

Deviation between the Convergence to the Target Values of the Performance Indicators of the Local Strategic Goals for the Development of Entrepreneurship and the Average National Trends: Case Study of the City of Rijeka



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ABSTRACT: This paper addresses the selection of appropriate measurable performance indicators for monitoring defined strategic goals for entrepreneurship and business sector development at the local level, particularly from the perspective of bringing the pace of development closer to the national average. Using the example of the Croatian city of Rijeka, the paper analyses whether the convergence to the target values of key indicators of success in achieving the city's strategic goals in the field of entrepreneurship also contributes to favourable development dynamics of the local business sector compared to the average national trends. The results presented in this paper have shown that the overall performance of local entrepreneurs in the city of Rijeka, although approaching the target values, still lags behind the average trends at the national level. This is mainly reflected in the below-average labour productivity, below-average economic strength and below-average capital equipment, as well as in the extremely monolithic structure of the local business sector. Therefore, this case study shows that it is important for cities to consider the broader context of specific development goals when developing appropriate indicators to monitor the success of their implementation, especially in terms of national or regional development averages and criteria for the long-term stability and resilience of a city's development.

KEYWORDS: local development plan, local business sector, business performance indicators, development gap, city of Rijeka

I. INTRODUCTION

Development plans are a necessary and essential tool to guide the structure and dynamics of a city's future development, i.e. to ensure that it develops in a sustainable, organized and inclusive manner (Alsayel et al., 2022; Brzica, 2022; Deželan et al., 2014). Local development plans, therefore, provide the strategic and operational framework for balancing the diverse needs and aspirations in a local community and local economy with the available factors, real opportunities, and potential for local development. Without a plan and associated local policies, uncontrolled patterns of growth and development in a city can lead to numerous negative externalities, potentially creating uncertainty and problems in development (Correia and Roseland, 2022; Dankani and Abubakar, 2011). This is especially true for the local business sector, which is a major driver of all local development. This means that effective and successful development plans can attract business and investment, leading to job creation, growth of the local economy, and higher levels of prosperity for local communities (Shen et al., 2018; Sáez and Perriñez 2015).

In order for local decision makers to manage certain aspects of local development, including the business sector, they must be able to measure and monitor them. Therefore, establishing measurable performance indicators in local development plans is critical to ensure that the local development goals set are actually being achieved (Pires et al., 2014; Houghton, 1997). This enables data-driven decision-making, accountability, and the adaptability needed to respond to changing circumstances and, accordingly, mitigate development risks in a timely manner and strengthen the resilience of local development. The problem is that in practice the selected indicators are usually based only on aggregate city-level values without quantifying their relative deviation from national averages, which may not fully capture the problem of local business sector development divergence. Moreover, they may be too narrow in scope, especially when it comes to identifying unfavorable structural characteristics of the local enterprise sector. As a result, progress on aggregate indicators for a city's business sector may not reflect the sustainability

Deviation between the Convergence to the Target Values of the Performance Indicators of the Local Strategic Goals for the Development of Entrepreneurship and the Average National Trends: Case Study of the City of Rijeka

and resilience of the local business sector in the long run. For example, if a particular city is lagging behind the national average, this could indicate a lack of competitiveness of the local business sector, which could have long-term economic consequences. Also, if the performance of only certain sectors dominates the overall performance of the local business sector, this could conceal the low economic strength of the local business sector (Malizia et al., 2021).

Taking into account the previously described problem, the main objective of this research is to determine, on the example of the city of Rijeka (hereinafter: the City), whether the convergence with the expected results of achieving the specific strategic goals of the City Development Plan in the field of the local business sector also contributes to a favorable development dynamics of the local business sector compared to the average national trends. Accordingly, the purpose of this research is to propose general guidelines for the design of a system of indicators to monitor the success of achieving the specific strategic goals of local development plans. The case study of the city of Rijeka is particularly relevant to this research context because, according to the 2021 Croatian Census, Rijeka is the third largest city in Croatia with 107,964 inhabitants. In addition, according to the Croatian Financial Agency (FINA) data for 2021, out of a total of 556 cities and municipalities in the Republic of Croatia, Rijeka ranks 4th in total revenue of local entrepreneurs, 4th in total net profit of local entrepreneurs, 3rd in total number of local entrepreneurs, and 3rd in total number of employees of local entrepreneurs.

