

Separating Municipalities Regarding Their Financial Performance—Evidence From Greece

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Municipalities are autonomous economic and administrative entities, with common actions and responsibilities. Additionally, all Municipalities are quite different considering specific characteristics, such as geographic, demographic, and economic. The aim of this research is to separate the entire sample of Municipalities in Greece into categories, based on the effectiveness of financial management and financial performance into effective and ineffective ones. This investigation is substantial because it is very interesting in-depth observation of current situation of the financial management capabilities of Municipalities, and additionally because it is crucial to extract the differences in specific characteristics between economical efficient and inefficient Municipalities. For the separation of the sample into groups, cluster analysis was preferred. For this reason, three variables were used: the lending capacity of the municipality, flexibility in making non-investment costs, and flexibility in investment spending. These three variables were considered to be the key dimensions of effectiveness in financial management and therefore their use, representatively describes the effectiveness or not of Greek Municipalities. In this study, it investigated the existence of differences between the characteristics of these two categories. The features are “how Municipalities are working with specialist consultants” and “how Municipalities are using modern technologies”. The main objective is to investigate the influence of these two characteristics in the efficiency of managing financial resources.

Keywords: Greek Municipalities, local development, financial performance, financial management, empirical investigation

Introduction

Municipalities are autonomous economic and administrative entities, with common actions and responsibilities. However, not all Municipalities are the same when considering specific geographic, demographic, economic, and other characteristics. The aim of this research is to divide the entire sample of Municipalities in Greece into categories, based on the efficiency of financial management: efficient and inefficient Municipalities. Cluster analysis was used to separate the sample in groups.

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Three variables were used to create the clusters in this research: a municipality's borrowing capacity, flexibility in non-investing costs, and flexibility in investing costs. These three variables were considered to be the key dimensions of efficiency in financial management; therefore, their use is illustrative of the efficiency or inefficiency of Greek Municipalities. In this research, it identified differences between the characteristics of the two categories.

These characteristics are collaboration with expert advisors and the use of modern technologies in Greek Municipalities. The key objective is to identify how these two characteristics affect efficiency in managing funds, i.e. the financial performance of Municipalities (L. C. Pallis & L. P. Pallis, 2016).

The following chapter will present the methodology used, including a description of the sampling and data collection process, determination of the population, specification of the scope of the sample, definition of the sampling unit, etc. The third chapter will present the results of the methodology used, and the fourth will present the results of data analysis. Finally, the fifth chapter will set out the overall conclusions of the research.

Methodology

General

This chapter presents the research methodology adopted in conducting this empirical project. More specifically, it includes: (a) the definition of population and the study sample, (b) the data collecting method, (c) the response to the survey and the characteristics of Municipalities participating, and (d) the process whereby the research tool used to collect data was created (structured questionnaire) and its analytical presentation.

Sampling and Data Collection Process

The process of choosing the sample and collecting data is complex and includes six stages (Stathakopoulos, 2001): definition of population, determination of the sampling frame, definition of sampling unit, choice of sampling method, determination of sample size, and implementation.

Definition of Population

The first and most important step in the primary data collection process is to define characteristics on the basis of which the population to be examined will be defined (Churchill & Iacobucci, 2002). The full definition of the population requires the inclusion of four basic parameters: the item, the sampling unit, the extent of the sampling, and the time (Parasuraman, Grewal, & Krishnan, 2004). The item and sampling unit in this survey are defined as the Municipalities of Greece, the extent of sampling concerned the whole of the Greek state and the time it conducted was from 10 June 2010 up to 30 September 2010. Communities in Greece were excluded from the population in the survey due to their small size and different needs in relation to the Municipalities. So in the end, the survey population was defined as being the 914 Greek Municipalities throughout the state, as recorded in the inventory of the National Statistical Service (2001).

