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Market-oriented city development model

Ph.D. thesis summary

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## **1. Objective of thesis**

Marketing is the tool for the competition between cities and consequently it is the source of development and power. Market-oriented city development signals a group of theories and processes that are used by profit and non-profit organizations to sell their products, services and ideas for consumers. Marketing, and strategies designed for the market of products and services are more and more entering the world of local governmental decision making, which shows that city development requires a market-oriented city planning, during which more and more functions must operate according to the opportunities and expectations of the market.

As a result, local governmental activities must function within the frameworks provided by the market, which signals a shift from a supply driven to a demand driven approach in planning, performance and communication. Therefore, LGM serves to set economic, social, cultural goals in a way that these goals are most fit to the needs of targeted consumers. With the use of marketing at the local governmental level the development of the city is principally in line with the needs of consumers and at the same time it serves the favorable and desired economical and social processes. Beyond building on the values and assets of the city, LGM legitimates the goals and plans of the city in the eyes of the local communities in a manner that it represents private and public interests within the developments of the city. Because planning to be and to become successful it must be based on the agreed and reconciled private and public interests.

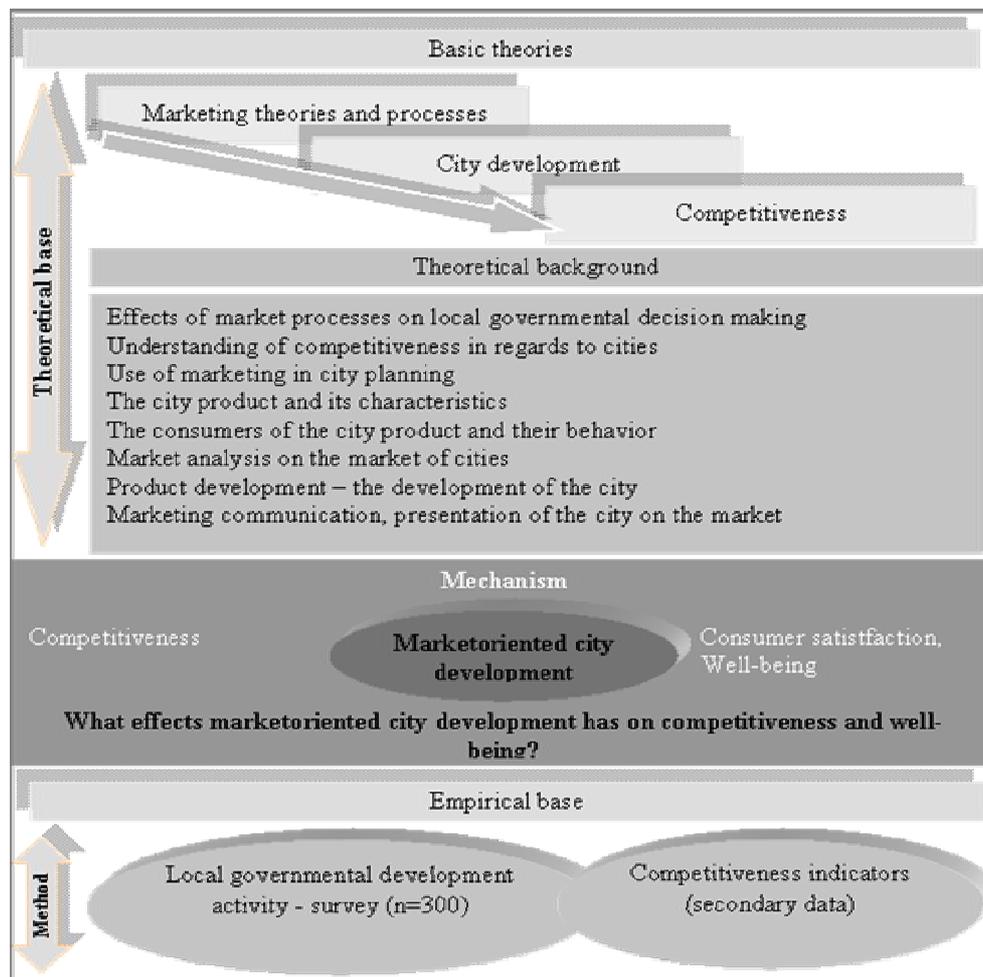
I have analyzed theoretically how market processes affect the local governmental decision making, how competitiveness can be understood in relation to cities, how marketing can be used in city management, what is the product in place development, how the consumers behave, what are the specialties of the market, what type of strategies are to be used in case of a successful place development and how the product should be communicated.

