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## **THE INFLUENCE OF ENTREPRENEURIAL ZONES ON URBAN COMPETITIVENESS OF THE TOWN OF VALPOVO**

### **UTJECAJ PODUZETNIČKIH ZONA NA URBANU KONKURENTNOST GRADA VALPOVA**

#### ***ABSTRACT***

*The aim of this paper is to attempt to determine the influence of entrepreneurial zones in town of Valpovo on its urban competitiveness. Valpovo is a town in eastern Croatia which is located in Osijek-Baranja County. This town is still facing with such problems as lack of job opportunities, concentration of low-income families, inadequate public infrastructure and depopulation, which is becoming an increasing problem in Valpovo. One of the attempts to improve the economical circumstances in the town was the establishment of the entrepreneurial zones in Valpovo. These zones are comprised of a small enterprise zone, a business and an industrial zone. Statistical methods are used in order to investigate the influence of entrepreneurial zones of town of Valpovo on its urban competitiveness. Urban competitiveness is the ability of an urban area to use the factors of competitiveness in order to make a competitive position and maintain it among other urban areas. Urban competitiveness is often closely related to a town or city's economic performance, which is the viewpoint applied by the authors. Thus measurement of competitiveness is accomplished by measuring its economic competitiveness, which is being determined through variables of town's overall revenues, its revenues from taxes and the number of the unemployed. The analyzed data refer to the data collected before and after the establishment of the entrepreneurial zones. The analysis indicates that the influence of the entrepreneurial zones proves to be beneficial to some of the observed indicators. The entrepreneurial zones, however, do not provide an adequate boost to the urban competitiveness of Valpovo, since economical problems it is faced with are still not being solved. In order to support the development and influence of the entrepreneurial zones on urban competitiveness of Valpovo, the local government must develop links among the key institutions, an entrepreneurial spirit and a commitment to risk taking and risk sharing by its inhabitants.*

**Key words:** Valpovo, entrepreneurial zones, urban competitiveness, statistical methods, improvement of urban competitiveness.

## SAŽETAK

*Cilj ovog rada je utvrditi utjecaj poduzetničkih zona u gradu Valpovu na urbanu konkurentnost Grada. Valpovo je grad u Istočnoj Hrvatskoj koji se nalazi u Osječko-baranjskoj županiji. Ovaj grad i dalje se suočava s problemima kao što su nedostatak radnih mjesta, koncentracija obitelji s niskim primanjima, neadekvatna javna infrastruktura i depopulacija, koja postaje sve veći problem u Gradu Valpovu. Jedan od pokušaja da se poboljša gospodarske okolnosti u gradu bila je uspostava poduzetničkih zona u Gradu Valpovu. U ove zone se ubraja zona malog gospodarstva, poslovne zone i industrijska zona. U radu se koristi statističkim metodama kako bi se istražio utjecaj poduzetničkih zona u Gradu Valpovu na njegovu urbanu konkurentnost. Urbana konkurentnost je sposobnost gradskog područja da koristi faktore konkurentnosti kako bi stvorilo vlastitu konkurentnu poziciju i održavalo je u odnosu na ostala gradska područja. Urbana konkurentnost često je usko povezana s ekonomskom učinkovitošću grada, što je i gledište koje u radu primjenjuju autorice. Tako se mjerenje konkurentnosti postiže mjerenjem gospodarske konkurentnosti Grada, što se utvrđuje putem varijabli gradskih prihoda od poreza, omjera nezaposlenih osoba s radno sposobnim stanovništvom i podataka vezanih uz investicije u Gradu. Analizirani podaci odnose se na podatke prikupljene prije i nakon uspostave poduzetničkih zona. Analiza pokazuje da je utjecaj poduzetničkih zona pozitivan i povoljan za neke od promatranih pokazatelja. Međutim, poduzetničke zone ne pružaju adekvatan poticaj gradskoj konkurentnosti Grada Valpova, jer se ekonomskim problemima s kojima se suočava još uvijek ne rješavaju. Kako bi se podržao razvoj i utjecaj poduzetničkih zona na poboljšanje urbane konkurentnosti Grada Valpova, lokalne vlasti moraju razviti veze između ključnih institucija, poduzetnički duh i opredjeljenje za preuzimanje rizika i podjelu rizika od strane njegovih stanovnika.*

**Ključne riječi:** *Valpovo, poduzetničke zone, urbana konkurentnost, statističke metode, poboljšanje urbane konkurentnosti.*

## 1. Introduction

The town of Valpovo is located in the eastern part of Osijek-Baranja County, 25 km northwest of Osijek. Industry, commerce and catering services are the most important economic activities in Valpovo, but agriculture remains the most developed branch of the economy. Despite many advantages and natural resources, Valpovo still deals with development issues such as lack of job opportunities, concentration of low-income families, inadequate public infrastructure and depopulation, which is becoming an increasing problem in Valpovo. In order to resolve these issues, Valpovo is setting up entrepreneurial zones to increase economic activities which should have a positive impact on employment rates, personal incomes, and the levels of tax revenues.