Determination of the Sampling Frame

The next step, after defining the population to be examined, is to locate a sampling frame which must be composed of the fullest and most accurate inventory possible of members of the population to be examined (Churchill & Iacobucci, 2002). The sampling frame used in this survey was the most recent inventory of the National Statistical Service (2001) which includes the census of the population of Greece based on geographical districts, prefectures, Municipalities, and communities.

Definition of the Sampling Unit

The sampling units were defined as being the Greek Municipalities. As regards, the respondents from whom survey data were collected, the “key informant method” was used, meaning the person in the survey unit (Municipality of Greece) who had the greatest knowledge of the subject of the survey. This method reduces to a satisfactory degree, any concerns regarding the reliability of answers given by respondents, as the respondent chosen in each unit is the best available person with knowledge of the data that must be collected through the survey (Phillips, 1981, Kumar, Stern, & Anderson, 1993). In this survey, the key informant was chosen to be the Mayor in each Municipality examined.

Choice of Sampling Method

Sampling methods considerably affect the possibility of generalizing the results. In order that the results emerging in the sample might be generalized throughout the total population, a probability sample must be used (Kinnear & Taylor, 1996) in which each unit in the sample has an equal chance of being selected from the population. The safest way of producing a probability sample is the population census and the definition of the total census as a sample in the survey (Stathakopoulos, 2001). This method was followed in this survey, ensuring the generalization of results.

Determination of Sample Size

As a result of the census method, the size of the sample coincides with the size of the population in the 914 Municipalities recorded in the inventory of the National Statistical Service (2001).

Implementation

With reference to conducting the survey, the two following sub-paragraphs explain the method of contact with the respondents and the reasons they were finally chosen, as well as the results of the method.

Method of Contact

Completion and collection of questionnaires were carried out during the period from 10 June 2010 to 30 September 2010 in one phase with the use of self-completion questionnaires. The sample in the survey (which coincides with the population in the survey) is characterized by considerable heterogeneity, as it has been specified that it will be all the Municipalities in Greece. The choice of such a kind of sample contributes to the chance of generalizing the results of the survey, as in order for the results of a survey to be generally applicable, heterogeneous samples are preferred (Hooley, Lynch, & Shephard, 1990, Kohli & Jaworski, 1990, Narver & Slater, 1990, Ruekert, 1992). In order for the sampling units (Municipalities of Greece) to be approached as a sampling p frame, the inventory of Municipalities from the National Statistical Service was used. One of the most common problems appearing during the use of inventories is the level to which they have been updated. The inventory used had been drawn up in 2001 and is the most recent. During the time, the survey was being conducted, no cases occurred in which a Municipality could not be approached due to a wrong entry in the inventory. Sampling units were approached by mail. This took the form of the delivery of the questionnaire along with an accompanying letter to each Municipality, for the attention of the Mayor, by mail, email, or fax, which explained to the recipient the purpose of the survey. This was preceded by telephone contact regarding the dates the questionnaire would be delivered and handed back. This method obliges the respondent to respond within a fixed time (Stathakopoulos, 2001). Respondents returned the completed questionnaires using the same method, via mail, email, or fax, on the dates specified. The choice of only one respondent from each sampling

unit (key-informant) involves the risk of collecting information that bears no relation to reality, but reflects his personal views. However, the achievement of research objectives required that the respondent be the Mayor in each Municipality so he was in a position to speak about them accurately and in detail (L. C. Pallis & L. P. Pallis, 2016).

Research Results

The method of collecting data that was used, in the end brought about the collection of questionnaires from 299 Municipalities out of the total of 914 that had been specified as the sample population. This result provides a response percentage of 33% which is considered quite satisfactory, on the basis of the method adopted (Kinnear & Taylor, 1996). As described in Table 1, the 299 Municipalities that responded to the survey represent the total population as there was good stratification and representation from all Prefectures in Greece with fairly satisfactory response percentages in each prefecture. The Greek Municipalities that finally answered the questionnaire represent all the Municipalities in Greece as there was no prefecture in which the individual response percentage was not satisfactory. Out of the 299 questionnaires collected, 41 were excluded from the analyses due to a large number of answers to questions that would have reduced the statistical reliability of the findings. Additionally, in these 41 excluded questionnaires, cases were observed in which the respondents misinterpreted the hierarchical questions. In the end, out of the 299 questionnaires, 258 exploitable ones were taken into account in the survey (87%), a number which is statistically acceptable (e.g. Hooley et al., 1990, Kohli & Jaworski, 1990, Narver & Slater, 1990).

