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COUNTY AND LOCAL PUBLIC PORTS DEVELOPMENT THROUGH ENTREPRENEURSHIP STRENGTHENING

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Abstract

This paper aims to develop and analyse general entrepreneurship strengthening oriented principles in county and local public ports. Complex relations in county and local public ports are elaborated together with basic SBA principles focused on entrepreneurial strengthening. The accent is given to SBA principles serving as an analytical foundation to propose seven main principles focused on entrepreneurship stimulation and strengthening county and local public port systems. They could serve as solid foundation for further growth and development stimulation of county and local public ports focused on efficiency and compatibility with business development policies. This is performed in the light of entrepreneurial orientation of the county and local port systems addressing crucial SME questions which could be beneficial to properly detect possible collision of interests and to confront those as much as possible with the stable institutional framework, standardised principles and strategically targeted development goals. The importance of port authority policies as well as macro port policies to be in line with the policies focused on entrepreneurship strengthening and development is emphasized in order to stimulate port development through realisation of entrepreneurial initiatives in port area and surrounding business environment.

Key words: ports, development, entrepreneurship, competitiveness, SBA

1. INTRODUCTION

The port development is often strongly determined by the geographical position of the port itself as well as the natural conditions of its surrounding. This is especially

visible with county and local public ports as they are often strongly connected with local communities and urban places along the coast. Such correlative relationship makes them complex to be adequately managed. In the same time this makes it also very demanding for public ports management system to direct and focus the port development toward successful fulfilling of multiple roles that the port has for local communities and urban places. Up to date those roles are strongly dominated by classical approach in which the port primarily serves for transport and traffic purposes, while it's wider role and significance for general entrepreneurial activities is not adequately emphasised and visible. Complexity of modern entrepreneurial development approaches as well as significance that small and medium sized enterprises (SMEs) have for the general economic development makes it necessary to analytically evaluate all the functions of county and local public ports in the shade of successful and sustainable economic development of the local communities as well as regional and national competitiveness and long term economic growth. Those functions are necessary to be expanded incorporating wide entrepreneurial development perspective that is particularly important to serve as a solid institutional background and framework for acceleration and strategic focussing of county and local port development. This approach can also be beneficial as a harmonisation factor in the relationship between the port and local community, as well as port itself, respectively the port community as an entrepreneurially oriented system.

2. ENTREPRENEURIAL APPROACH TOWARDS COMPLEXITY OF CONCESSION ACTIVITIES AND RELATIONS IN COUNTY AND LOCAL PUBLIC PORTS

Entrepreneurship as an economic development factor has been widely studied through multiple researches and multi-country studies of entrepreneurial activity (Terjesen et al., 2016). Role and contribution of entrepreneurs to economy (van Praag & Versloot, 2007) is wide and strong, and especially their role and distinctiveness of entrepreneurship and small business development in countries that are at different stages of transformation to market based economies (Smallbone & Welter, 2001). Smallbone & Welter (2001) demonstrated that in transition countries entrepreneurs often have to cope with the constraints imposed by highly bureaucratic public structures.

Those public structures are often seen as an administrative burden for SMEs strengthening and general business operations. Approach toward entrepreneurship development and SMEs sustainability focused on innovation is recognised as an important stimulating factor (Klewitz & Hansen, 2014). Stimulating business environment and institutional setting that supports and encourages SMEs initiatives while minimising transaction costs (Williamson, 1979) is very important for fully achieving positive effects of entrepreneurship development on economic growth.

In modern societies, well-running transport system is essential to maintaining the competitiveness and wealth (European Commission, 2015; World Bank, 2007). The transport system and especially the public port system are strongly characterised by combination of public and private sector (Kesić & Debelić, 2014) that significantly

influences possibilities as well as approaches to competitiveness development. Researches also showed that hinterland interconnections and road network linking the sea port presents a vital transport factor that strongly determines port competitiveness (Vilke, et al., 2015), while also ecological aspects (Šantić et al., 2011) needs to be taken into account in order to achieve harmonised development of port and its surrounding. Ecological aspects are especially important considering logistic activities within and around the port area that highly influence port competitiveness (Debelić et al., 2016). It is also demonstrated the importance of incorporating flexibility in transportation operations for those logistic activities (Ishfaq, 2012; Naim et al., 2006) in order to achieve logistics value (Rutner & Langley, 2000).

