

# Strategic Guidelines of the Croatian Economy

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## Introduction

With the impending accession of Croatia to the European Union, economic excellence has become the ultimate challenge for the Croatian Society. In consideration of Croatia's long-time weak economic position, fundamental changes are required. Obviously, throughout the last 20 years, Croatia's so-called political elite did not succeed in directing the Croatian economy towards excellence. Why is that so? By applying a stubborn negative staff selection, year in, year out, one and the same people, having one and the same approach, arrive at one and the same (ineffective) "solutions" for the burning questions of Croatian economy. In the middle of the past decade, Michael E. Porter of Harvard University came to the conclusion at a lecture in Zagreb that Croatia possesses a huge number of documents indicating the way out of the latent economic crisis. However, Porter points out, the Croatian elite were unable to decide on one umbrella strategy, to focus on it and to implement it persistently and consistently.

All over the world, political leaders, striving for change, will raise as yet unseen engagement of the general public. Such engagement is not so much conditioned by the politician's personal charisma, but rather based on the more and more evident awareness that former approaches, for instance with regard to the health system, education and economic management, simply are not sufficient any more. In the USA, President Obama had been elected for his first mandate based on his promise to carry out fundamental changes to the entire political system. In France, former President Sarkozy had initiated the biggest transformation project in the country's public sector ever. In Malaysia, Prime Minister Dato' Sri Najib Tun Razak kicked off a program to make the Government more efficient and more responsible, in order to make the country's vision about becoming a fully developed nation by 2020 – come true.<sup>1</sup>

And while all around the world reforms on Government level are in progress, the political elite in Croatia is capitulating to (economic) challenges. For example, by the end of January 2013, the Croatian Minister of Economy said: "I often ask myself, how can anybody even get the idea to invest in Croatia which is ranking 84 in global competitiveness. What is wrong with him? How can he?"<sup>2</sup> Globally, however, awareness is rising that the State's role in market regulation and impact on economic development is getting broader and broader.<sup>3</sup> This is why strategic management of the Croatian economy on State level is required. This does not mean John Maynard Keynes's approach who advocated state intervention in the economy to prevent negative effects of recession and depression, but rather the creation of a clear and stable economic framework by the State in which economic entities can successfully develop.

In the section below we are going to apply some basics of strategic company management on a macro-economic level, to arrive at clear strategic guidelines for Croatia and the Croatian economy.

## Strategic Management

Strategic management comprises<sup>4</sup>

- visionary leadership based on a generally accepted model;
- systematic strategy planning based on diligent analysis of one's own strengths and weaknesses, to effectively and efficiently overcome the critical challenges resulting from the environment's opportunities and risks;
- creative innovation management to keep and improve the market position
- planning of further development to proactively adjust management culture, structure and processes;

- comprehensive resources management to develop and mobilize human resources in a far-sighted manner and to identify, allocate and use capital resources in an optimum manner;
- comprehensive information management for utilization of modern information and communications technologies to achieve an advantage in (global) competition;

Fig. 1  
**Strategic Management System**

long-term	Vision	What do we want to become?
long-term	Mission	Why do we exist?
mid-term	Main Goals	What do we want to execute?
mid-term	Strategic Initiatives	How should the goals be achieved?
mid-term	Business Plan	
short-term	Planning of Activities	

## Strategic Vision

At the very beginning of the strategy creation process, the top management must tackle the question of what direction should be taken in the development of the economy. The strategic vision describes the management's economy-related efforts through a panoramic view of "where are we going", also offering a rational explanation why this makes sense.<sup>5</sup> It is a long-term view, focused on the future, which therefore can be a specific source of inspiration<sup>6</sup> for all participants in this venture, unhampered by present-day issues. Well-designed strategic visions will point out by what the own economy will differ from other competitors.<sup>7</sup> From this follows the proposed strategic vision for the Croatian economy:

**„In 2022, Croatia will be the leading transitional country within the EU by conditions of conducting business. Being a small, but dynamic country in the geographical heart of Europe, it will offer a stable legal framework, competitive prices of labor and unified transparent tax rates to national and international business entities. The economic system will be supported by efficient administration, focused on the continuous improvement of conditions for the economy, thus helping the economy to build and retain its competitiveness on the global market.“**

## Mission

While the strategic vision is focused on the efforts of the country and its economy with regard to their own future ("where are we going", the mission will describe the content and purpose („who are we, what are we doing, why do we exist"). This includes a statement about what the country and its economy are doing today in order to make their strategic vision come true.