Measurement Tools

This paragraph presents the process of creating the survey tool (structured questionnaire), as well as the result of this process—in other words, the questionnaire was used in this survey to collect data. During the preparation of the questionnaire that was finally used, a logical flow of questions had to be achieved. The questions have to be easy to understand, easy to answer and arouse the interest of the respondent with the aim of gradually involving him in the survey. In following questionnaire design practices (Kinnear & Taylor, 1996), an attempt was made to avoid leading questions that would perhaps direct the respondent to specific answers. Before the questionnaire took on its final form, pretesting was carried out twice. Initially, the questionnaire was tested by three independent teachers. Following the incorporation of their observations and prior to the start of data collection, the questionnaire was pretested a second time so as to ensure that the questions it contained were clear and easy for the respondents to understand. In the second pretesting, a total of 10 Mayors took part from both large and small, urban, and regional Municipalities, with each of whom lengthy discussions were held regarding the content, type, and flow of questions, as well as the arrangement of the sections based on the instructions in the relative article by Reynolds, Diamantopoulos, and Schlegelmilch (1993). Following the evaluation of observations made by participants in the pilot study, certain questions were rejected and others recomposed, after consultation with the academics that had initially tested the questionnaire. In the end, the questionnaire used to collect data is made up of closed-ended questions. More specifically, the questionnaire examines the views of Mayors in each Municipality concerning: What are the modern financial tools that can be used by Municipalities? How they evaluate them? What they suggest what and what they prefer? In the questions, a hierarchical scale was used, as the respondents had to grade specific factors given to them from the most important to the most insignificant.

Table 1

Respondents per Prefecture

Geographical districts	Prefectures	Municipalities participation (number)	Total number of Municipalities	Response	Municipalities participation (population)	Total population of Municipalities	Response
Attica	Athens	24	48	50%	1,111,093	2,664,776	42%
	Eastern Attica	9	26	35%	212,327	365,731	58%
	Western Attica	5	12	42%	115,702	150,847	77%
	Piraeus	9	16	56%	319,164	540,540	59%
Subtotal		47	102	46.07%	1,758,286	3,721,894	47.24%
rest of central Greece and Euboea	Etoloakarnania	7	29	24%	75,881	224,429	33.81%
	Boeotia	7	18	39%	68,524	125,681	54.52%
	Euboea	9	25	36%	31,968	212,993	15.01%
	Evrytania	5	11	45%	12,542	32,053	39.13%
	Fthiotida	9	23	39%	42,466	177,631	23.91%
	Fokida	4	12	33%	15,190	48,284	31.46%
Subtotal		41	118	34.74%	246,571	821,071	30.03%
Peloponnese	Argolida	6	14	43%	52,326	104,323	50.16%
	Arcadia	7	22	32%	28,055	101,444	27.66%
	Achaia	7	21	33%	27,611	321,389	8.59%
	Ilia	5	22	23%	7,849	193,288	4.06%
	Corinthia	6	15	40%	87,142	154,624	56.36%
	Laconia	9	20	45%	32,404	97,966	33.08%
	Messinia	6	29	21%	72,767	175,213	41.53%
Subtotal		46	143	32.16%	308,154	1,148,247	26.84%
Ionian Islands	Zakinthos	2	6	33%	16,475	39,015	42.23%
	Corfu	4	13	31%	18,279	110,317	16.57%
	Cefalonia	4	8	50%	14,448	38,435	37.59%
	Lefkada	2	6	33%	4,444	21,843	20.35%
Subtotal		12	33	36.36%	53,646	209,610	25.59%
Epirus	Arta	2	13	15%	9,126	75,634	12.07%
	Thesprotia	2	8	25%	9,527	43,071	22.12%
	Ioannina	10	28	36%	25,967	165,500	15.69%
	Preveza	2	8	25%	14,385	58,304	24.67%
Subtotal		16	57	28.07%	59,005	342,509	17.23%
Thessaly	Karditsa	6	20	30%	32,286	127,774	25.27%
	Larissa	9	28	32%	173,782	272,966	63.66%
	Magnesia	8	22	36%	22,214	202,632	10.96%
	Trikala	7	23	30%	64,352	134,963	47.68%
Subtotal		30	93	32.25%	292,634	738,335	39.63%
Macedonia	Grevena	4	8	50%	17,273	35,255	48.99%
	Drama	2	8	25%	11,215	103,545	10.83%
	Imathia	4	12	33%	52,620	143,618	36.64%
	Thessaloniki	14	45	31%	263,496	1,057,825	24.91%
	Kavala	4	11	36%	89,436	145,054	61.66%
	Kastoria	2	12	17%	6,117	52,063	11.75%
	Kilkis	4	11	36%	35,481	88,654	40.02%
Kozani	6	16	38%	75,182	152,138	49.42%	