II. RESEARCH SCOPE, METHODS AND DATA

Considering the defined objective and purpose of the research, two groups of indicators were used in this paper:

- 1) key indicators of success in achieving specific strategic goals of the City of Rijeka Development Plan 2021 – 2027 in the field of entrepreneurship and
- 2) additionally selected indicators of the performance of local entrepreneurs and the development of the local business sector in comparison with the national level.

The City of Rijeka Development Plan 2021 – 2027 (hereinafter: City Development Plan) sets the strategic and policy implementation framework for the overall development of the City until the end of this decade, aligned with the strategic priorities of the national and EU level. The strategic approach to entrepreneurship development in the City is determined by specific goals under the ***Strategic Goal 2 of the City Development Plan: University City for the New Era, where advanced technologies and creative industries enrich the industrial heritage***. To measure and monitor the success of the specific goals for entrepreneurship development, the City Development Plan also defines a set of final outcome indicators (see Table 1).

Table 1. Key indicators of the success of entrepreneurship development according to the specific goals of the City of Rijeka Development Plan 2021 – 2027

Key indicators of success in terms of entrepreneurship	Target value in 2030
Number of local entrepreneurs	6.275
Net profit of local entrepreneurs	127.781.801,71 euros
Share of sector <i>H - Transportation and storage</i> in total revenues of local entrepreneurs	17%
Share of sector <i>C - Manufacturing</i> in total revenues of local entrepreneurs	15%
Share of sectors <i>J - Information and communication</i> and <i>M - Professional, scientific and technical activities</i> in total number of employees of local entrepreneurs	20%
Share of ICT and creative and cultural industries in total number of local entrepreneurs	15%

Source: City of Rijeka Development Plan 2021 – 2027

In accordance with the above indicators, the medium-term dynamics of the development of the business sector in the City was evaluated by calculating and analysing rates of change and average annual rates of change. The time frame of the analysis is the period from 2015 to 2022, and the business data of entrepreneurs located in the City (i.e. local entrepreneurs), which were used to calculate the annual values of the indicators, were obtained from the online database of the Digital Chamber of the Croatian Chamber of Commerce. Due to the lack of suitable data, only the indicator *Share of ICT and creative and cultural industries in total number of local entrepreneurs* was not included in the analysis.

One of the indicators of success in achieving Strategic Goal 2 of the City Development Plan that is not included in Table 1 is the unemployment rate at the level of the entire local economy. This is not an appropriate thematic indicator for entrepreneurs, as they represent only a part of the local economy. However, in the analytical part of this paper, the contribution of local

Deviation between the Convergence to the Target Values of the Performance Indicators of the Local Strategic Goals for the Development of Entrepreneurship and the Average National Trends: Case Study of the City of Rijeka

entrepreneurs to the total employment in the City is analysed and on this basis their contribution to the achievement of the planned low unemployment rate in the local economy is also evaluated.

In order to obtain a more complete overview of the development characteristics of the local business sector, the following additional indicators of local entrepreneurs were included in the analysis: total number of employees, total revenues, total expenditures, revenues from sales abroad, total imports, and gross investment in new fixed assets. On the other hand, in order to determine whether the achievement of the target values for the development of local entrepreneurship also represents a favorable development compared to the average trends at the national level, the following indicators were included in the analysis: total revenue per employee, total revenue per inhabitant, total investment per employee, number of employees per entrepreneur, average net monthly wage per employee. Data from the online database of the Digital Chamber of the Croatian Chamber of Commerce and data from the Croatian Bureau of Statistics were used to calculate these indicators.

Finally, it is important to emphasize that the calculated values for all previously mentioned indicators are presented in the paper in the European numerical format.