**„In terms of economy, Croatia is a platform for business operations of national and international economic entities, at which Croatia will protect its national interests for the long-term benefit of all its citizens.“**

## Main Goals

In one of its polls from the end of the nineties, *Fortune Magazine* established that only 10 per cent of efficiently formulated strategy will also be efficiently implemented. A clear strategic vision by itself obviously is not enough. Thinking in processes is often advocated in business literature. However, the state leadership is already organized in so-called silos of its functions – in its ministries. In order to give all relevant participants (stakeholders) an understanding of the strategic vision and mission, uniform communication to them is required. All the more so because strategic vision on the state side does not have much of an impact on the goals of economic entities and individuals. To make them all aware of their position in those "higher" goals, such goals must be linked to the activities of the economic entities and individuals. Otherwise, everyday decisions will continue to ignore the strategic plan. Breaking the strategic plan down into initiatives which have an immediate meaning for the economic entities and individuals will result in improved interaction between all relevant participants, which again will have a (positive) impact on external (financial) results. In economics literature, but also in business practice, a system of strategy communication and identification of one's own contribution to the strategy implementation has been established, known as **Balanced Business Scorecard**.

The term Balanced Business Scorecard or, in short, scorecard, comes from the world of sports, to be more precise, from boxing. During a boxing match, the judges enter the adversary's successful punches into the so-called scorecard. If there is now win by knock-down, the judges will decide on the winner based on the entries in the scorecard. In this sense, the scorecard contains all relevant information for the passing of a (strategic) decision.

In the business environment, the Balanced Business Scorecard will reconcile the strategic vision and goals with the financial goals in order to bring about sustainable creation of added value. The scorecard management technique deals with 4 areas or perspectives which are logically linked and need to be thoroughly analyzed by means of appropriate indicators. For each category, 3 to 5 indicators are defined.

- Market Perspective

Focus on the buyer/investor and their satisfaction is essential for any national economy. Indicators of this category are particularly important, as they will anticipate future trends („leading indicators“): if the buyers/investors are not satisfied, they will find new suppliers/locations that will satisfy their wishes. All the more so because, in the light of globalization, investors tend to be well informed about the opportunities and conditions of investment, therefore capital will easily find its optimum destination. Bad performance from this point of view will announce an impending drop, despite possibly good financial results. Therefore, this field's aim is to cover the present and future demand for investment market and thus transform their external expectations into internal targets of economic policy. Each national interested participant will directly and indirectly impact the external success and the image of the country and its economy in the global public.

- Internal Perspective

Indicators of this perspective will let the management know how good business operation is on a macro-economic level and whether the products and services intended for the buyers/investors do match their expectations (mission). Therefore, this field will represent the offer placed by the State on the global investment market. It is the result of all (macro-economic) processes of the respective country and Government decisions.

- Organizational Progress

Even if the best efforts are made, the offer will often differ from the demand. Successful national economies can be distinguished from the less successful ones by the fact that they succeed in quickly and efficiently adjusting relevant structures and processes to the ever changing requirements of buyers/investors. This is why that process of permanent adjustment needs to be subjected to the Government's attention.

- Financial Perspective

The creation of added value is the ultimate goal both of any (serious) company in the private sector and of any national economy which is successful in the long run. In general, financial indicators reflect the monetary impact of decisions and measures of the past. They can be used, to a lesser degree, for proactive directing of economic entities and individuals to future targets. Of course, the financial impact will again be monitored, as well as the decisions and measures, as they are supposed to contribute to the fulfillment of financial expectations.

We have already stated that the conditions of (economic) life are constantly changing and, therefore, that (indirect) economic performance management requires effective (pre)alignment of all human resources and potentials to the same direction. For this reason, performance management is much more than just collecting measurement results. The (most) successful macro-economic systems turned out to be the ones that value their members as crucial factors of present and future success and lend them an active role in the economic strategy implementation process. The Balanced Business Scorecard addresses economic entities and individuals with a clear and logical story about economic vision and strategy, thus prompting radical, positive and permanent changes. This is a strategic management system that puts strategy into the focus of the economic performance management process and, in doing so, replaces the opportunistic, short-term and eventually unsuccessful hyperactionism of various governments.