Table 1 continued

Geographical districts	Prefectures	Municipalities participation (number)	Total number of Municipalities	Response	Municipalities participation (population)	Total population of Municipalities	Response
	Pella	3	11	27%	51,276	145,797	35.17%
	Pieria	3	13	23%	21,074	129,846	16.23%
	Serres	5	22	23%	88,768	197,774	44.88%
	Florina	2	8	25%	17,267	51,770	33.35%
	Chalkidiki	3	14	21%	14,166	104,894	13.51%
Subtotal		56	191	29.31%	743,371	2,408,233	30.87%
Thrace	Evros	4	13	31%	26,207	149,354	17.55%
	Xanthi	2	7	29%	52,270	97,525	53.60%
	Rodopi	4	9	44%	62,770	104,854	59.86%
Subtotal		10	29	34.48%	141,247	351,733	40.16%
Aegean	Dodecanese	7	25	28%	89,869	189,152	47.51%
	Cyclades	8	20	40%	35,824	106,836	33.53%
	Lesvos	4	17	24%	23,231	108,747	21.36%
	Samos	2	8	25%	14,622	43,595	33.54%
	Chios	2	10	20%	2,920	53,408	5.47%
Subtotal		23	80	28.75%	166,466	501,738	33.18%
Crete	Iraklio	7	26	27%	171,971	292,489	58.80%
	Lassithi	3	8	38%	45,683	74,613	61.23%
	Rethymnon	4	11	36%	10,456	82,956	12.60%
	Chania	4	23	17%	22,400	149,703	14.96%
Subtotal		18	68	26.47%	250,510	599,761	41.77%
Total		299	914	32.71%	4,019,890	10,843,131	37.07%

Data Analysis

Division of Sample Into Categories Depending on Financial Performance

This section of analysis aims to divide the entire sample into categories, based on financial management efficiency (efficient—inefficient Municipalities). There are two reasons for this analysis: first because of the interest that the in-depth observation of the current situation demonstrates relating to the abilities of Municipalities in financial management; and second because how crucial it is to look into the differences in other characteristics between efficient and inefficient Municipalities. Cluster analysis was used to separate the sample in groups. This statistical analysis is a widely used method in various scientific fields, including biology and marketing (Kinnear & Taylor, 1996). The aim is to explore the possibility of dividing the sample into clusters based on one or more characteristics (variables) (Kinnear & Taylor, 1996).

