.092 (0.348) | -0.228 (0.351) |
| 10-99 employees (Cat 2) | -0.50 (0.223) | -0.083 (0.225) | -0.083 (0.225) | -0.104 (0.226) |
| North Staffs District | 0.111 (0.18) | 0.045 (0.182) | 0.047 (0.185) | 0.137 (0.188) |
| <i>Business Associations</i> | | | | |
| Business Association Active Member (Cat 3) | 1.166 (0.249)*** | 1.086 (0.252)*** | 1.127 (0.258)*** | 0.985 (0.264)*** |
| Business Association Member (Cat 2) | 0.503 (0.199)** | 0.500 (0.204)** | 0.531 (0.205)** | 0.546 (0.206)** |
| Shared Values | 0.272 (0.098) *** | 0.212 (0.100)** | 0.203 (0.100)** | 0.169 (0.101)* |
| <i>District Ties</i> | | | | |
| High and regular local engagement (Cat 3) | 0.480 (0.379) | 0.567 (0.381) | 0.552 (0.381) | 0.419 (0.384) |
| Medium and occasional local engagement (Cat 2) | 0.026 (0.401) | 0.057 (0.402) | 0.071 (0.404) | -0.070 (0.407) |
| <i>Participation in Specific District Initiatives</i> | | | | |
| Collective marketing and Trade Fairs | | | | |
| High participation (Cat 3) | 0.789 (0.267)*** | 0.474 (0.287)* | 0.422 (0.295) | 0.392 (0.297) |
| Medium participation (Cat 2) | 0.741 (0.201)*** | 0.484 (0.238)** | 0.376 (0.247) | 0.260 (0.253) |
| District wide R&D facilities and Training | | | | |
| High participation (Cat 3) | | 0.909 (0.274)*** | 0.813 (0.282)*** | 0.691 (0.286)** |
| Medium participation (Cat 2) | | 0.394 (0.250) | 0.103 (0.292) | 0.122 (0.294) |
| District Tourism | | | | |
| High participation (Cat 3) | | | 0.424 (0.253)* | 0.197 (0.272) |
| Medium participation (Cat 2) | | | 0.623 (0.368)* | 0.103 (0.452) |
| Local Infrastructure | | | | |
| High participation (Cat 3) | | | | 1.296 (0.390)*** |
| Medium participation (Cat 2) | | | | 0.690 (0.314) ** |
| Threshold (Cut-off) points | 0.272 (0.401) | 0.368 (0.401) | 0.378 (0.402) | 0.300 (0.403) |
| | 1.570 (0.413)*** | 1.706 (0.414)*** | 1.736 (0.415)*** | 1.701 (0.417)*** |
| | 2.465 (0.429)*** | 2.647 (0.434)*** | 2.695 (0.436)*** | 2.716 (0.441)*** |
| | 2.825 (0.438)*** | 3.030(0.445)*** | 3.078 (0.447)*** | 3.132 (0.453)*** |
| | 3.163 (0.449)*** | 3.389 (0.457)*** | 3.438 (0.460)*** | 3.516 (0.467)*** |
| | 3.743 (0.480)*** | 3.986 (0.490)*** | 4.047 (0.493)*** | 4.149 (0.500)*** |
| Nagelkerke | 0.375 | 0.415 | 0.431 | 0.473 |
| Cox and Snell | 0.360 | 0.399 | 0.414 | 0.455 |
| - 2 log likelihood (Intercept Only) | 563.936 | 563.936 | 563.936 | 563.936 |
| - 2 log likelihood (Final) | 485.951 | 474.894 | 470.531 | 457.842 |
| Chi-square χ^2 | 77.986***(11 df) | 89.043***(13 df) | 93.406*** (15 df) | 106.10*** (17 df) |

Table 2: Ordered Probit: Dependent Variable – Degree of Influence in District Strategy

All Regressions include standard errors that are bootstrapped and clustered by firm. * indicates significance level (p-value) below 0.109, ** below 0.05 and **** below 0.01