While the port is generally managed by the port authority (Zakon o pomorskom dobru i morskim lukama, 2003), commercially interesting operations are generally performed by the concessionaire. Functional specificities of concession relations between port authority and concessionaires within the port area are partly legislatively defined, including one or more maritime and land areas, used for carrying out port operations (Debelić, 2013). Considering it has been determined that concession is the right by which part of maritime common good is partially or completely excluded from common use and given for specific or business use to natural or legal persons, in accordance with spatial planning, there is visible a possible conflict of interest between the port authority, as concession provider, and concessionaire (Jugović, 2012, Debelić, 2013). This is primarily visible when it comes to the size and intensity of commercial use of the area within the business for which the concession is given and in terms of presentation/recording of business results (Debelić et al., 2015; Boughton, 2003) on which the variable part of concession fee is based.

Furthermore, there are other aspects of conflicts of interest between the Port Authority and concessionaire. There is also partly common interest in the battle to attract and increase utilization of capacities that are under concession, but within limits of long-term sustainability. However, looking at the depth of this relationship from the aspect of modern economic approach, one can see that it is in the interest of concessionaire to increase profit, while the provider of concession is more interested in increasing revenue, even at the expense of potential profits (Debelić, 2013; Kesić, 2003).

The legislation divides all ports in the Republic of Croatia, according to their purpose, into ports open to public traffic and ports of special purposes. Although the principal-agent relationship can be detected in both of these domains, our attention is focused on public ports (ports that are open to public traffic) in places that significantly demonstrate interconnection of public and private initiatives and interests. Complexity of interests is not primarily seen through ownership, considering that maritime common good is under non-ownership arrangement, but in overlapping objectives of business and management of port area and in terms of long term business sustainability of concessionaire (business) and port authority as concession provider.

This aspect must be viewed in terms of size or significance of public ports. According to size and significance of ports to the Republic of Croatia, ports that are open to public traffic are divided into ports of special (international) economic interest to the Republic of Croatia, ports of county interest and ports of local interest. In this respect, the area of public ports that are open to public traffic and are of special

economic interest to the Republic of Croatia is determined in accordance with spatial plans and specific port area may include several municipalities, cities and/or counties (Kesić, 2003; Jugović, 2012; Debelić, 2013). In regard to adequacy of management of public ports open to public traffic that are of special interest to the Republic of Croatia, competent port authority is established by the state by issuing an ordinance on establishment of such port authority. Such ordinance, in addition to many other elements, must especially include the boundaries of the port area governed by such port authority, as well as port operations, buildings, substructures and superstructures within the port area. On the other hand, when it comes to county and local public ports (ports open to public traffic that are of county and local interest), county assembly is the one to determine the port area, in accordance with the spatial plan and with the agreement of the government. In regard to county and local public ports, there can be more than one county port authority established in specific county, and the founder is the county itself. If there are several port authorities established within one county at the request of municipal or city council, then the city or municipality are potential co-founders of such county port authorities (Kesić, 2003; Jugović, 2012).

As a rule, port authority grants concession to individual concessionaires for carrying out port business activities while one concessionaire may not (should not) be granted concession for carrying out all of the port activities (Debelić, 2013). However, in contemporary business environment where ownership and management are often separate categories, and ownership is often difficult to determine clearly and precisely, the basic issue we are dealing with is the correct determination and detection of what exactly is a concessionaire, or what exactly is the difference between two concessionaires who are different in name but are possibly connected by a whole number of economic, legal, technological and other business relations (Rak et al., 2016). However, such legal determination opens the possibility of significant business involvement in performance of port activities.

The legislation differentiates between concessions for carrying out port activities and concessions for carrying out other business activities (Rak et al., 2016). Both of these groups are divided into two subgroups, depending on whether they do or do not require exclusive use of the existing and/or construction of new buildings or other substructures or superstructures within the port area.

Port authority may strip the concessionaire of the concession if it should determine that the concession was not used in accordance with the legislation and the concession agreement that is a mandatory formal institution necessary to be established in all concession relations. When concession is taken away, so is the right to use the port area, buildings and other substructures and superstructures within the port, and all other contractual relations based on or stemming from the concession are terminated if they are connected to the operations and use of substructures and superstructures within the port area. In such events, the concessionaire is not entitled to compensation.