The resulting clusters should differ significantly in the characteristics used in order for the analysis to be useful. In this research, three variables were used for the creation of clusters, whose descriptive details were analysed in the previous section, and which are: a municipality's borrowing capacity, flexibility in non-investing costs, and flexibility in investment costs. These three variables were considered to be the key dimensions of efficiency in financial management; therefore, their use is illustrative of efficiency.

The method used for the division of clusters is the *K*-Means partitioning method. This method predetermines the number of clusters into which the sample is divided. In this research, the number of clusters was set at two because (a) theoretically, dividing Municipalities into efficient and inefficient, and (b) this number is considered to be the most appropriate when the variables used for division are more than two

(Kinnear & Taylor, 1996). The results of cluster analysis are shown in Tables 2 and 3.

Table 2

Cluster Centers for the Three Questions

Final cluster centers	Cluster	
	Cluster 1	Cluster 2
Municipality's borrowing capacity	3	2
Municipality's flexibility in non-investing costs	3	2
Municipality's flexibility in investment costs	3	2

Table 3

Number of Answers in Each Cluster

Number of cases in each cluster		
Cluster	1	110
	2	146

As shown in the cluster analysis Tables 2 and 3, the observations that resulted from sampling can indeed be divided into two groups on the basis of the three questions above (Table 2). The first cluster includes 110 Municipalities, while the second one includes 146 Municipalities (Table 3).

The value for the first cluster centres (central observation) was 3 for all three variables, while the value for the second cluster centres was 2 for all three variables. Considering that the potential answers to the questions used ranged from 1: very good to 4: poor, the first cluster can be named "Municipalities with inefficient financial management" and the second cluster can be named "Municipalities with efficient financial management".

A cross-tabulation analysis (Table 4) was used to identify whether the answers to the three questions were different for the two clusters. The results of this analysis and of the relevant χ^2 (Chi-Square) test are shown in the following Tables 4 and 5:

Table 4

Cross-tabulation Results

		Crosstab				
		Municipality's borrowing capacity				
		Very good	Satisfactory	Medium	Not good	Total
1	Count	8	26	58	18	110
	% within Cluster Number of Case	7.3%	23.6%	52.7%	16.4%	100.0%
	% within Municipality's borrowing capacity	9.2%	31.0%	89.2%	90.0%	43.0%
	% of Total	3.1%	10.2%	22.7%	7.0%	43.0%
Cluster Number of Case	Count	79	58	7	2	146
	% within Cluster Number of Case	54.1%	39.7%	4.8%	1.4%	100.0%
	% within Municipality's flexibility in non-investing costs	90.8%	69.0%	10.8%	10.0%	57.0%
	% of Total	30.9%	22.7%	2.7%	0.8%	57.0%
Total	Count	87	84	65	20	256
	% within Cluster Number of Case	34.0%	32.8%	25.4%	7.8%	100.0%
	% within Municipality's flexibility in investment costs	100.0%	100.0%	100.0%	100.0%	100.0%
	% of Total	34.0%	32.8%	25.4%	7.8%	100.0%

Table 5
Chi-Square Test Results

	Chi-Square tests		
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	90,371 ^a	3	0.000
Likelihood ratio	107,058	3	0.000
Linear-by-linear association	83,496	1	0.000
N of valid cases	256		

According to the Chi-Square test results (Table 5), the answers to the three questions were different for the two clusters of Municipalities, considering that the observed significance levels were very low (close to zero). Cross tabulation shows that the frequency of the answers is very different between the two clusters and demonstrates efficient performance in financial management for the second cluster and less efficient performance for the first cluster.

All the above shown that the division of the sample in two categories of groups is actually useful. In other words, there are two types of Municipalities in Greece in relation to the ability to manage financial resources: efficient and inefficient (Pallis, 2011).

Identification of Differences Between the Characteristics of the Two Categories

This section of analysis relates to the comparison, based on specific characteristics, between the two categories into which Greek Municipalities were divided, as per the previous paragraph. These characteristics are collaboration with expert advisors and the use of modern technologies in Greek Municipalities.