Appendix B

Marginal Effects (Model 1)

| | Pr(Y=1) | Pr(Y=2) | Pr(Y=3) | Pr(Y=4) | Pr(Y=5) | Pr(Y=6) | Pr(Y=7) |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Variable | dy/dx |
| Firm Age | -0.001 | -0.0004 | .0004 | .0002 | .0001 | .0001 | .00004 |
| <i>Firm Size</i> | | | | | | | |
| 100 + employees (Cat 3) | -0.085* | -0.107 | 0.065** | 0.045 | 0.035 | 0.034 | 0.014 |
| 10-99 employees (Cat 2) | -0.026 | -0.024 | 0.022 | 0.012 | 0.008 | 0.007 | 0.003 |
| North Staffs District | -0.058 | -0.048 | 0.046 | 0.024 | 0.0166 | 0.014 | 0.005 |
| <i>Business Associations</i> | | | | | | | |
| Business Association Active Member (Cat 3) | -0.124**** | -0.152** | 0.091**** | 0.064** | 0.051* | 0.050* | 0.021 |
| Business Association Member (Cat 2) | -0.050 | -0.042 | 0.0397 | 0.021 | 0.015 | 0.013 | 0.004 |
| Support from Business Institutions | -0.027 | -.0216 | 0.0216 | 0.011 | 0.008 | 0.006 | 0.002 |
| <i>Participation in Development Initiatives</i> | | | | | | | |
| Approached and Encouraged (Cat 3) | -0.089** | -0.086* | 0.0696** | 0.0401* | 0.029* | 0.026 | 0.001 |
| Approached (Cat 2) | 0.021 | 0.015 | -0.016 | -0.008 | -0.005 | -0.005 | -0.002 |
| <i>Interest in District development initiatives</i> | | | | | | | |
| Frequent interest (Cat 3) | -0.151**** | -0.152**** | 0.112**** | 0.069** | 0.052** | 0.049** | 0.020 |
| Occasional Interest (Cat 2) | -0.097** | -0.097** | 0.076** | 0.045** | 0.033* | 0.029 | 0.011 |
| Shared Values | -0.044** | -0.035* | 0.035* | 0.0178* | 0.0123* | 0.010* | 0.004 |
| <i>District Ties</i> | | | | | | | |
| High and regular local engagement (Cat 3) | -0.188* | -0.083**** | 0.136* | 0.058** | 0.037* | 0.030** | 0.010 |
| Medium and occasional local engagement (Cat 2) | -0.036 | -0.032 | 0.029 | 0.0156 | 0.011 | 0.010 | 0.003 |

Marginal Effects (Model 2)

| | Pr(Y=1) | Pr(Y=2) | Pr(Y=3) | Pr(Y=4) | Pr(Y=5) | Pr(Y=6) | Pr(Y=7) |
|--|-----------|-----------|----------|----------|---------|---------|---------|
| Variable | dy/dx | dy/dx | dy/dx | dy/dx | dy/dx | dy/dx | dy/dx |
| Firm Age | -0.0005 | -0.0006 | .00060 | .0003 | .0002 | .0001 | .00003 |
| <i>Firm Size</i> | 0.049 | 0.038 | -0.048 | -0.018 | -0.011 | -0.008 | -0.002 |
| 100 + employees (Cat 3) | 0.021 | 0.020 | -0.021 | -0.009 | -0.005 | -0.004 | -0.001 |
| 10-99 employees (Cat 2) | | | | | | | |
| North Staffs District | -0.027 | -0.027 | 0.0274 | 0.012 | 0.007 | 0.006 | 0.002 |
| <i>Business Associations</i> | | | | | | | |
| Business Association Active Member (Cat 3) | -0.140*** | -0.237*** | 0.128*** | 0.090*** | 0.068** | 0.065** | 0.027 |
| Business Association Member (Cat 2) | -0.010*** | -0.113** | 0.101** | 0.048** | 0.031** | 0.025* | 0.008 |
| Shared Values | -0.033* | -0.033 | 0.034* | 0.014 | 0.009 | 0.007 | 0.002 |
| <i>District Ties</i> | | | | | | | |
| High and regular local engagement (Cat 3) | -0.0910 | -0.069 | 0.088 | 0.033 | 0.020 | 0.015 | 0.004 |
| Medium and occasional local engagement (Cat 2) | 0.014 | 0.0133 | -0.014 | -0.006 | -0.004 | -0.003 | -0.001 |
| <i>Participation in Specific District Initiatives</i> | | | | | | | |
| Collective marketing and Trade Fairs High participation (Cat 3) | -0.064 | -0.090 | 0.068 | 0.036 | 0.024 | 0.02 | 0.007 |
| Medium participation (Cat 2) | -0.048 | -0.054 | 0.050 | 0.023 | 0.015 | 0.011 | 0.004 |
| District wide R&D facilities and Training High participation (Cat 3) | -0.102*** | -0.168** | 0.102*** | 0.064** | 0.047* | 0.042 | 0.016 |
| Medium participation (Cat 2) | -0.023 | -0.025 | 0.024 | 0.011 | 0.007 | 0.005 | 0.002 |
| District Tourism High participation (Cat 3) | -0.036 | -0.042 | 0.037 | 0.018 | 0.011 | 0.009 | 0.003 |
| Medium participation (Cat 2) | -0.020 | -0.021 | 0.020 | 0.009 | 0.006 | 0.005 | 0.001 |
| Local Infrastructure High participation (Cat 3) | -0.122*** | -0.332*** | 0.051 | 0.107*** | 0.102** | 0.122** | 0.074 |
| Medium participation (Cat 2) | -0.109** | -0.161** | 0.110*** | 0.063* | 0.044* | 0.038 | 0.014 |