## 2. Entrepreneurial zones

Entrepreneurial zones are a part of a municipality or a town, in which the infrastructure has been built and the municipality provides additional benefits with the aim of stimulating economic activities. The main goal of developing entrepreneurial zones in Croatia is stimulating a more balanced development of its regions and an increase in employment (Lončar, 2008). Entrepreneurial zones are being established in order to create working conditions for entrepreneurs and to allow the use of a common infrastructure and connections

among entrepreneurs located in the same area. Specific goals of entrepreneurial zones are creating new jobs, rational use of the resources, increase of revenues of local communities, increase in exports etc. (Plan razvoja poduzetničkih zona na području Osječko-baranjske županije za razdoblje od 2008. do 2012. godine).

### **Entrepreneurial zones of the town of Valpovo**

Entrepreneurial zones in Valpovo were established to create spatial conditions for conducting entrepreneurial activities and encourage the development of local economy. After the first entrepreneurial zone was founded in 1996, new ones have continually been developed. Entrepreneurs who decide to start their business in an entrepreneurial zone are offered incentives: lowered communal contributions and fees, tax relief, purchasing plots with deferred payments or loan and lower land price. Furthermore, the town offers support to entrepreneurs by providing consulting services, information on projects and programs in entrepreneurship, business mediation, preparation of business plans and investment studies, coordination of business activities etc. (Investment guide of the town of Valpovo).

Small enterprise zone, located in the southeast part of town, was the first entrepreneurial zone founded in Valpovo. There are 17 enterprises in foodstuff industry, metal processing, wood processing, services etc. The zone is completely infrastructurally equipped (road, water supply, effluent disposal system, electricity and gas supply, and phone) and currently employs 153 workers. Small enterprise zone II was founded in 2010, and is located in direct proximity to the small enterprise zone. It is partially infrastructurally equipped and only one enterprise, which employs 62 people, is currently conducting its business in this zone. Business zone Valpovo was established in 2004; located in the southern part of town and furnished with complete infrastructure. There are four entrepreneurs in this zone, who employ 46 workers. The second business zone<sup>23</sup> is located in the northwestern part of town, and is furnished with complete infrastructure. Three entrepreneurs, who employ 40 workers, are currently conducting their businesses in this zone. K-III economy/business zone is located in the western part of town. The infrastructure is only partially built, so there are yet no enterprises in the zone, but business activities in catering, tourism, services and commerce are planned to be conducted. K-VI zone is located in the southeast part of town, near the town ring road. The zone was established in 2007, and there are seven entrepreneurs who employ 42 people. Industrial zone in Valpovo, located in the southern part of town, was founded in 2008. Activities to be performed in the zone are: business, administrative, office, trading, services and construction activities which do not endanger the natural environment.

### **3. Urban competitiveness**

Measuring urban competitiveness is becoming more interesting to scientists, politicians, investors, and tourists, since understanding performance of cities points to the possibilities of improving their position in relation to other cities. Cities compete for jobs, investments, new technologies, tourists, projects and so on, in order to avoid long-term out migration, stagnant investment, falling per capita incomes and raising unemployment (Camagni, 2002). Thus every town should struggle to enhance its competitiveness, that is, its ability to compete against other comparable towns (Kresl, 2007). The World Bank defines urban competitiveness as the ability of an urban region to produce and market products when competing with comparable products from other urban regions. Similar to this view, many

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<sup>23</sup> Known as business zone in J.J.Strossmayer Street

authors consider concepts of urban and urban economic competitiveness to be interchangeable (Begg, 1999, Kvainauskaite and Snieska, 2002, So and Shen, 2004, Saboniene, 2009, Jiang and Shen, 2010, etc.) and measure it with indicators of activity of firms, conditions which make firms competitive, business structure or market demand, exports etc. The World Bank states that economic structure of urban competitiveness can be determined through variables of analysis of output, employment and investment data. Since some of these aspects of development are also listed as a goal of establishing entrepreneurial zones in Valpovo, there was a need for analyzing the influence of the establishment of entrepreneurial zones in Valpovo on improvements of some of the aspects of urban competitiveness of the town.