The key objective is to identify how these two characteristics affect efficiency in managing funds, i.e. the financial performance of Municipalities. In achieving the research objectives, *T-Test* analysis was used to compare means. Statistical analysis identifies the existence of statistically significant differences between the mean variables for two population categories.

In this case, it was identified whether significant differences existed in the variables of collaboration with expert advisors and use of modern technologies between efficient and inefficient Municipalities. The results of *T-tests* are summarised in Tables 6 and 7.

Table 6
Average Frequency of Collaboration With External Advisors

Group Statistics					
Question	Cluster number of case	N	Mean	Std. deviation	Std. error mean
How frequent do you collaborate with external advisors for problem solution?	1	108	1.66	0.550	0.053
	2	146	1.56	0.575	0.048

Table 7
T-Test for Comparison of Means

Question		t	df	Sig. (2-tailed)	Mean difference	Std. error difference
How frequent do you collaborate with external advisors for problem solution?	Equal variances assumed	1.337	252	0.182	0.096	0.072
	Equal variances not assumed	1.346	236	0.180	0.096	0.071

Collaboration With Expert Advisors

It was observed that the variable means for the two categories of Municipalities were not significantly different, as the means were 1.66 and 1.56 for the first and the second, categories, respectively (Table 6). This difference is statistically insignificant as shown in the T-test results (Table 7). In particular, the observed significance level of the test was 0.180 which is greater than any other used significance level (0.01 or 0.05). These results support the rejection of a hypothesis of correlation between financial management efficiency and the frequency of collaboration with external advisors.

As a result, it seems that both efficient and inefficient Municipalities demonstrate practically the same frequency in the use of expert advisors in decision-making. This paradox could be reasoned considering the know-how of the external advisors selected by the Municipalities. In other words, it is possible that a municipality collaborates with expert advisors, but the quality of services offered—based on the results of analyses—is not satisfactory, as it fails to ultimately improve the efficiency of the municipality.

Use of Modern Technologies

Table 8

Means of Satisfaction From the Use of Modern Technologies

Group statistics					
Question	Cluster number of case	N	Mean	Std. deviation	Std. error mean
Satisfaction from the use of modern technologies from your Municipality?	1	109	1.75	0.580	0.056
	2	144	1.66	0.518	0.043

Table 9

T-Test for Comparison of Means

		t	df	Sig. (2-tailed)	Mean difference	Std. error difference
Satisfaction from the use of modern technologies from your Municipality?	Equal variances assumed	1.337	251	0.182	0.093	0.069
	Equal variances not assumed	1.316	217.773	0.189	0.093	0.070

The above Tables 8 and 9 clearly show that in this case also, the means of the variable that describe satisfaction from the use of modern technologies are not different for the two categories of Municipalities. The mean was 1.75 for the first cluster and 1.66 for the second (Table 8), while the observed significance level from the T-test (Table 9) was 0.182, which is greater than the standard significance levels (0.01 or 0.05).

Therefore, the test results demonstrate that neither statistically significant differences exist between the two categories, nor the use of modern technology significantly affects financial management efficiency (Pallis, 2011).

Conclusions

This research attempted to divide the entire sample into categories, based on the efficiency of financial management (efficient—inefficient Municipalities). There are two reasons for this analysis: first because of the interest that the in-depth observation of the current situation demonstrates relating to the abilities of Municipalities in financial management, and second because how crucial it is to look into the differences in other characteristics between efficient and inefficient Municipalities.

Cluster analysis was used to separate the sample in groups. Three variables were used to create the clusters

in this research: a municipality's borrowing capacity, flexibility in non-investing costs, and flexibility in investing costs. These three variables were considered to be the key dimensions of efficiency in financial management; therefore, their use is illustrative of efficiency.

As shown from the analysis, the Municipalities were divided into two clusters, based on the three questions above. The first cluster includes 110 Municipalities (Municipalities with inefficient financial management) and the second cluster includes 146 (Municipalities with efficient financial management).

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