| Variables | Appendix A: Survey Items and Variable Construction |
|---|---|
| Degree of Influence in District Initiatives | Categorical 7 point Likert scale ranging from 1 = No influence (we have no interest) to 7 = very high level of influence in the decision-making process. |
| Firm Age | Firm Age in Years |
| Firm Size | Category 3; Firms with 100+ employees Category 2; Firms with 10-99 employees Category 1 (Base); Firms with less than 10 employees |
| District Affiliation | Value = 1, if a firm is located within North Staffs district, 0 if located within BJQ |
| Business Association Membership | Category 3; Firms which are active members of at least one business association Category 2; Firms which are members of at least one business association Category 1 (Base); Firms which are not members of any business association |
| Support from Business Institutions | Construct variable using the following survey items: i). Accessed and Received Industry Information ii). Accessed Business and Legal Advice iii). Accessed support in relation to collective marketing initiatives (trade fairs etc) iv). Accessed public R&D and training facilities v). Accessed Technical Advice vi). Accessed trade journals and industry newsletters Mean Score (across all 6 items): 2.67, s.d = 1.31 Cronbach's alpha (α) = 0.93 <i>(Survey items based upon 7 point Likert Scale, with 1 = no benefit and 7 = high benefit)</i> |
| Participation in Development Initiatives | Category 3; Firms which have been approached and encouraged to participate in local development initiatives Category 2; Firms which have been approached to participate in local development initiatives Category 1 (Base); Firms which have not been approached to participate in local development initiatives |
| Interest in District development initiatives | Category 3; Firms which have frequently expressed an interest in local development initiatives (at industry event or meeting) Category 2; Firms which have occasionally expressed an interest in local development initiatives (at industry event or meeting) Category 1 (Base); Firms which have never expressed an interest in local development initiatives (at industry event or meeting) |
| District Ties | Category 3; Firms which have high and regular engagement with other actors within the district Category 2; Firms which have occasional engagement with other actors within the district Category 1 (Base); Firms which have little engagement with other actors within the district |
| Shared Values | Construct variable using the following survey items: i). You and the people in your firm share the same ambitions and vision as other firms in the district ii). You consider your firm's future is related to that of other firms in the district iii). There is some kind of shared strategy or plan for the district iv). People in your firm are encouraged and motivated to pursue the shared goals and strategy of the district Mean Score (across all 4 items): 3.95, s.d. = 1.21 Cronbach's alpha (α) = 0.79 <i>(Survey items based upon 7 point Likert Scale, with 1 = no benefit and 7 = high benefit)</i> |

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| <p><i>Participation in Specific District Initiatives</i></p> | |
| <p><i>a). Collective marketing and Trade Fairs</i></p> | <p>Category 3; Firms which have high level of participation in collective marketing initiatives Category 2; Firms which have a medium level of participation in in collective marketing initiatives Category 1 (Base); Firms which do not participate in in collective marketing initiatives</p> |
| <p><i>b). District wide R&D facilities and Training</i></p> | <p>Category 3; Firms which have high level of participation in R&D facilities and Training initiatives Category 2; Firms which have a medium level of participation in R&D facilities and Training initiatives Category 1 (Base); Firms which do not participate in in R&D facilities and Training initiatives</p> |
| <p><i>c). District Tourism</i></p> | <p>Category 3; Firms which have high level of participation in District tourism initiatives Category 2; Firms which have a medium level of participation in District tourism initiatives Category 1 (Base); Firms which do not participate in in District tourism initiatives</p> |
| <p><i>d). Local Infrastructure</i></p> | <p>Category 3; Firms which have high level of participation in local infrastructure initiatives Category 2; Firms which have a medium level of in local infrastructure initiatives Category 1 (Base); Firms which do not participate in local infrastructure initiatives</p> |

