

# LOCAL GOVERNMENT IN TRANSITION: STRATEGIC URBAN MARKETING OF THE CROATIAN TOWNS

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## ABSTRACT

*Local government is undergoing a period of transition from one into another set of social and economic work conditions. Local government is facing the need to adjust to these changes, and this paper argues that an appropriate answer can be provided through the implementation of marketing concept—strategic urban marketing.*

*Strategic urban marketing, depending on the development of specific local governments, has a higher or lower implementation level determined by the so-called “narrow necks”. The results of the research indicated such limitations. It is considered that their removal would contribute to a creation of foundations for a faster and more efficient implementation of marketing concept in local government.*

## INTRODUCTION

Transition is a process that involves a passage from one set of social and economic conditions into another set of social and economic conditions. An adjustment to these changes is a process, which means that many fields of activities demand wide and deep interventions. One of such fields is local government, which is the focus of this research.

The development of local government interacts with the development of economy and quality of life in a certain area. The development of local government is an extremely complex category (issue) with its own logic and laws as well as modes of manifestation. It is considered that the definition of an appropriate development and the realization of such development is possible only through a proper consideration of the implementation of marketing concept. The above is also a hypothesis of this paper, according to which the evaluation of the situation and the realization of development objectives of local government is possible precisely through marketing management. For the needs of this paper, we made a field research involving the entire population of towns in the Republic of Croatia.

The starting point of the paper is related to an analysis of causes of transition processes involving countries of the former socialist system. It should be pointed out that a special accent is put on Croatia as a representative of countries in transition whose position is specific both because of a shift from self-governing socialist system and because of the aggression and the war Croatia faced between 1991-1995. Furthermore, we elaborated the dynamics of local government or forces motivating or hindering its development and adjustment to new business environment. Such conditions are primarily connected with the development of multi-party system, privatization and the development of entrepreneurial economy. The following section of the paper focuses on analyzing the process of adjustment and local government developing strategy. As part of the section entitled The Level of Implementation of Marketing Concept, we present the research results regarding the level of compliance with and application of strategic urban marketing in the example of Croatian towns. The conclusion summarizes the research results and defines policy implementation.

# TRANSITION AS A ROAD TO STRENGTHENING MARKET DEMOCRACY

Transition processes exist in countries that have recently abandoned the socialist system and established a basis for strengthening market democracy. Market democracy is a basic precondition for the entire democracy in a society and it consists of several standards. Some of the most significant are multi-party system, free market and market freedoms, pluralism of ownership dominated by private ownership, human rights, individual freedoms and rejection of nationalisms. For a revalorization of the effects of transition, it is necessary to discuss its origins, specific aspects of transition in Croatia and the influence of the process on local government.

## Origin of Transition Processes

A certain level of market democracy existed already in socialist systems, but its spreading can be related to the end of the Cold War between countries of the west and countries of the Eastern Bloc at the end of the 1980s. In fact, the end of the Cold War marked the end of the conflict between extreme forms of progressivism-socialism and neo-classical capitalism. The two systems originated from feudal relationships with the primary goal of increasing social well-being. One of the systems based its realization on centrally planned economy, and the other on the consideration of market laws. The break-up of the Eastern Bloc symbolized by the pulling down of the Berlin Wall represented both the break-up of the system on which it was based and the entrance into the new era—the era of collaboration and competition among.

In these new conditions, some countries and their governments have been searching for solutions creating such possibilities among countries that eventually secured growth and development. A transition to free market economy affects continuous changes in the society and in the economy. The research for solutions securing progress is an imperative. The transition can be defined as a process of creating a system based on market relationships and the passage from one set of social and economic conditions to another. In literature, attention is concentrated on this process from macro and micro points of view. The transition process is elaborated in various ways, such as society benefits of privatization (Ramamurti 1992), method of privatization (Gray 1996) and outcomes of privatization (De Castro and Uhlenbruck 1997). Many authors have analysed the transition process arguing the benefits of privatization (Vojnic, 1997).