A more specific application of the scorecard concept can be realized if relevant feedback from the economic entities is taken into account. For many years already, the German-Croatian chamber of commerce and industry is conducting a survey involving about 80 companies, 32 of which have their parent company in Germany. Based on feedback from the economic entities, the following results were generated:<sup>8</sup>

- At the beginning of 2012, the economic situation of that time was judged as being poor by 80 per cent of participants; more than half of the participants do not expect the situation to improve this year, while 37 per cent of respondents expect the situation to get worse (last year: 27 per cent)
- The current operations of their companies are rated as being just satisfactory by two thirds of respondents, while 15 per cent of respondents said that the operations were poor.
- Respondents were cautious while rating the development of their own operations in 2012. 28 per cent of them expect an improvement of business development (last year: 42 per cent), and even 30 per cent expect a decrease in expenditure for investment (last year: 12 per cent)
- As for employment, similar to the results of the previous year, one quarter of the companies expects the number of employees to increase, while more than half of the companies stated that they have no intention to decrease the number of employees.
- As in the years before, most of the companies are very or on average satisfied with the qualification, infrastructure, quality and availability of local suppliers and skilled employees, as well as with the political stability in Croatia and with the conditions for research and development.
- Respondents are mostly dissatisfied with the fight against corruption and crime, with costs of labor, with the transparency of public tendering, with access to incentives from public funds, with the predictability of economic policy and legal certainty. Results indicate that the respondents are very dissatisfied with the flexibility of labor law provisions, with the tax system and tax administration, with public administration, with payment discipline and tax burdens.
- Implementation of important economic and political measures is still necessary, this pertaining to increased efficiency of public administration, improvement of the legal system and legal certainty, labor cost cutting, fight against corruption, increased payment discipline and tax reforms.
- There is increased demand for improvement of the investment climate, i.e. for investment incentives. Conditions for investment should be simplified and criteria unified. Energetics, infrastructure, tourism and agriculture are stated as being promising areas for investment.
- The participants in the survey are of the opinion that measures must be carried out to cut labor cost and parafiscal and other local charges; they demand the introduction of alternative possibilities of temporary employment and more flexible provisions in labor law and social policy.

Fig. 2  
Balanced Business Scorecard Diagram



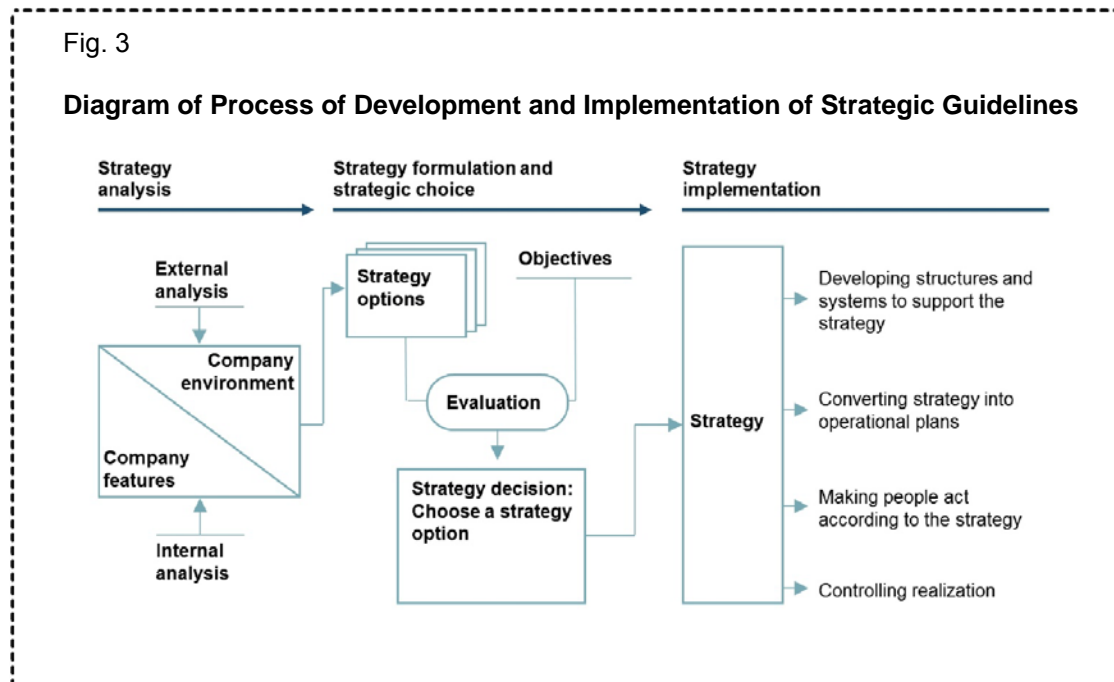
## Development of Strategic Guidelines

By developing strategic guidelines, we are responding in a more specific manner to a set of questions of „How” to implement the vision:<sup>9</sup>