The port authority and its director have a legal obligation to check the execution of the plan and the annual operational program of the concessionaire at least once a year and to submit a report thereof to the administrative council. Concessionaire must provide the port authority with access so that it could check the execution of the plan and the annual operational program of its work (Rak et al., 2016).

Considering the functional specificity of concession relations, a concession relations model is taken into account together with the framework for possible model of evaluation of the scope of concession contract.

There are generally two main types of agency relations in port area – primary and secondary (Debelić, 2013). The concession relation in a port zone, the primary one, is essentially the basic economic relationship of a port authority and a concessionaire. There are detected features of partially conflicting interests and interdependence and overlapping in the realization of their goals. According to Debelić (2013) it is especially visible in regard to the implementation of concession activities with the achievement of targeted economic results, adequate reporting of a concessionaire (agent) to a port authority (principal), as well as the implementation of appropriate control mechanisms of the execution of basic goals of a port zone by a port authority.

This relation of a port authority and a concessionaire is shown (Debelić, 2013) to contain information asymmetry which is particularly evident in a limited possibility for the implementation of adequate control of a port authority over the work of a concessionaire. There is also a partial collision of interests (Debelić, 2013) in terms of the desire to maximize business performance by the concessionaire and the desire to maximize concessionaire's revenue category by the port authority, given that the variable part of the concession fee refers to the relative share in the achievement of the business revenue of the concession activity.

Beside the primary, there is also detected the secondary aspect of a concession relation in a port zone (Debelić, 2013). This aspect can be seen in parallel with the primary one, established between the governing council in a function of a principal and the director of the port authority as an operational agent. It is important in terms of understanding the significant information asymmetry between the governing council, which elects the director and controls his or her operation, and the director as the head of a port authority, who makes business conceptual and implementation decisions of fundamental importance for a port authority itself, and for the realization of the objectives of business policy and port policy.

Since port policy is a part of public policies, integral part of which is also the economic policy, which incorporates also public policies focused on enterprise development, especially of small and medium-sized enterprises, from both macroeconomic and the microeconomic aspects, the importance and size of implications which this relation has on encouraging entrepreneurial initiatives is significant (Debelić, 2013).

In order to strengthen entrepreneurial as well as general economic activity in county and local public ports all those concessions management aspects and principal-agent relations should be seen through the perspective of entrepreneurship strengthening policies, such as the Small Business Act for Europe (SBA). It is an overarching widely applicable framework for the EU policy on small and medium enterprises (SMEs) aiming to improve the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs, and remove the remaining administrative burdens and barriers to SME development. There are four main SBA priority areas: promoting entrepreneurship, less regulatory burden, better access to finance, and better access to markets and internationalisation. SBA sets out ten

principles to guide the conception and implementation of policies both at EU as well as member states level. From the public policies perspective, those are seen as essential to bring more added value created by SMEs at EU level, create more fruitful and beneficial business environment for SMEs thus improving the legal and administrative environment throughout the EU. The ten main SBA principles defined in the SBA Act for Europe (European Commission, 2008) and in the SBA Review (European Commission, 2011) are:

