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DOCTORAL DISSERTATION SUMMARY

MODEL OF LOCAL ECONOMIC DEVELOPMENT IN FUNCTION OF OPTIMAL UTILIZATION OF RESOURCES

Maša Trinajstić

Institution awarding the PhD Degre
University of Rijeka
Faculty of Tourism and Hospitality Management, Croatia

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Supervisor
Marinela Krstinić Nižić, PhD,
Associate Professor
University of Rijeka, Faculty of Tourism and Hospitality Management

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SUMMARY

Purpose

Local economic development (LED) can be defined as a process in which partners in the public, business and non-government sectors work together to create better conditions for economic growth and job creation. The LED concept is derived from the bottom-up management model, created in response to the traditional top-down model which has failed to resolve many negative regional and local processes and to reduce differences with regard to under-development. LED assumes that the local self-government, private sector and local residents have a much greater awareness of their own needs, strengths and opportunities, and are able to exploit local resources in the best possible way, thus contributing to the creation of new jobs and an encouraging entrepreneurial environment, ultimately leading to improved quality of life for everyone. It is important to note that the LED process calls for good communication, the active participation of and collaboration among stakeholders, and a clear LED strategy and policy. Interest in local economic development has grown in recent years. The adoption of the Law on Local and Regional Self-government in 2001 has broadened the sphere of action of towns and municipalities, enabling them to become increasingly more involved in the LED process.

Despite numerous researches and studies, the implementation of the LED process has remained a current problem in most towns and municipalities of the Republic of Croatia. Poor knowledge and insufficient understanding of the concept of local economic development, inadequate strategic planning and lack of financial resources are present in a large number of towns and municipalities.

Therefore, the main objective of this doctoral dissertation is to put forward a model and guidelines to ensure the successful implementation of local economic development in the towns and municipalities of the Republic of Croatia. Special attention will be given to the role of local self-government in this model. In some cases, the local self-government fails to engage sufficiently, when it should take on a leading role and become a coordinator of economic development. The purpose of research is to enable a broader and in-depth understanding of the key elements of the LED process, analyse the economic performance of towns and municipalities, and study the application and implementation of the LED process in towns and municipalities.

Methodology

The empirical part of the dissertation focuses on the analysis of secondary and primary data. The secondary data were collected from the official websites of the Central Bureau of Statistics, the Ministry of Finance, and the Centre for Local Economic Development of the Faculty of Economics, University of Rijeka (CLER). Secondary data analysis was used to examine the differences in the economic performance of towns and municipalities with regard to size, the county to which they belong and the broader geographical regions in which they are located (budget analysis), and to assess the effect of educational level on economic performance. The period from 2002 to 2018 was observed.

Primary data were collected using the survey method. To determine the content validity and clarity of the questionnaire, a pilot study was conducted before the main research. The main research was conducted from October 2019 to the end of May 2020. The open-source application 1ka (http://www.1ka.si/) was used to create the questionnaire and conduct the research. The research sample included 131 cities and municipalities. To investigate LED activities and implementation, the mayors of the towns and municipalities were surveyed. The analysis of local economic development includes four constructs: responsibility towards LED, LED planning, LED operation and LED funding.

The collected data were processed using the statistical program *Stata 14.2* and analysed by descriptive and bivariate (Mann-Whitney, Kruskal-Wallis, Spearman's correlation coefficient, Chi-square test, logistic regression) nonparametric statistical methods.

Findings

The research results revealed a statistically significant difference in the economic performance of towns and municipalities with regard to size, the county they belong to, and the broader geographical region in which they are located. In terms of size, the analysis showed that the share of tax revenues in operating income is lower in small towns and municipalities than in medium-sized towns (this share averages 43% for small towns and municipalities, and 50% for medium-sized ones), while the opposite applies to the share of state subsidies in operating income (the average share is 16% in small towns and municipalities, and 10% in medium-sized ones). The analysis also showed that there is a difference in the maximum change in total revenues and receipts between small and large towns, which in large towns means a certain constant in business and efficient budget management, and in small towns and municipalities implies business fluctuations. Furthermore, regarding counties, it was confirmed that there are statistically

significant differences between the counties of Continental and Adriatic Croatia. Towns and municipalities in Brod-Posavina and Osijek-Baranja counties as well as Split-Dalmatia and Šibenik-Knin counties have a higher share of state subsidies in operating income than do other counties (this share is 18-22% on average). The largest maximum change in total revenues and receipts compared with the base year was recorded in Dubrovnik-Neretva, Brod-Posavina and Požega-Slavonia counties, i.e., total revenues and receipts increased two to three times more than in other counties in the observed period. With regard to the region, it was found that the minimum change in total revenues and receipts is higher in Adriatic Croatia than in Continental Croatia.