Based on the analysis of existing literature in the theme, I have developed a model, the market-oriented city development model that is to provide a framework for local governments for achieving a successful place marketing activity. The use of the model is being analyzed in the empirical part of the thesis, where the degree of the model's fruition and its effects on competitiveness is being tested in case of 300 Hungarian cities.

## 2. Structure of thesis

The research firstly deals with the basic theories, processes, with the phenomena of local governments and their effect on competitiveness. It further introduces the obligatory activities of local governments, the legal framework of place development and the relationship between city development and city organization.

The second part of the research presents the marketing theories, methods and processes that can be applied in the field of place development, on which the model is being built on. Then, it demonstrates the city as a product and its consumers. The next chapter analyzes the effects of market-oriented city development on competitiveness based on the dimensions of the model. The theoretical analysis is followed by the empirical research. The goal of the research was to explore the positive relationship between the model and competitiveness. The last chapter examines the effects and limits of market-oriented city development and the conditions of realization of the model.



### 3. Hypotheses

The goal of the hypotheses is to map the relationship between market-oriented city development and competitiveness, so based on the theoretical background to build a model that makes the city as the product saleable on the market of cities according to the consumer needs' driven development.

*Hypothesis number 1.*

*The regional location of cities affects the quality and possibilities of market oriented city development.*

The regional location of cities has to be considered heavily in case of examining the effects of market oriented city development on competitiveness. Depending on the developmental level of a region, cities define different goals and they present themselves with different attributes on the market which affects significantly the competitive position of a place.

*Hypothesis number 2.*

*There are traits of the city that strongly affect the quality and the margins of market oriented city development. .*

City is a special product that has to be sold on the market of cities. The product to be sold is the city itself; services offered by the city: investment possibilities, touristic sites, residential areas. Local government brings the product to the consumer through its developmental activity, so city development can mean and characteristic of the city that sells the city to the targeted groups of consumers, or that raises the attention of these groups, which means that it can be an institution, a service, a developmental program, an idea, but even security or cleanness too.

*Hypothesis number 3.*

*Effects of market oriented city developments present themselves unambiguously in relation to economical figures of competitiveness.*

The correlation between the primary economical indicators and the indexes of market oriented city development model can easily be shown since taking into consideration the 'hard' indicators of competitiveness, market orientation in city development effects positively the income levels, unemployment and the number of businesses and NGOs.

*Hypothesis number 4.*

*Effects of market oriented city development cannot be shown unambiguously in case of demographical figures of competitiveness.*

The 'soft' indicators of competitiveness do not show such a strong correlation with market oriented city development since these indicators cannot be said to be independent due to their dependence on other, external factors.

*Hypothesis number 5.*

*Market oriented city development model requires an integrated activity on the side of local government, so analysis, strategy building, execution and communication should strengthen each other.*

The four dimensions defined in the market oriented city development model should strengthen each other and the intensity of all the four activities should correlate. Its significance lies in the fact that successful market oriented city development activity can only be realized if local governmental activities are present in the plans and developments of the city integrative and coordinately.

*Hypothesis number 6.*

*Competitiveness indicators do strongly correlate with the quality of market oriented city development.*

If the relation between market oriented city development and competitiveness can be shown then a model can be set up in which the indexes of market oriented city development explain the indicators of competitiveness, so local governments' market oriented developmental activity gets justified. The model is supposed to provide a framework for this developmental activity thereby contributing to the city's competitiveness.

*Hypothesis number 7.*

*Cities that are at the same level of development perform similar quality of market oriented developmental activity*

Cities can be ordered into groups that differ based on their competitiveness indicators. According to my supposition, a city belonging to a group shows strong correlation with the market oriented city development activity, which is a new way of showing the relation between the examined factors and could show new directions for cooperation between cities.