- How to stimulate growth?
- How to satisfy the buyers/investors?
- How to outperform the competition in the global run for investment?
- How to respond to the constantly changing market conditions?
- How to manage individual factors in economy?
- How to develop required skills?
- How to achieve the strategic and financial targets?

Fig. 3

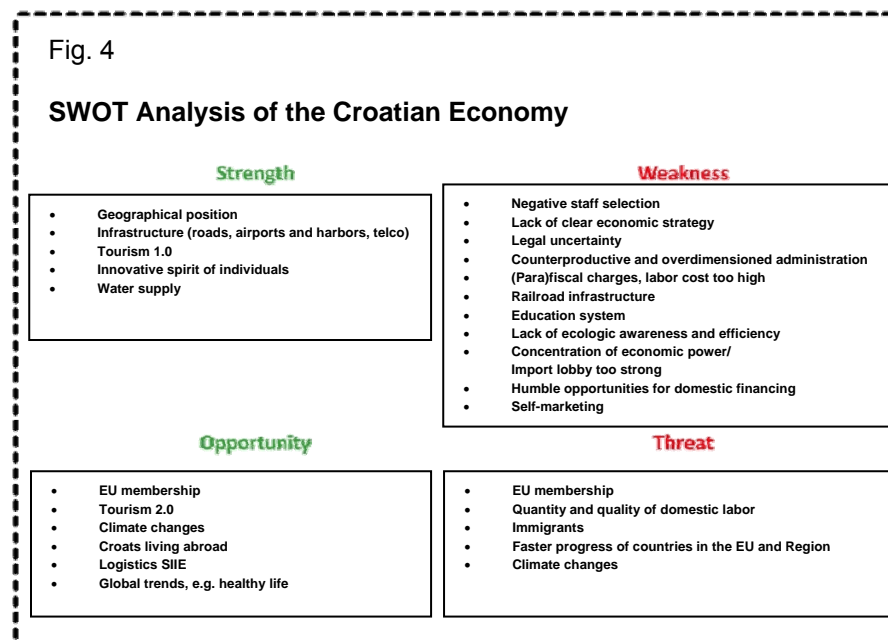
## Diagram of Process of Development and Implementation of Strategic Guidelines



<sup>1</sup> Roland Berger Consulting (2008), Evaluation of the purchasing organization, Project documentation.

The process of development and implementation of strategic guidelines runs according to the diagram shown in Fig. 3. The first step is to analyze and evaluate the economic environment and the capacities of one's own economy. A SWOT analysis<sup>10</sup> can be applied to this purpose which will comprise four key factors: strengths, weaknesses, opportunities and threats. The strengths and weaknesses represent the internal characteristics of the economy, while opportunities and threats come from the environment. The SWOT analysis is based on collected and analyzed market research data.

The goal of the SWOT analysis is to identify those guidelines that will serve to utilize the strengths in the best possible manner, to minimize weaknesses and to capitalize opportunities while minimizing threats. In other words: The SWOT analysis aims to minimize weaknesses while increasing the strengths of one's own economy and how to best take advantage of the opportunities and at the same time decrease threats from the environment.



In the second step, strategic options are prepared and final strategic guidelines will be formulated. They are based on the SWOT analysis and on the so-called core competencies. According to Prahalad/Hamel<sup>11</sup>, a core competence is a skill or activity which the company/economy can perform better than the competition, thus becoming a competitive advantage. The advantage is defined by four elements:

1. Advantages for buyers/investors: The core competence will create a sustainable advantage for the buyer/investor
2. Protection against imitation: the economy has exclusivity over the core competence or the competing economy and cannot be easily copied.
3. Differentiation: the core competence leads to a sustainable advantage over the competition
4. Diversification: the core competencies open access to new markets/investors.