A statistically significant relationship was also established between the economic performance of towns and municipalities and the educational structure of their inhabitants. A moderately strong positive relationship was confirmed between the variables "share of tax revenue in operating income" and "share of population with a university degree", and a moderately strong negative relationship between the variables "share of revenue from state subsidies in operating income" and "share of population with a university degree". It can be concluded that a region with a higher share of tax revenues also has a higher share of highly-educated inhabitants, while the share of highly educated inhabitants decreases with the increase of the share of state subsidies in operating income.

Analysis of local economic development showed that the LED process is being implemented by the analysed towns and municipalities but to varying degrees of success. A statistically significant difference was partially confirmed between economic performance indicators and responsibility towards LED. Almost half of the respondents (48.09%) believe that local self-governments have neither the leading role nor the primary responsibility for the economic development of their towns or municipalities. With regard to LED planning, analysis showed that most towns and municipalities (93.89%) possess a development strategy. In the group of towns and municipalities that have a development strategy, it was found that 66.67% use resources in an optimal way and 33.33% do not, while in the group that does not have a development strategy, 75% of towns and municipalities do not use resources in an optimal way, and only 25% do. Furthermore, it was established that towns and municipalities participate to a high level in strengthening the economy. They are mostly involved in creating a positive business climate as well as supporting small and medium-sized enterprises. In addition, a large number of towns and municipalities seek to strengthen the economy through the development of tourism. Improving the quality of life of inhabitants, creating new jobs and retaining the population in the town or municipality have been identified as the main goals of economic development. With regard to LED funding, analysis showed there is a statistically significant difference between economic performance indicators and LED funding, that is, towns and municipalities that have earmarked funds in their budgets for LED activities are making greater efforts to increase overall revenue and receipts, relative to those towns and municipalities that do not.

Ultimately, the main hypothesis was confirmed, namely LED contributes to enhancing the quality of life of the population, increasing the level of development, and ensuring the optimal use of resources.

Based on the analysed data and confirmed research hypotheses, a model for the successful implementation of local economic development in the towns and municipalities of the Republic of Croatia has been proposed.

Originality of the research

The scientific contribution of this doctoral dissertation manifests itself in the study of local economic development, a development concept that has emerged in recent years and in which towns and municipalities have an increasingly greater role and responsibility for driving their own development.

The theoretical contribution of this dissertation is in the analysis and systematization of the theoretical features of local economic development, local self-government and the importance of resources in implementing the LED process. The contribution is also evident in the analysis of the institutional framework where the concept of development organizations at the local level in the towns and municipalities of the Republic of Croatia is presented. Moreover, the contribution is reflected in the analysis of performance indicators and various aspects of monitoring and evaluation of achieved results and effects in the area of towns and municipalities. It was found that there is no standard set of local economic development indicators used by all cities, and due to the complexity and multidimensionality of the LED process, different indicators or groups of indicators are used in practice.

The empirical research contributes by providing new and clearer insights into the implementation of the LED process in towns and municipalities in the Republic of Croatia, and into the problems and obstacles the LED process encounters. It is also pointed out that a large number of towns and municipalities (local self-governments) do not feel responsible for the LED process. In this sense, this research provides a better understanding of the LED concept, which requires the involvement, active participation and cooperation of all stakeholders, especially local self-government. An important finding is that the economic performance of towns and municipalities is linked to the implementation of the LED process, in particular in large towns, and that strategic development planning is vital for the optimal use of resources. Based on the analysed data, a model was proposed for successful LED implementation.

Keywords local economic development, resources, inhabitants' quality of life, development strategy, towns and municipalities in the Republic of Croatia

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