III. RESULTS

This chapter presents the results of the analysis of the convergence of the performance of local entrepreneurs in relation to the target values of key indicators of success in achieving specific strategic goals of the City in the field of entrepreneurship. In order to determine whether the convergence of local entrepreneurs' performance in relation to the expected outcomes of the City Development Plan contributes to the development of local entrepreneurship compared to the national average, this chapter also presents the results of the comparative analysis of trends and structural changes in the business sector at the local and national levels.

A. Analysis of Trends and Changes in the Local Business Sector in Relation to the Set Goals of the City Development Plan

Taking into account the medium-term growth dynamics of the number of entrepreneurs in the City, the net profit of their businesses, as well as the dynamics of changes in the relative share of strategically important economic sectors in the City's business sector, it can be concluded that the overall performance of local entrepreneurs is consistent with the expected results of the implementation of the City Development Plan (see Table 2).

Table 2. Change and projection of the value of key indicators for the success of entrepreneurship development in the city of Rijeka

<i>Indicators</i>	<i>Value in 2018</i>	<i>Value in 2022</i>	<i>Average annual rate of change in 2018-2022 (in %)</i>	<i>Target value in 2030</i>	<i>Projected value in 2030 based on average annual rate of change</i>
Number of local entrepreneurs	4.961	5.397	2,13	6.275	6.387,32
Net profit of local entrepreneurs (in euros)	12.885.209,11	28.195.564,53	21,62	127.781.801,71	135.007.980,58
Share of sector <i>H</i> in total revenues of local entrepreneurs (in %)	13,68	14,65	1,73	17	16,81
Share of sector <i>C</i> in total revenues of local entrepreneurs (in %)	9,78	15,21	11,67	15	36,76
Share of sectors <i>J</i> and <i>M</i> in total number of employees of local entrepreneurs (in %)	15,56	16,07	0,82	20	17,16

Source: Author's calculation based on data from the online database of the Digital Chamber of the Croatian Chamber of Commerce

In the period from 2018 to 2022, local entrepreneurs have made a leap in development in relation to all the key indicators listed in the table above. If the values of these indicators continue to increase with the average annual growth rates achieved in the observed period, almost all target values will be exceeded by 2030. It is also evident that the target value for the share of sector

Deviation between the Convergence to the Target Values of the Performance Indicators of the Local Strategic Goals for the Development of Entrepreneurship and the Average National Trends: Case Study of the City of Rijeka

C - Manufacturing in the total revenues of local entrepreneurs was already reached in 2022, which means that the challenge in the following years will be to maintain its relative importance in the local business sector.

Comparing the growth rates of total employment in the local business sector and in the local economy as a whole, it is clear that local entrepreneurs contributed significantly to the decrease in the unemployment rate in the city of Rijeka in the period from 2018 to 2022. In the observed period, the average rate of registered unemployment in the City decreased by 1.12 percentage points to 5,44%. At the same time, the total number of employees in the City increased by only 0,39%, while the total number of employees of local entrepreneurs increased by 10,67%. This ultimately led to an increase in the share of the local business sector in total employment in the City, which amounted to 62,96% in 2022. Therefore, in order to increase and maintain the purchasing power and living standards of the local population, it is particularly important to promote the dynamic development of the local business sector and strengthen its resilience to possible cyclical changes in the national economy (see Table 3).

Table 3. Employment among local entrepreneurs and total employment in the city of Rijeka in 2018 and 2022

<i>Indicators</i>	<i>Value in 2018</i>	<i>Value in 2022</i>	<i>Rate of change 2022/2018</i>
Number of employees of local entrepreneurs	30.406	33.650	10,67%
Total number of employees in the city of Rijeka	53.238	53.447	0,39%
Share of employees of entrepreneurs in total employment in the city of Rijeka	57,11	62,96	5,85 percentage points
Average annual unemployment rate in the city of Rijeka (in %, target value for 2030 – 3%)	6,56	5,44	-1,12 percentage points

Source: Author's calculation based on data from the online databases of the Digital Chamber of the Croatian Chamber of Commerce and the Croatian Bureau of Statistics

The changes in the values of all observed key indicators of the success of the implementation of the specific strategic goals of the City Development Plan related to entrepreneurship show that the dynamics of certain aspects of the growth of the local business sector converge with the target values of the Plan.