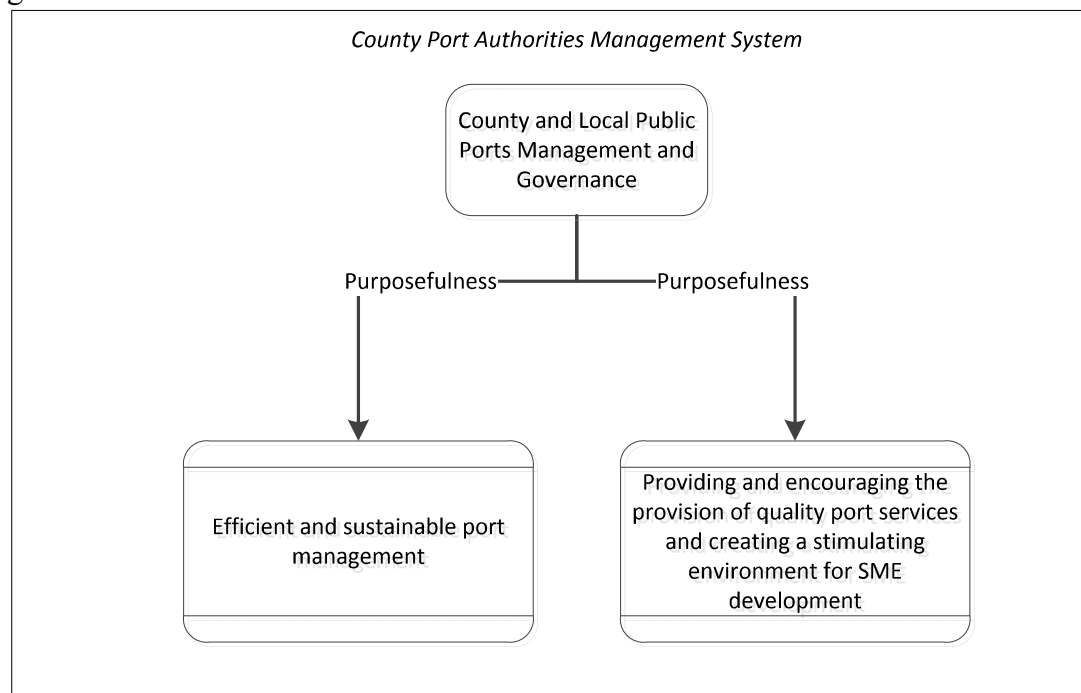
- Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded – principle 1: Promoting entrepreneurship
- Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance – principle 2: Second chance
- Design rules according to the “Think Small First” principle – Principle 3: *Think Small First*
- Make public administrations responsive to SMEs’ needs – principle 4: Responsive administrations
- Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs – principle 5: Access to public procurement
- Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions – principle 6: Access to finance
- Help SMEs to benefit more from the opportunities offered by the Single Market – principle 7: Single Market
- Promote the upgrading of skills in SMEs and all forms of innovation – principle 8: Skills and Innovation
- Enable SMEs to turn environmental challenges into opportunities – principle 9: Turning environmental challenges into opportunities
- Encourage and support SMEs to benefit from the growth of markets – principle 10: Support to internationalisation

Continuous consulting and listening to SMEs needs is recognised as particularly important for general success. From the macro EU policy perspective, the European Commission consults the European Parliament and the EU Member States’ governments before drawing up proposals, such as the SBA. Also, the European Commission operates two mechanisms to test the impact of EU legislation and programmes on SMEs: ex ante via SME panels and ex post via the SME feedback mechanism. Such an approach is also important to be implemented on the level of public ports as complex environments going towards competitive and collaborative port communities.

3. ENTREPRENEURSHIP STRENGTHENING ORIENTED PRINCIPLES IN COUNTY AND LOCAL PUBLIC PORTS MANAGEMENT AND GOVERNANCE

Fundamental purpose for the existence of county port authorities as managers, or the purpose of management of county and local ports that are open to public traffic, is reflected in the duality and complementarity of their effects (Debelić, 2013). On one hand, port authorities are non-profit organizations who are required to provide efficient and sustainable management of ports open to public traffic they have been entrusted with, thus carrying out their public function of management and care for specific parts of the port areas (Kesić, 2003). On the other hand, port authorities must set up an efficient management system (Jugović, 2012) that will contribute to the enforcement of execution and further development of quality (Bendeković et al., 2010) and overall port services, as well as other activities in the port area and areas surrounding the port (Debelić, 2013). This should create quality and encouraging environment for the development of micro, small and medium businesses that rely on county and local ports in activities which are complementary, and which purposefully serve the fulfilment of core functions of the port itself and the port authority. This duality can be illustrated as follows:

Figure 1. Purposefulness of county and local public ports management and governance