*Hypothesis number 8.*

*Market oriented city development activity contributes to the increase of the city's competitiveness.*

A city can only become attractive if the developments follow consumer needs, so city development activities must be market oriented. So local government has to present real and potential customer needs in developments, so demand driven developments have to get an emphasis during planning and realization. So market oriented developments contribute to competitiveness. The model set up in the research comprises of dimensions and elements that help the development of the city, contribute to the well-being of individuals.

#### **4. Methods of research**

During the analysis I have examined the positive relationship between market-oriented city development and competitiveness. Through the effects of the model's dimensions on competitiveness I have mapped the effects of analyzing, strategy building, execution and communication on competitiveness.

The basis of the research is survey done in 300 Hungarian local governments and the figures of competitiveness. During the analysis people responsible for place developments responded the questionnaire. From the answers received an index figure has been build that constitute the dependent variable of the research, while the indicators of competitiveness constitute the independent variables.

The creation of the two groups of variables happened differently. The dependent variables have been generated by forming a cumulative scale indicator from the ordinal point system used in the survey. These indicators characterize the market-oriented city development activity within the city. The independent variables have been generated from the Regional Information System (TEIR). 16 indicators have been used to characterize the competitiveness of cities.

Firstly, the effects of competitiveness on the market-oriented indexes have been examined through linear regression models, and then clusters have been built based on the competitiveness indicators. I have analyzed the correspondences of belonging to one of the clusters. The result of the regression model and also the relation between the clusters and the market-oriented development index was strong, which meant that the membership of each clusters show a strong connection with the indexes built for the characterization of market-oriented city development.

Then, the change in the indexes of competitiveness have been studied and its relation with the quality of market-oriented place development so to be able to show the effects of market-oriented city development on competitiveness. So the independent variables have been given for the year of 1998 too besides the figures of 2005. The change in the index of the independent variables also showed a significant correlation with the market-oriented development index.

## **5. Results of research**

Product development can be defined unambiguously in case of cities, since marketing can be applied in any fields that involve exchange of products, services, values, ideas. Therefore, marketing happens when a need is satisfied through an exchange, so a consumer gets a desired product or service.

Local government performs its market-oriented development activity to convince the targeted segments of consumers to use the services offered by the city, thereby contributing to the city's competitiveness. So, market-oriented development is analysis, planning,

implementation and monitoring that serve to build up and maintain the exchange with the target consumers to reach institutional goals.

Market-oriented city development is only realized partially in Hungary, since it only appears in some aspects of development activities. The unsuccessful market-oriented city development is due to the planning that have no concept behind. Quoting Garamhegyi: “there is no successful activity without an accepted goal.” This is due to the specialty of cities as products, since cities function as non-profit services. On the other hand, the political influence hinders market-oriented development activities that appears in many ways, e.g. in the lack of continuity of developmental plans.

Also common that plans focus on certain groups, like investors or tourists, or it is also a common mistake that market-oriented developmental activity is understood as a communicational or PR activity. Also, developmental activities are lacking coordination and integration which also hinders the success of successful place development.

Since in case of market orientation a group of services has to be sold to target consumers, this also shows that market-oriented city development will only concentrate on special parts of the city that leads to unbalanced development. The image of the city cannot cover the whole city, which also increases the differences between development levels, since marketing cannot sell what is not saleable, so the profits generated from marketing will never be distributed evenly. Still, the role of local government is to fulfill all functions that are expected legally and also socially.

The more and more active role of economical factors created a restructuring within place development in Hungary, where the interests of the state and the interests of economical actors differ significantly. To win economical actors, so to increase the consumption of theirs, most of the times, the developments have to meet the investors’ short-term interests. Therefore, harmonization of interests is a must, since developments at the same time has to maintain the values of the city and has to be successful in the competition of cities. So, involvement of diverse groups is inevitable in place development, since the well being of inhabitants can only be maintained and increased if development and plans are agreed upon by all these groups.