B. Analysis of Selected Indicators of Development of the Local Business Sector

Looking at recent trends and changes in the overall performance of the local business sector in terms of additional indicators (see Table 4), an upward trend in the growth of the local business sector is also evident. For example, in 2022, compared to 2018, the total revenue of local entrepreneurs increased by 44,86%, profit by 118,82%, while at the same time the number of local entrepreneurs increased by 8,79%.

Table 4. Selected business indicators of local entrepreneurs for the period from 2018 to 2022

<i>Indicators</i>	<i>Value in 2018</i>	<i>Value in 2019</i>	<i>Value in 2020</i>	<i>Value in 2021</i>	<i>Value in 2022</i>	<i>Rate of change 2022/2018</i>
Number of local entrepreneurs	4.961	5.016	5.068	5.127	5.397	8,79%
Number of employees	30.406	32.168	31.402	32.143	33.650	10,67%
Total revenues (in euros)	345.204.767,26	357.904.726,47	342.613.394,46	406.576.032,73	500.074.813,97	44,86%
Total expenditures (in euros)	328.473.984,43	342.791.817,67	331.214.038,08	382.942.501,56	464.506.908,35	41,41%
Net profit (in euros)	12.885.209,11	11.272.245,26	8.599.096,42	19.495.278,14	28.195.564,53	118,82%
Revenues from sales abroad (in euros)	75.692.484,23	77.039.665,20	73.331.446,41	87.940.423,89	122.901.639,76	62,37%
Total imports (In euros)	37.468.365,22	45.991.543,40	41.463.574,05	48.705.683,43	61.703.878,40	64,68%
Gross investments	7.757.840,71	6.691.720,56	9.112.936,32	19.092.754,08	12.931.319,59	66,69%

Deviation between the Convergence to the Target Values of the Performance Indicators of the Local Strategic Goals for the Development of Entrepreneurship and the Average National Trends: Case Study of the City of Rijeka

in new fixed assets (in euros)						
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Source: Author's calculation based on data from the online database of the Digital Chamber of the Croatian Chamber of Commerce

Despite the aforementioned positive trends among local entrepreneurs, relative indicators of entrepreneurial performance suggest that the business sector in the City is underperforming compared to the national average (see Table 5).

Table 5. Selected indicators of entrepreneurship development in the city of Rijeka and the Republic of Croatia in 2018 and 2022

Indicators	Value in 2018		Value in 2022		Rate of change 2022/2018 (in %)	
	Rijeka	Croatia	Rijeka	Croatia	Rijeka	Croatia
Total revenue per employee (in euros)	11.353,18	13.463,41	14.861,06	18.157,64	30,9	34,87
Total revenue per inhabitant (in euros)	2.940,04	3.246,11	4.692,06	5.024,30	59,59	54,78
Total investment per employee (in euros)	255,14	435,33	384,29	568,31	50,62	30,55
Number of employees per entrepreneur	6,13	7,5	6,23	7,08	1,73	-5,57
Number of entrepreneurs per 1,000 inhabitants	42,25	32,17	50,64	39,09	19,85	21,53
Average net monthly wage per employee (in euros)	725,33	741,12	922,95	925,48	27,24	24,88

Source: Author's calculation based on data from the online databases of the Digital Chamber of the Croatian Chamber of Commerce and the Croatian Bureau of Statistics

Notwithstanding the fact that Rijeka has made more significant progress compared to the Republic of Croatia in most of the basic indicators of entrepreneurship development listed in the previous table, the results for 2022 show that Rijeka still lags significantly behind the average performance of the business sector at the national level. Thus, the total entrepreneurial revenue per employee in 2022 at the City level was 18,16% lower than at the national level, while the total entrepreneurial revenue per inhabitant at the City level was 6,61% lower than at the national level. From this it is clear that there is a gap between the City and the Republic of Croatia in terms of labour productivity and the relative economic strengthen of entrepreneurs. These circumstances are primarily due to the below-average capital and technological endowment of local entrepreneurs, which limits their productive capabilities. This is best illustrated by the data on realized investments of entrepreneurs in new fixed assets per employee, according to which in 2022 entrepreneurs in the City had a 32,38% lower level of investment per employee than the national average. Although the City has an almost 30% higher density of active entrepreneurs compared to the Republic of Croatia, measured by the number per 1,000 inhabitants, the observed discrepancy shows that a relatively larger number of businesses in the City area actually creates a relatively lower value for the local population. This is confirmed by the observed differences in the level of average wages earned. Indeed, although the average monthly net salary per employee among local entrepreneurs increased nominally by 27,24% over the observed period, the level of this salary in 2022 was still below the national average.