#### **4. Analysis of the influence of entrepreneurial zones on urban competitiveness of the town of Valpovo**

Data for the analysis were collected due to cooperation of Centre for Entrepreneurship Valpovo, Bureau of Economy and Social Affairs Valpovo and Employment Bureau in Valpovo. The data on total revenues for the town of Valpovo, as well as those on revenues from taxes on income and profits, were deflated with average yearly indices of consumer prices in order to gain insight into the development of real values. The data on unemployment represent average unemployment per year in the town of Valpovo. After the analysis was conducted, several conclusions were made. From 1998 till 2010 real revenues of the town indicate an ascending trend with some oscillations. Chart 1 indicates real revenues of the town of Valpovo, and it is noticeable that a minor increase in revenues occurs in 2002, 2004, 2007 and 2008, which is in concordance with the years of establishing and beginning of development of entrepreneurial zones (2004 and 2007). A conclusion that the development of business zones allowed for an increase in town's revenues can be made. Unfortunately, the fact that the revenues began to decrease in 2009 and 2010 indicate that this beneficial impact was not as significant as the impact of negative trends in the economy (economical crisis, decrease in employment and economic activity). Chart 2 shows that in years relevant for entrepreneurial zones and also in consequent years there was no considerable decrease in unemployment. A more considerable decrease was noted in 2002 and 2003, while a smaller decrease is present until 2008, when the number of unemployed is again increasing. A conclusion can be made that establishing entrepreneurial zones had no significant effect on the decrease in unemployment. Revenues from taxes on income and profit were chosen as the only tax revenues which can be comparable for the entire analyzed time period. Chart 3 indicates real revenues from taxes on income and profit, and it can be read that establishing and the beginning of operations in the entrepreneurial zones has not made a significant impact on those indicators either. Increases in these revenues were achieved in years 2002, 2004, 2006 and 2009, with a significant increase in 2007. It is clear that some increases coincide with the years relevant to entrepreneurial zones (such as 2004), and that the largest increase happened in the year when K-VI economy/business zone was founded in 2007. Although there is an increasing trend of these revenues with a few oscillations, it cannot be claimed that it is the result of the influence of entrepreneurial zones.

In order to sustain development and a positive influence of entrepreneurial zones on the urban competitiveness of the town, the local government must develop links among the key institutions, an entrepreneurial spirit and a commitment to risk taking and risk sharing by its inhabitants. These measures would ensure a decrease in unemployment of local inhabitants and encourage their involvement in economic development of the town, and the cooperation among the key institutions would ensure a more transparent sale of plots, better control of

entrepreneurships and success of present and future enterprises, and also better incentives for starting up enterprises.

Chart 1. Real overall revenues of the town of Valpovo

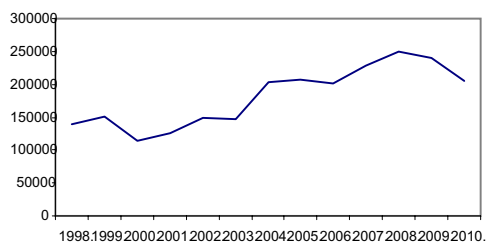


Chart 2. Average annual unemployment in Valpovo in numbers

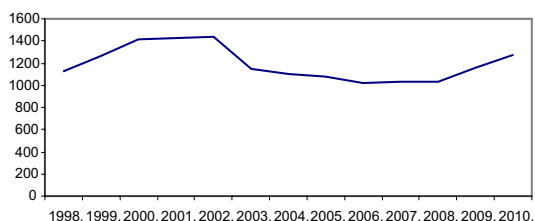
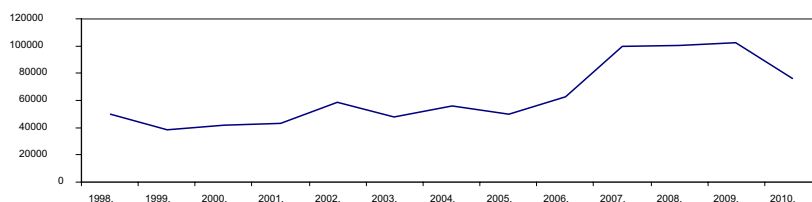


Chart 3. Real revenues from taxes on income and profit of the town of Valpovo



Source: authors' calculations.

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