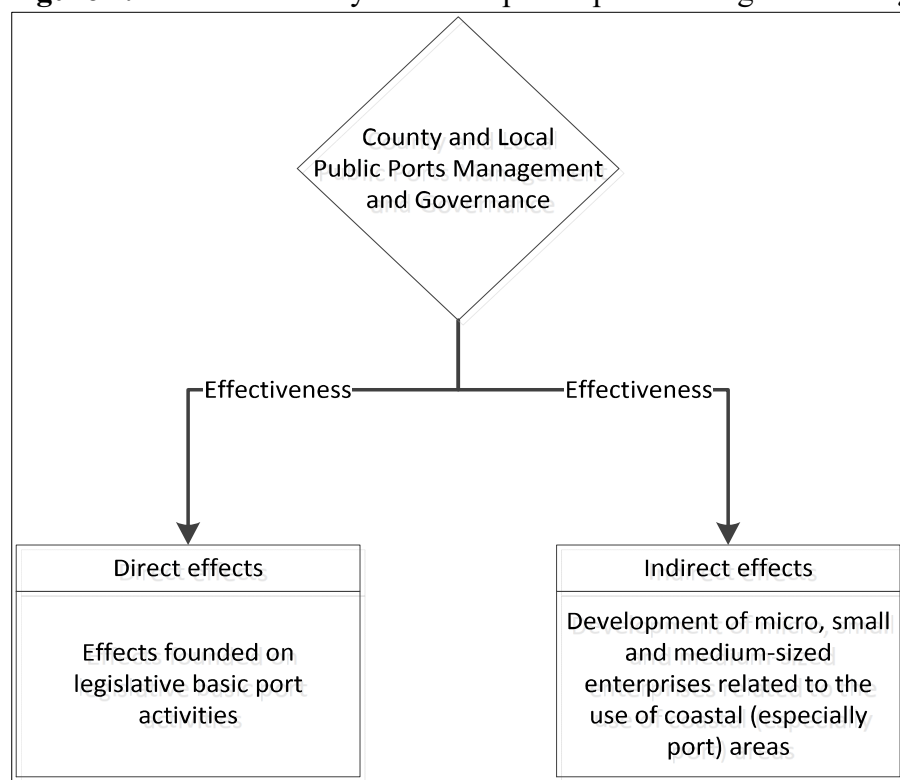
Source: Authors

Such dual role and significance of management by county port authorities should be viewed in the context of public policies, as well as direct and indirect effects that should be created by the management of ports open to public traffic of county and local importance.

Direct effects primarily include the effects based on primary port operations reflected in construction, maintenance, management, protection and improvement of the port area and port substructure and superstructure, while ensuring smooth and safe traffic and provision of services that are of general interest or for which other entities have no economic interest, as well as organization and supervision of activities performed by the concessionaire.

Indirect effects include those that support and ensure quality provision of other services in the port and around it, and are reflected in creation of prerequisites and incentives to provide services which other stakeholders have economic interests in. Of course, it is essential that these services do not jeopardize core port activities and traffic, but supplement and enhance the quality and content of other services to the benefit of end users and all other stakeholders, not just the port but also its micro surroundings.