Privatization is considered as one of the most complex characteristics of the transition period as far as it has three categories of goals: economic, social and political ones. These goals form a synergy and therefore none of them can be excluded even if economic goals have the greatest impact on businesses. One author argues that the “primary economic goal of enterprise privatization is to create some true representatives of capital: individuals or groups of individuals ...” (Gray 1996). Other authors argue that reduction of state control should improve a country’s economy, and that competitive environments and capital-market discipline increase the efficiency of privatized companies. It can be added that the main economic goals of privatization are to increase efficiency and effectiveness in countries in transition, which includes the work of state bodies and thus the local government as well. Such a trend of socio-economic shift from an old economic system to market orientation has produced changes in behavior of institutions, organizations, companies, people and, of course, of local government. Some changes result in less positive effect, for example, high growth of unemployment, while others have a more positive effect such as price liberalization, cutting budget, development of new market institutions and development of a new role of local government. As all other countries in transition, Croatia also performed better results in some fields and worse in others.

## Transition in Croatia

A successful transition realizes numerous objectives such as macroeconomic stability, economic liberalization, high share of private sector in GDP, efficient management in private and public sector, reliable legal system and effective protection of property rights. According to Teodorović, who supports his views with evaluations of the IMF, WB, EBRD and with statistic analyses, Croatia is characterized by a successful transition. (Teodorović 1997).

However, numerous other authors argue that the process of privatization is burdened with many problems and that privatization has not ensured the expected transparency of ownership, new investments in business, or faster development of the economy. Today, are witnesses of many negative consequences connected with privatization including a privileged access to privatization information, corruption, and scoundrel-like activities? One of the authors argues, "...In hardly explainable conditions, many capacities were given to the people who in most cases did not know how, and did not have any intention, as it soon showed up, to keep and develop production. The capacities that they were given enable them to become rich within a short period, often by mere speculations." (Štajner 1999).

Regardless of such opinions, Croatia realized relatively high growth rates of GDP in the last few years. In 2002, GDP was 5,2%. It is considered that the growth is a result of the expansion of domestic demand, primarily individual expenses (increase of 6,6 %) and the growth of gross investments (of 10,1 %). These results are significant both for their height and for the fact they were realized in the situation when the development of world economy has slowed down, especially in European countries and in other countries in transition ([www.dzs.hr](http://www.dzs.hr)). Such a trend of progress is not feasible without defining the state development strategy, especially the roles of the state and local government. With this regards, there is the especially important adjustment of state administration and the function of local government, or the transition process in these and other subjects.

## Effects of Transition on Local Government

Transition of local government finds its origins in pre-transition work conditions whose beginnings are related to the creation and the development of new Yugoslavia (after the Second World War). At that time, Croatia was one of the republics within the federation, and it followed all advantages and disadvantages of its system. At the beginning, Yugoslavia followed the example of the Soviet Union, and it developed the centrally planned system followed by the later so-called self-government system. Croatia secured its independence in the period of the break-up of the Eastern Bloc and it inherited the inappropriate social and economic relationships and local government that needed adjustment to the new conditions imposed by market economy. This did not specifically characterize only Croatia, because other post-socialist countries inherited the same concept. However, the concept had a different approach regarding the implementation, which was, as Lavigne rightly indicated, "a consequence of a different degree of centralization" (Lavigne 1995)

Recently, local government as a sub-system or "a prolonged hand" of the government has recently performed the legally regulated obligations in the conditions of a predominant state ownership with an emphasized subordination and bureaucratic coordination. Following the implementation of a multi-party system, pluralism of ownership and market economy in all post-socialist countries, new conditions for progress were created as well as the need to redefine the development policy. Thus the Croatian Government defined the development strategy entitled "Strategy of Croatia for" ([www.hrvatska21.hr](http://www.hrvatska21.hr)) which defined the orientations for all key activities including the "Public Administration".