The development lag of the local business sector compared to the national average is mainly due to its structural characteristics (see Table 6).

Deviation between the Convergence to the Target Values of the Performance Indicators of the Local Strategic Goals for the Development of Entrepreneurship and the Average National Trends: Case Study of the City of Rijeka

Table 6. Revenue structure of local entrepreneurs in 2018 and 2022 according to NACE Rev. 2

Sectors	Value in 2018 (in euros)	Share in total revenues (in %)	Value in 2022 (in euros)	Share in total revenues (in %)	Rate of change 2022/2018 (in %)
Sector C	33.763.220,02	9,8	76.045.215,50	15,2	225,23
Sector G	154.928.280,07	44,9	206.601.473,03	41,3	133,35
Sector H	47.220.363,18	13,7	73.264.239,69	14,7	155,15
Othe sectors	109.292.903,99	31,7	144.163.885,75	28,8	131,91

Source: Author's calculation based on data from the online database of the Digital Chamber of the Croatian Chamber of Commerce

According to the data presented in the table above, local entrepreneurs generated a total revenue of 500.1 million euros in 2022, an increase in revenue of 44,86% compared to 2018. This is mainly due to the absolute and relative growth of revenues in the sector *G – Wholesale and retail trade; repair of motor vehicles and motorcycles*, which also dominates the structure of total revenues in 2022 with a share of 41,31%. A significant contribution to the growth of the total revenues of local entrepreneurs is also made by the business results of sectors *C - Manufacturing* and *H - Transportation and storage*, which together account for 29,86% of total revenues in 2022. Since sector *G* accounts for almost half of the total revenues of the City's business sector, it can be concluded that the City is characterized by a monolithic business structure specialized in trade. This is actually an indicator of underutilization of the City's entrepreneurial potential, but also of a general risk of vulnerability and long-term stability of the local business sector. Trade tends to be a relatively low value-added activity, employing mainly less educated and less skilled workers (McTier and McGregor, 2018). On the other hand, the role of trade in the local economy is mainly related to the supply of consumer goods to residents, which makes it extremely procyclical (Watson, 2019; Borin et al., 2017). This means that trade experiences above-average growth in sales and new jobs under conditions of an upward business cycle, but also an above-average decline in sales and loss of jobs during periods of a negative business cycle, leading to sudden changes in the purchasing power of the population. Therefore, a higher share of trade in the local business sector means a higher degree of vulnerability and sensitivity to recessionary trends and, consequently, a higher risk of job losses. The example of the city of Rijeka has shown the consequences of such risk in the last major recession of the Croatian economy, which lasted from 2009 to 2015. During this period, more than 6,000 jobs were lost in the local business sector, of which more than a third were in the sector *G*. In this context, strengthening and diversifying local entrepreneurship towards a greater representation of higher value-added activities and sectors should be a particular strategic challenge and imperative for the City. This is all the more true since, according to the data of the Croatian Chamber of Commerce for the year 2022, a quarter of the employees of local entrepreneurs work in the sector *G*.

The pronounced specialization of the local business sector in trade is also reflected in the levels of sectoral labour productivity (see Table 7). For example, in 2022, in addition to sector *G*, which had the highest labour productivity in terms of revenue generated per employee, only sectors *D - Electricity, gas, steam and air conditioning supply* and *L - Real estate activities* had higher labour productivity than the national average. Since sectors *D* and *L* together account for only 2,3% of the total revenue and 1,6% of the total number of employees of local entrepreneurs, their above-average labour productivity is not very significant for the local economy. This indicates that the City's active entrepreneurial resources, such as labour, capital, and knowledge, are mainly focused on expanding trade activities and improving their productivity.