Guided by the above mentioned principles, we arrive at **7 strategic guidelines** for the future development of the Croatian economy. At the same time, these are the 7 strategic industries of the Republic of Croatia:

1. Logistics
2. Energy (from alternative renewable sources)
3. Water
4. Tourism 2.0
5. Agriculture and Wood
6. Small and medium crafts/enterprises
7. Education

Such selection can be substantiated by the following considerations:

Croatia has been bypassed by the investment cycles that occurred throughout the last 20 years in Central and Eastern Europe. For instance, after the German reunification at the beginning of the nineties of the last century, the German industry was very actively expanding towards our Region. However, specific investment opportunities in Croatia came up only by the end of the nineties, when the investment cycle had already slackened. Given the latent financial crisis, a new big investment cycle in the Region is not in sight. It is particularly unrealistic to expect "megainvestment projects".

Furthermore, there is no recognizable industrial tradition in Croatia (any more). Therefore it cannot be expected that (foreign) investors will "stick" to the existing traditional industry. All the more so because the Republic of Croatia should have no interest to position itself as a destination for cheap wage labor jobs. The economic policy must take care that in the value added chain, the as many activities as possible be performed in the Republic of Croatia. According to a study of the consulting firm Roland Berger from the year 2011, throughout the next 10 years, the Region will be marked by the following industries: ICT, pharmacy and energetics. As far as these three lines of industry are concerned, Croatia has the prerequisites to base the future development of its economy on these industries.

Therefore, it can be concluded that Croatia must use its advantages and potentials to build its industrial structure of the future. The question is: How should the aforementioned seven strategic guidelines be defined accordingly, in more detail?

## **1. Logistics**

The main goal to which this strategic guideline is contributing is to use the unique geographic position and the already now excellent traffic (harbors and airports, highways) and telecommunications infrastructure in order to position Croatia as an essential logistics hub. This way, Croatia would become a provider of logistics services for other countries of Central and Eastern Europe. This includes, among other things, also the possibility to terminate goods from the Middle and Far East and their handling and distribution to countries of Central and Eastern Europe.

Croatia has two of the deepest ports available in the Adriatic: Ploče and Rijeka. By modernization and expansion of these harbors, i.e. by construction of container/freight terminals and related transit infrastructure, Croatia can position itself as an alternative to the Netherlands (Rotterdam) and Germany (Hamburg), by reduction of time and transport costs.

In air transport, Croatia already now has seven international airports (Zagreb, Osijek, Pula, Rijeka, Zadar, Split, Dubrovnik). In this segment, Croatia can position itself as alternative hub destination for airlines from the Middle and Far East, through commercially attractive slots for passenger and freight transportation.

The built highways should be kept in State ownership. In the above mentioned scenario, repayment of loans for their financing should be accelerated. Of course, new sections can be realized through concessions and financing by private capital, applying the German model.

Considering Croatia's geographical shape and dimensions, rail transport is suitable as an optimum means of transport. However, Croatian Railways require the highest investments in order to be made fit for market competition. Following other countries' models, the infrastructure railway network can be separated from provision of transportation services. In doing so, the railway infrastructure should remain in state ownership. The necessary investments (electrification, speeds up to 160 km/h), primarily for the main corridors Dobova – Zagreb – Slavonski Brod – Osijek (Beograd), Zagreb – Split (Zadar extension), Zagreb – Rijeka can be realized by way of public-private partnership models. Investors from the Far East already have confirmed specific interest for such kind of engagement. This way, the State remains the operator, making its infrastructure available to domestic and international offerers of transportation services. The section of Croatian Railways presently dealing with passenger and freight transportation needs to be restructured and then privatized.

In the selection of private partners for realization of necessary investments in this strategic industry, special attention must be paid to the obligation of hiring local workforce. In addition to a fast reduction of the number of unemployed workers, it should also be taken care to avoid long-term difficulties related to mass migration of workers from countries abroad (see France, Germany, Austria).

## **2. Energy (from alternative renewable sources)**

The main goal pursued by this strategic initiative is to become the regional leader in technology and production of "clean" electricity, using the power of water, wind and the Sun, including the perspective of exporting excess electricity. In the meantime, in terms of energy, dependency on import is reduced.

In this strategic industry as well, Croatia is taking advantage of its existing natural potential. Various international studies indicate that, for instance, Dalmatia and the Dalmatian back-country are very suitable locations for solar power plants and wind power stations.