In the strategy of "Public Administration", the primary objective was "reducing the state expense", and the long-term objective was "reaching the efficiency of the system". As far as the reform of the central government was considered, it was clearly stated that there was a need to strive for a clear separation of legislative, executive and

judiciary authorities. However, significant issues regarding the reform of local government were related to the need for a new territorial establishment, broadening the authority of local government and strengthening the primary income of the local community. ([http://www.hrvatska21.hr/javna\\_uprava](http://www.hrvatska21.hr/javna_uprava)). The adjustment of local government to conditions determined (and defined) by dimensions of market democracy is becoming an increasingly more complex and greater challenge. An appropriate answer to the development in such conditions is offered by the implementation of marketing concept or strategic urban marketing.

## **PROCESS OF ADJUSTMENT AND STRATEGY FOR THE DEVELOPMENT OF LOCAL GOVERNMENT**

Development is an extremely complex category with its own logic and laws and modes of expression. A majority of systems, with local government as one of such systems, tends to consider desirable and probable future, which also includes defining a concept of development and strategy as a method of its realization. The development of local government interacts with the progress of economy and the quality of life in a given area. The development is a result of exchange relationships local government realizes with participants in its market—citizens, economic and other subjects. The advancement of exchange relationships immanently includes marketing philosophy and implementation of marketing concept. In its essence, marketing philosophy is a special approach to making concepts and realizing economic and other activities with a focus on clients and their needs (Grbac and Martin 2000).

### **Marketing in Local Government**

Marketing concept at the level of local government is an approach implying that the economic and social justification of the existence of a system can be reduced to a previous knowledge and pleasing the members of the system along with the realization of objectives (social) of local government.

Marketing of urban centers is not a new category. It has been undergoing its evolution in business world as well. Ward pointed out that the application of marketing in urban centers has been present as early as the nineteenth century (Ward, 1998). However, the significance of this activity has been made actual in the last several decades, and especially after the 1990s, which can be correlated with a strengthening of mutual competition of urban centers, which is in turn all related to attracting investments, demographic development, development of tourism and strengthening of the quality of life (Buurma 2001).

In its development, local government tends to be unique and that this uniqueness should be recognized and valued. In fact, development tends to realize competitive advantages in relation to other towns and municipalities in the region, in the state, as well as in relation to competing towns abroad.

There are two distinctive views of the roles and the significance of marketing in the development of local government—American and European (Padišon 1993, Short and Kim 1999). The first approach emphasizes economic development as a basis of marketing local government. Local government is defined as economic subjects, and this approach does not specifically emphasize the role of local government and its consideration is implicit rather than explicit. The second is the so-called European approach, with a holistic view of the interpretation and use of marketing. It emphasizes not only economic development but also social progress. In his considerations, Gastone confronts the enterprise approach towards planning the development of local government with the traditional development (Gastone 1994). As opposed to controlling function of administration with the traditional approach to the enterprise approach local government encourages development. Subjects in local government are no longer treated as users but rather as partners, and their role is not related only to a discussion and acceptance of plans, but to a definition of objectives and an approval of the development guidelines for local government on the basis of consensus.

Flynn makes a difference between “open/closed model” in the behavior of local authorities in solving the problem of development, which means that local government can be more “turned outwards” and positively respond

to pressures for changes (Flynn 1991). It presupposes the consideration of surrounding forces and acting according to the criteria of free market. Regarding the approach of being "turned inwards", local government is burdened with planning and bureaucratizing the relationship towards the development. A shift to being "turned outwards" demands a new approach and relocation from the position characterized by planning and being "turned inwards" towards a market position and being "turned outwards". Relocation demands the implementation of marketing concept in local government, which in reality occurs with varied intensity, and it meets lots of obstacles of "narrow necks". This leads to a varied level of acceptance of strategic urban marketing. It is also considered that a higher level of acceptance of strategic urban marketing ensures a better basis for a faster progress. This will be the issue considered in the continuation of this paper on the basis of the results of the research of the representative sample of towns in Croatia.