Figure 2. Effects of county and local public ports management and governance

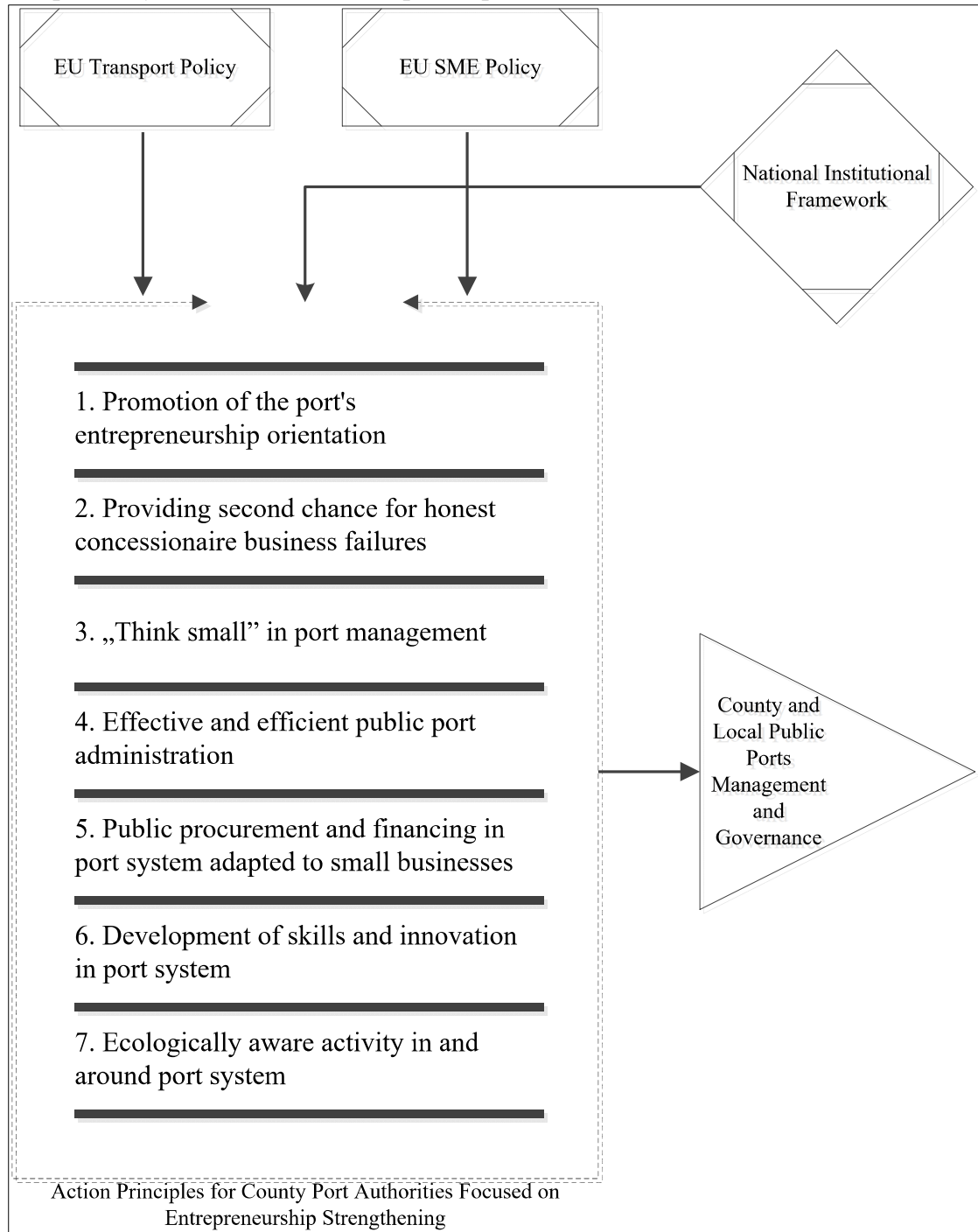


Source: Authors

Quality and comprehensive management of ports open to public traffic of county and local importance may be achieved only through synergy of the port transport function, as fundamental and multiplicative economic function of the port, that is the basis for harmonious development in accordance with the requirements of the local community and creating a solid base for advancement of entrepreneurship and competitiveness of the local economy. Role of the port in promoting development of a small economy is added to the primary role of the port as a link between land and sea segments of the traffic flow, in order to ensure the quality of traffic flow, and should be viewed within the EU public policies on stimulating and monitoring “smart”

development of small economies. To this end, for the purpose of this plan, seven fundamental principles have been developed, which include the initiatives of the European transport policy and small business policies in line with the national institutional framework.

Figure 3. Basic principles of county port authority actions focused on efficiency and compatibility with business development policies



Source: Authors

To further clarify seven developed fundamental principles and explain the rationale behind addressing 7 out of 10 SBA areas (European Commission, 2018, 2018b) in order to propose adequate principles capable of being implemented in county and local public ports, we emphasize here that 3 SBA principles (Access to finance, Single Market and Support to internationalisation) are not taken into account, considering them as inadequate to be applied in county and local ports from the perspective of port authority and port system. The "Access to finance" principle is primarily focused on ensuring adequate financing for entrepreneurs so it could not be implemented from the port authority standpoint. The "Single Market" principle is focused on benefits for entrepreneurs emerging from the opportunities offered by the Single Market, so this is also beyond the reach of the port authority or port system itself, as well as the "Support to internationalisation" principle that is targeted to encourage and support SMEs to benefit from the growth of international markets.

Each of the basic principles for county port authority activities, aimed at stimulating entrepreneurial activities and SME performances (European Commission, 2018, 2018b), can be practically manifested through different development directions and implementation action areas.

The first principle “promotion of the port's entrepreneurship orientation”, for example, may encompass different implementation action areas:

- Training of entrepreneurs in the area of port systems;
- Encouraging inclusion of specific groups of entrepreneurs;
- Searching for and promoting examples of best practices among concessionaires;
- Encouraging involvement of entrepreneurs in port operations, etc.

“Providing second chance for honest concessionaire business failure” is the second principle whose implementation, for example, may encompass following implementation action areas:

- Enabling re-engagement of honest concessionaires after business failure;
- Equal relationship between new and honest unsuccessful concessionaires;
- Focus on a dialogue with concessionaires who are facing difficulties;
- Setting up an early warning system for potential difficulties of concessionaires, etc.