Table 7. Total revenue per employee of entrepreneurs located in the city of Rijeka in 2018 and 2022, in euros

Sectors	Value in 2018	Value in 2022	Rate of change 2022/2018 (in %)
A - Agriculture, forestry and fishing	7.047,06	8.487,71	20,44
C - Manufacturing	9.235,02	14.878,74	61,11
D - Electricity, gas, steam and air conditioning supply	14.045,59	18.888,94	34,48
E - Water supply; sewerage, waste management and remediation activities	7.673,14	8.243,37	7,43
F - Construction	9.638,34	10.537,82	9,33
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	19.993,33	25.115,67	25,62

Deviation between the Convergence to the Target Values of the Performance Indicators of the Local Strategic Goals for the Development of Entrepreneurship and the Average National Trends: Case Study of the City of Rijeka

H - Transportation and storage	10.628,04	15.561,65	46,42
I - Accommodation and food service activities	4.667,63	7.651,18	63,92
J - Information and communication	7.872,71	9.198,22	16,84
K - Financial and insurance activities	7.784,85	7.928,24	1,84
L - Real estate activities	12.832,86	22.170,01	72,76
M - Professional, scientific and technical activities	7.345,09	8.946,88	21,81
N - Administrative and support service activities	6.727,49	8.297,88	23,34
O - Public administration and defence; compulsory social security	5.442,51	6.114,33	12,34
P - Education	3.134,79	3.361,12	7,22
Q - Human health and social work activities	8.065,47	7.740,77	-4,03
R - Arts, entertainment and recreation	11.694,76	14.455,35	23,61
S - Other service activities	3.253,85	3.681,77	13,15
Rijeka	11.353,18	14.861,06	30,9
Croatia	13.463,41	18.157,64	34,86

Source: Author's calculation based on data from the online database of the Digital Chamber of the Croatian Chamber of Commerce

Summarizing the results of the previous analysis, it is clear that achieving the target values of the key indicators of success in achieving specific strategic goals of the City in the field of entrepreneurship will not help to reduce the divergence of the local business sector compared to the average trends at the level of the Republic of Croatia, unless there is an above-average growth in productivity and other related relative performance of local entrepreneurs in the near future.

IV. CONCLUSION

Looking at the target values of the key indicators of entrepreneurship development set in the City Development Plan, we can conclude that the growth of the local business sector in the city of Rijeka and the changes in its structure are approaching the target values. Moreover, all analysed additionally selected indicators of business activity of local entrepreneurs in the observed medium-term period point to the growth of business volume of local entrepreneurs and their importance for the local economy. However, the results of the analysis of the structural indicators of entrepreneurs and the relative performance of entrepreneurs according to the so-called *per capita* and *per employment* figures basically warn of a lagging development of the business sector in the city of Rijeka compared to the average trends at the level of the Republic of Croatia. This is mainly reflected in the below-average labour productivity, below-average economic strength, and below-average capital equipment of local entrepreneurs, as well as in the extremely monolithic structure of the local business sector. Thus, if there is no significant progress in the productivity of local entrepreneurs and diversification of the structure of the local business sector in the remaining period of the implementation of the City Development Plan, the mere achievement of the target values of the monitored indicators will not lead to significant development effects for the City.

All of this shows that it is important for cities to consider the broader context of specific development goals when developing appropriate indicators to monitor and holistically assess the success of their implementation. Above all, these include national averages and criteria for the long-term stability and resilience of a city's development dynamics and structure. Therefore, cities should use a more comprehensive set of indicators that cover different aspects of development, not just the narrowly defined aggregate indicators. This provides a more holistic view of development. Accordingly, development analysts and policymakers need to look critically at the selection of data used to calculate the chosen indicators and their interpretation to ensure that the chosen indicators accurately reflect the city's level of development relative to its broader and narrower environment.

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Deviation between the Convergence to the Target Values of the Performance Indicators of the Local Strategic Goals for the Development of Entrepreneurship and the Average National Trends: Case Study of the City of Rijeka

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