## **Level of Implementation of Marketing Concept**

Through marketing management in local government, one can determine its foreseeable future and the way of its realization. Marketing management of local government or the implementation of strategic urban marketing is determined by several references. Key references of strategic urban marketing are connected to the ones used for the evaluation of realized development, for the determination of strategic orientation, and the definition of the organization and the control of marketing activities in local government. Each of these references meets both obstacles and/or "narrow necks" inhibiting their full efficiency. Basically, the lower the number of obstacles or "narrow necks", the stronger is their synergic effect. (Ashworth and Voogd 1990, Ave and Corsico (Eds.) 1993, Baker 1995, Kotler, Asplund, Rein and Haider 1999, Van den Berg and Braun 1999, Ward, 1998). Taking this into consideration, it is true that the recognition, analysis and removal of obstacles for the implementation of strategic urban marketing are particularly important for the progress of local government. With this regards, the level of implementation of strategic urban marketing is an indicator of readiness and ability of local government to take an insight into the future and to plan it.

Before discussing the critical values determining the level of implementation of strategic urban marketing, it is necessary to remember the citizens' guaranteed right to local government including the right to decide about some needs and interests of local importance, such as physical planning and environmental protection, arrangement of settlements and housing areas, communal activities, child care, social care, culture, sport and technical culture (the Constitution of the Republic of Croatia, Art. 128, [www.nn.hr](http://www.nn.hr)). The "right" to this service can affect citizens' satisfaction, as much as its failed fulfillment can cause their dissatisfaction. Furthermore, the fact that this right was in the domain of local government and that it affected the economy consisted in its direct manifestation especially in the sphere of entrepreneurship or indirectly through the quality of communal standards and financial subjects acting in the area of local government.

So far, especially smaller towns (and municipalities) located in less developed parts of the country have had difficulty in securing the necessary needs in their budgets for offering services in their domain. Both citizens and other subjects often lacked the desired services and the fulfillment of their needs in the functional sense, as well as regarding the economic, political, social, and cultural issues. On the other hand, larger towns, especially the ones located in more developed parts of the country managed to realize their objectives, which can be correlated with larger incomes of their budgets and with using the marketing approach in their activities. Regarding this issue, both groups of towns meet obstacles and/or "narrow necks", but the more successful towns are doing it in a more appropriate way. With the objective of determining obstacles and/or "narrow necks" that inhibit the increase to a higher level of implementation of urban marketing, a field research was undertaken on the representative sample of the total population of towns in the Republic of Croatia.

There are 123 towns in the Republic of Croatia, and the respond rate was 31%. A questionnaire with 32 structured question previously tested in a pilot research was sent to the addresses of all towns in Croatia. The questions followed the logic of the process of marketing management, from defining the vision and the mission, determining objectives, determining target markets, positioning, selection of strategy of appearance and choice of policy of marketing mix, to determining control and organization. In other words, it was the analysis of the presence

of the described references of strategic urban marketing (the ones evaluating the realized development, determining strategic orientation and the ones defining the organization and the control of marketing activities in local government).

Considering the number of inhabitants, the sample consisted of 66% smaller towns (up to 30.000 inhabitants), 24 % medium sized towns (30,000 – 60,000 inhabitants), and 10% of larger towns (>60 000 inhabitants). The number of inhabitants is a good indicator of the size of budget, and also of the possibility and limitation some towns meet in defining and realizing their development.

Research results indicate that the most important strategic document individual towns adopt is their Budget. The Budget is predominantly made on the basis of instructions and guidelines of the centralized state (23% towns), demands of interested parts (23% towns), followed by the approaches taking into consideration the report of the previous year (20% towns), individual estimates (19% towns) and other. One can also discern a strong influence of the center of the state regarding the regulation of Croatian towns, which is explicable by the fact that there is still a large number of small towns with small budgets, and with respectively limited possibilities of development depending on the intervention of centralized state organs. However, there is a increasing number of that take into consideration the demands of the interested parts—citizens, economic and other subjects—in planning their budgets. This fact leads to the conclusion that there are elements of marketing orientation and an awareness of the need to include the citizens and other parts in the process of planning and defining the development of the town.