The third principle, that we call “think small in port management”, for example, may encompass different action areas for implementation:

- Reducing administrative barriers, especially towards small concessionaires;
- Creating regulatory frameworks, especially for small concessionaires;
- Consideration and measuring of achieved effects from the aspect of small concessionaires;
- Consultations with small concessionaires;
- Continuous evaluation of the regulatory framework, etc.

“Effective and efficient public port administration” is the fourth principle that, for example, may encompass different implementation action areas:

- Single point of contact for support to small concessionaires;
- Providing one-stop-shop access to small concessionaires;
- Application of on-line systems for more effective administrative correspondence;
- Connecting information systems to avoid multiple reporting on the same matter, etc.

The fifth principle is “public procurement and financing in port system adapted to small business” that is particularly important from the concessioning perspective and, for example, may encompass different action areas for implementation:

- Providing appropriate support to initiatives for the development of entrepreneurship in connection with ports;
- Concessioning and public procurement with appropriate financial and other qualification requirements for potential concessionaires and suppliers in a way that enables small businesses to participate;
- Stimulating public procurement of ecologically acceptable products, services and works when possible;
- Protective measures towards small concessionaires in the event of financial problems, etc.

The sixth principle, that we call “development of skills and innovation in port system”, for example, may practically encompass different implementation action areas:

- Providing access and stimulating employees education so they could develop personal competences and better understand entrepreneurial activity;
- Continuity of developmental and implementation of own trainings and internal education of new and/or existing employees;
- Providing non-financial support to innovative solutions of small concessionaires and their training;
- Participating in innovative partnerships and projects with private and public sector, etc.

“Ecologically aware activity in and around port system” represents the seventh principle that, for example, may encompass several action areas for implementation:

- Ensuring operational energy efficiency in port community;
- Using renewable energy sources and ecologically efficient operations in port system;
- Stimulating development and application of ecological and energy efficient processes in concessionaires, etc.

All those principles could be beneficial as a guideline for further governing and port management mechanisms improvements. Those improvements should seek for port system organisational and management solutions that can simultaneously met requirements of a port authority, regarding overall quality and completeness of port operations benefiting end users, as well as concessionaires, regarding their business results and development perspectives.

The performed analysis of management of concession relations between the port authority and concessionaires (businesses) in the port area, including organizational

aspects of concession relations within the port area, demonstrates substantial and wide possibilities for improvements, especially considering the possibilities for stimulating the outcome-oriented contracts rather than behaviour-oriented. This could significantly improve motivation and entrepreneurial orientation of port concessionaire and in the same time cohesion of the port system itself as well as port community collaboration. Such entrepreneurial approach could be beneficial for all parties involved in port operations and management – port authority as well as concessionaire, but it requires more strategic oriented and precisely focused behaviour, especially from the port authority perspective. Also, the adequate continuity in monitoring achievements and business performances of port concessionaires is needed in order to provide solid background for precise tweaking of port authority's policy measures focused on port system development in order to fulfil entrepreneurial development needs and requirements of the concessionaires.

To date, there is no possibility to provide some example of county or local public port in Croatia that uses proposed principles in the field, as such an approach, that we propose here, is yet to be tested and implemented in practice. In the future, this could provide an opportunity to practically test and evaluate results as well as to demonstrate how it functions in practice.

4. CONCLUSION

Complex relations in county and local public ports, recognised on multiple governing levels, as well as on the field, are important to be focused on as much as possible mutual goals between all port community members, addressing variety of different interest. Entrepreneurial orientation of the county and local port systems addressing crucial SME questions could be beneficial to properly detect possible collision of interests and to confront those, as much as possible, with the stable institutional framework, standardised principles and strategically targeted development goals.

For the purpose of strengthening business initiatives for realization of business ideas and projects in the port area and surrounding business environment there is evident need for port authority policies, as well as macro port policies, to be in line with the policies focused on entrepreneurship strengthening and development.

We analyse and propose seven main principles which could serve as solid foundation for further growth and development stimulation within county and local public ports, focused on efficiency and compatibility with EU business development policies: promotion of the port's entrepreneurship orientation, providing second chance for honest concessionaire business failure, think small in port management, effective and efficient public port administration, public procurement and financing in port system adapted to small business, development of skills and innovation in port system, and ecologically aware activity in and around port system.

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