Besides guaranteeing the participation of the civil and private sphere, we can only talk about successful developmental activity if the plans and the developments themselves are in accordance with each other. In long term, cities must think in accordance with their micro-region's development. Cities must think in systems and in networks, since they can only develop together with their surroundings, e.g. a city can only develop with its agglomeration. Micro-regions can be an optimal way for cooperation, for growth itself. Besides cooperation, continuity would be a key to success that is also a missing in case of Hungarian city development, since due to the four year political mandates priorities change and stability of developments are not guaranteed.

**a. Conditions and limitations of realization of model - summary of hypotheses**

Competition on the market of cities is complex due to the peculiarities of the product itself. Services, attributes of cities are compared. Competition is for sources, investments, inhabitants, information and so on to increase the well-being of inhabitants. The competitive position of the city determines the well being and standards of living in the city. The other important factor of this competition is the cooperation between cities that also alters the conditions of the competition on the market of cities.

The empirical study has unambiguously showed the correlation between market-oriented place development and competitiveness of a place, which means that the market-oriented developmental activity of local governments do positively affect cities' competitiveness. Still, there are factors that must be highlighted that alter or limit the possibility of accepting the supposition that market-oriented place development increases competitiveness of a place. On one side, the geographical, infrastructural, sociological and other habits of places create such differences right at the starting point that it makes competitions as it is questionable. On the other hand even if there is a favorable condition in a place if the area does not exploit it. Given the complexity of the product it is very difficult to decrease the differences between cities, so from zero there has to be an immense amount of investment made to create a competitive advantage.

Competition started in Hungary after transition, when the habits of cities became the basis of their competitiveness. Even though the existence of real competition is questionable, it can be said that there is competition but it is limited to cities with a certain level of development. So, competition can be understood in cases where a city disposes habits that enable the city to participate in the competition. Results of the research have to be evaluated with all these notions kept in mind. Summing up the relationship between market-oriented place development and competitiveness, through the analysis the positive relation can be detected, but important factors have to be taken into consideration that significantly affect the possibilities of market-oriented place development.

Anyhow, marketing is the tool for competition and the center of local governmental decision making and action, since it is the source of development and power. (*Mazzoleni, 1998*) A conscious and market-oriented local governmental development activity enables to city to grow in the desired way and with the desired pace, that is to increase the well-being of inhabitants and to increase the economical, social, cultural possibilities within the city that make the city attractive for diverse groups of consumers. The preferred orientation of developmental policy can be reached through market orientation, so development can be realized in a way that they satisfy consumer needs and they also contribute to sustainability.

The market-oriented place development model offers an approach to present the city on the market to enable to city to maintain the well being of inhabitants and to enable the city to increase its competitiveness. During market-oriented developmental activities local government uses marketing principles and processes like market analysis, product development, and communication to make the city attractive for the selected segments of consumers. The model requires an integrated management and organizational approach from local governments that builds up from market-oriented strategies and tools for the realization of these strategies to increase the competitiveness.

During the analysis I have paid special attention to get to know the specialties of the dependent variables, so I have analyzed the distribution of indicators along some spatial and demographical variables. The analysis showed that the size of the city and the region in which is it situated plays an important role. This supports the supposition that the special features of cities, like its size and its role within the hierarchy, functions played by the city and its sector profile affect the quality of market-oriented place development activity. This means that cities

situated in more developed region have higher indexes for market-oriented development activity and also the bigger the city is, the higher the market-oriented indexes are. Furthermore, during the cluster analysis it turned out that both of these two factors play again an important role, so cities belonging to the most developed cluster are all in the northern-western part of the country. From all these result it can be concluded that given trait of cities, and regional location of the city strongly affect the activities of market-oriented place development, so hypotheses (number 1 and 2) are to be considered proved.