Moreover, a well-defined mission is one of the key indicators of an existence of elements of strategic planning and marketing orientation of an organization, including local government. The results of the research indicate the fact that as much as 42% of researched towns does not have a defined mission, which represents a further obstacle for the implementation of strategic urban marketing. Characteristically, towns that according to the described features belong among smaller towns dominate the structure. The towns with a defined mission inform their public about the contents of the mission mainly through the media (41% towns), web sites (19 % towns), promo activities (16% towns) or in other ways (brochures, leaflets...). In other words, towns acting in this way are trying to inform a wider public about their ambitions and their vision of development, thus attracting potential investors to their environment.

According to marketing concept, the mission also regards precisely defined work objectives. A prevailing number of researched towns (65% towns) define their objective so as to firstly define a general objective, and then to figure out special objectives determining the dynamics of performing and using planned means for their realization. However, a further obstacle is the fact that even 35% of towns have not set development objectives. This is especially significant regarding the respond rate (31%) and a large number of towns that did not participate in the research. It should be presumed that the very towns that did not participate in the research are those that belong among towns without a defined mission and purpose. Towns that act in that way do so by defining their mission in a clear and unambiguous way, starting from a general objective to reach special objectives, with an emphasis on time and quantity component, and they also follow its realization.

Economic development has a special influence on the development of the towns. It secures the growth and the development of the towns and the creation of new development potentials. For this reason, it is presumed that the strategy of economic development is a key document securing the development of the town in all areas of social life. It is determined that out of all researched towns, as many as 43% do not have such a key document, whether such a document was considered as a basis for an analysis of the economic future or as a basis for attracting foreign investments. The majority of them, when it comes to the realization of development, rely only on physical planned documentation and guidelines for the development of the town, which is an additional obstacle for the definition of foreseeable future.

It is presumed that the development of business zones is one of the conditions for the expansion of local economy and for common investments with other national and foreign entrepreneurs. According to these criteria, the situation in Croatia is appropriate, because as many as 87% of the towns have their own business-economic zone, while 89% is planning to develop a new one or enlarge the existing zone in the next 5 years. By the same token, there is the very pronounced tendency towards foreign investments, which is promising. According to the opinions

of the researched towns, foreign investments will be attracted by means of the motivating means of the state and encouragements in the form of reducing communal contributions, communal fees and company tax.

The research results indicate a very unfavorable reaction of towns to the sources of information used in defining the needs for new services offered by the town. Thus, it was determined that as few as 40% of towns is doing it on the basis of the demands of potential users. Other sources of information are the registered users' remarks and dissatisfactions, demands of higher state and other institutions, and the experience of more developed towns abroad and other towns. However, it is characteristic that the "market research" is more widespread when public opinion is taken into consideration, which is the case for about 50% of researched towns regardless of their size. As a research method, the most frequently used is the method of interview with structured questions filled out by the users when they ask for or get some of the towns' services.

The research of the development of the elements of the policy of marketing mix in the Croatian towns indicates that a large number of towns (74% towns) develops new services with the aim of satisfying users' needs and supervises their realization on a regular basis. These services are dispersed on the majority of services in the domain of the town such as communal services, services of pre-school education, primary health care, environmental protection and other. The distribution of "town's product" is realized, according to the research results, primarily through town's companies, and insignificantly through outsourcing. Such solutions are considered unfavorable, especially taking into consideration the fact that the private initiative produces major efficiency, a more quality service, and faster servicing. Towns show lower independence in the definition of the policy of prices, because the largest part of the incomes is realized through taxes in the domain of legal solutions proscribed by the Croatian Parliament. There are certain exemptions for investors, especially through discounts and payments of communal fee and communal contribution. Finally, it can be concluded that towns in Croatia take into consideration some marketing elements, but that there is no systematic approach to the implementation of strategic urban marketing.