During the principle component analysis the competitive indicators could not be handled as a homogeneous group, so I have divided them into two groups based on their nature. The first group is comprised of the economical indicators and I have supposed in my hypothesis that a strong relationship can be observed between them and the market-oriented developmental variables. According to the analysis done there is a relationship, so ordering the values of cities into quintiles it can be observed that the more favorable these economical indicators are, the higher the market-oriented developmental index get, so the hypothesis (number 3) is to be considered proved. Since the other group of indicators cannot be considered independent, it can be supposed that there cannot be such a strong relationship examined between them and the market-oriented city development indexes. So, variables that depend on other external factors, such as migration, social care, age structure do not show correlation with market-oriented city development figures, so the hypothesis (number 4) can be considered proved.

A city can be present on the market if the elements of the market-oriented city development model get realized in accordance with each other. Realization depends on the results of the consumer needs oriented analysis, on their presentation within the developmental strategy, on execution and on communication. The city is present on the market if the elements of the strategy reach consumers in a way that they know and they acknowledge the developments done by the local government and if they participate in the growth of the city that both contribute to competitiveness. This requires a type of strategy building and execution on the side of local government that presents the needs of consumers. Based on the theory I have built up a model that provides a framework for increasing the competitiveness of the city. This happens in case if the elements of the model are integrated within the developmental activities of the local government. Analyzing the relationship of the elements of the model the variables show a significant correlation, so the indexes belonging to market-oriented city development do correlate, therefore the hypothesis (number 5) is to considered proved.

Since my ultimate goal was to set up a model in the field of market-oriented city development, I had to test the usage of the model on a wide empirical base. I have checked the correlation between the indicators and the market-oriented city development indexes and then through a regression analysis I have selected the most significant variables. The model shows that there is a strong relationship between market oriented city development activity and competitiveness, so it can be said that the model set up with the competitiveness indicators is strong, so the changes in the indexes are explained by the selected indicators, so the hypothesis (number 6) is to be considered proved.

Through adjoining homogeneous groups I have analyzed the relation between the clusters and the market-oriented city development indexes. With this analysis it was exposed that clusters developed based on competitiveness indicators show a significant relationship with the indexes of market oriented city development, so the hypothesis (number 7) is to be considered proved. This analysis not only supported my idea of correlation between market oriented city development and competitiveness but also could open up new ways for cooperation and for increasing effectiveness in city development modes and methods.

Finally with the reversed model I had the possibility to see the correlation between the time change of competitiveness figures and the market-oriented indexes. Results show that the model is stable, which means that there is a positive relationship between competitiveness and market-oriented city development. Still the hypothesis (number 8) can only be considered proved partially since there is no possibility of modeling and quantifying all factors affecting competitiveness.

#### **b. Future directions of research**

Even though the model shown to be strong based on the analysis, it provides a starting point for cities to perform market oriented developments. My goal was to give a base for future research. In my opinion it is always hard to set up a new model since it can be criticized in many ways but still I feel that this model can be modified, expanded or changed in the future in order to serve as a useful tool for local governments in their developmental activities.

Among the future directions of the research, the formation and weighting of the marketing oriented indexes could be made more scientific or more precise. Still this method that all cities are present in the analysis with five different indexes on the side of market oriented developmental is a good base for future research.

It would further improve the results of the research if factors effecting competitiveness could be quantified that would result in a more secure outcome on the correlation between market oriented city development and competitiveness.

Also, the indexes were built based on the result of a survey, where the subjectivity of respondents could not have been excluded. So, where possible, instead of the answers received from responsible persons, a better data could be received by checking documents and statistics in place. This could result in a much better reflection of actual status of market oriented city developmental activity. This would also provide the possibility to check the realization of the principle of competence or demand orientation or the competence of persons in place. It should be studied if the integrity of previous plans are realized, at what level complexity and management orientation is present in the developmental activities, etc. If these elements can be found in the market oriented city development activities then the city can be said to have made a step toward competitiveness.

## **6. Sources used in thesis summary**

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## 7. Scientific activities related to research topic

### a. Publications

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#### **b. Conference presentations**

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#### **c. Participation in research work**

2005-2006 OTKA T046980: Economics of local governments in transition. *Project leader: Mihály Lados*

Magyar Közigazgatási Intézet ROP 3.1.1. Központi Program: Increase of public services in place development. Project leader: János Rechnitzer