## **CONCLUSION AND IMPLEMENTATION**

Changes in Eastern European countries are oriented towards increasing social well-being, strengthening living standard, improving the quality of life, and creating conditions for a faster inclusion in European business and social trends. These objectives are realized through the transition process on basis of compliance with the criteria of free market economy and market democracy. Transition of local government is a part of the process.

The transition which realizes a shift from socialist to capitalist systems is performed with the aim of realizing macroeconomic stability, economic liberalization, high share of private sector in GDP, efficient management in private and public sector, reliable legal system and effective protection of property rights. The process is chronologically related to the late 1980s and early 1990s, marked by the break-up of centrally planned and socialist systems. Geographically, it is related to countries of Central and Eastern Europe, including Croatia. At that period, Croatia was characterized not only by the change of government, but also by the acceptance of market economy, the introduction of multi-party system, private ownership. However, it also faced aggression and war suffering. These events determined and slowed down the progress in Croatia in the past decade. However, the decade was also characterized by rehabilitation and by one of the fastest growth rates of GDP among transitional countries. With this regards, we have to stress the transition related to public administration and specifically local government.

Local government is a dynamic spatial, economic and social system, a battlefield for many different social and power relationships. Local government is a form of life in a community with several constitutive elements, development laws and laws of reproduction. This encourages the establishment of new and strengthening of the existing exchange relationships both among the subjects of local government (citizens, economic and other subjects) and among the individual subjects and local government. Regarding the fact that the strengthening of exchange relationships is immanent to marketing concept, it is considered that a faster transition and the development of local government will be realized after the implementation of marketing concept, or strategic management of urban

marketing. Strategic urban marketing can be more or less implemented, which actually defines its level of implementation.

The results of the research of the Croatian towns as representatives of local government indicate that the level of implementation of urban marketing differs (but not significantly), both according to the criteria of the size of town and according to the reached development of the area where they are located. Smaller towns and towns in less developed areas need an “outside push” for an appropriate implementation of urban marketing. Central government development agencies, development institutions or organizations such as universities or other larger and successful towns can deliver this “outside push”.

Basically, we can conclude that the most important strategic document for the towns is their Budget which is, according to the results of the research, predominantly made on basis of instructions and guidelines of the central government, but also on the basis of the demands of interested sides acting in towns, and on the basis of the last year's results and personal estimates. This research results in indicating that the budget is and will remain the main town document for a long time. Managers need to cooperate with other key persons in order to understand and meet the needs and requirements of the main subjects in town.

First, the definition of the mission and purpose is not sufficiently presented. In other words, a significant number of towns have not clearly set the mission and purpose of their strategic development. In the same way, there is a troubling fact resulting from the research indicating that a significant part of the towns does not have a strategy of economic development. On the other hand, a majority of them have defined localities and programs of the construction of business zones. In fact, strategic guidelines are key obstacles or “bottle necks” for a faster implementation of strategic urban marketing. The “bottle neck” is, in fact, the key issue that has to be solved and is the main obstacle for implementing strategic urban marketing. Second, information basis for decision-making about new services, prices, or channels of distribution both on operational and managerial has a predominantly reactive character, in so far as it is primarily based on the demands of potential users. Just a few towns have a proactive character and it is based on information gathered through the research of the “market”. However, regardless of such approach, most towns consider that by developing new services on a regular basis can meet the most demanding needs of their buyers.

Furthermore, town services are mainly distributed through companies owned by a town, which are considered not to have a big influence on price formation. Those findings open the new managerial implication – outsourcing.

Finally, we can conclude that towns as representatives of a local government in transition react appropriately to a new business environment at the operating level, which, however, cannot be said about the strategic level of decision-making where manager's role is crucial for towns in transitional countries.

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