In this context, the State may act as investor or stimulate private investment in "industrial" power generation using wind or solar power. Incentives can be given to institutional or private investors. By mounting photovoltaic systems on their own properties, private investors become producers of electricity for their own needs, while excess energy is "sold" to the local power plant operator.

To enable Croatia to take as many positions as possible in the energy value added chain, local development and production of all components required for such type of production must be encouraged. Considering the fact that Croatian Technical Faculties are very esteemed internationally, the respective know-how is already available on the domestic market

As one of the main goals of Croatia is to be energetically independent, state-owned companies such as HEP, JANAF and PLINACRO need to be kept in state ownership and restructured to become highly efficient companies.

## **3. Water**

More than 1.1 billion people have no access to drinking water. While a small number of countries hold 60 per cent of freshwater reserves, Asia, where 60 per cent of the World's population lives, must be content with 30 per cent of water. If the forecasts come true, according to which the world population will grow from the present 6.5 billion to 8.5 billion until 2025, available quantities of freshwater per capita would be reduced by one third. Provided that water consumption remains constant, the United Nations expect that in 20 years, 1.8 billion people will be living in areas with an absolute lack of water. For an additional 5 billion people, it will be impossible to fully meet the need for water<sup>12</sup>.

Considering that, in Europe, Croatia ranks third in terms of freshwater reserves, the protection and exploitation of these reserves would be a logical and primary goal. Taking this into account, (fresh)water already is and will increasingly become the "Clear Gold" of the 21st Century. The export of "surplus" water to strategic partner countries can reinforce Croatia's position in the global market competition.

Therefore, the conclusion that all sources of (fresh)water in the Republic of Croatia must stay in state ownership should come as no surprise. The economic policy of the State must pay particular attention to the protection of strategically important waterwells. All the more so because today this aspect is given too little attention when decisions are passed on larger investments. For instance, in the tender for the new Airport Zagreb terminal, insufficient attention was paid to the fact that the current location lies in the middle of the largest freshwater basin in this part of Europe. The construction of the new terminal provided a unique opportunity to relocate the Airport Zagreb to an ecologically substantially less sensitive area.

Nevertheless, granting concessions to private investors should not be ruled out generally. But they must be clearly defined in terms of duration, and strictly controlled in terms of content.

Throughout the world, and therefore also in the Region, water is a scarce resource. Therefore, efforts must be made to reduce unnecessary loss of this "Clear Gold". For instance, maximum permitted losses in water supply networks must be determined for the local self-governments. The local communities exceeding the set limits must pay a fine to the State Fund for Improvement of the Water Supply System. This Fund also covers construction of an adequate irrigation system for agricultural areas.

## **4. Tourism 2.0**

The main goal related to this strategic initiative is to achieve higher added value per tourist. This would eventually mean increased total revenue from tourism. However, by the simultaneous development of the remaining 6 strategic guidelines, Croatia would reduce its dependency on tourism.



All the more so because current examples from other countries such as Egypt, Tunisia and Greece show just how vulnerable this industrial sector is.

At present, Croatia has no clearly defined tourism strategy. This is why it could happen that a five-star hotel/resort is built in the totally inadequate surroundings of an (illegally built) holiday resort. To generate the expected results, a top category hotel needs to make a top notch overall impression. This is also a matter of preparation and observance of urban plans.

Tourism in its version 2.0 means discontinuation of further investments in mass tourism and focus on financially stronger tourists. The negative effects of focusing on mass tourism are evident in the examples of Spain and Greece. A systematic adjustment of the tourist offering to the needs of more demanding and more profitable tourist will protect nature and boost the macro-economic impact.

This is why separate geographical zones for the excellent (already traditional) mass tourism must be clearly defined. After that, local self-governments must be given less authority in terms of urbanism, which should result in harmonization of the appearance of new residential areas/buildings (including tourist buildings). In doing so, the original regional/local tradition and landscape image must be respected and emphasized. Given the (yet) low land development level of the Croatian coast, Croatia has a unique opportunity to preserve the natural/traditional landscape and turn it into a differentiation factor in the tourist competition.

Therefore, the present image: "Balkan, Chevapchichi, folklore", the "Mediterranean as it once was" needs to be systematically changed in the direction of " Unique destination on the Mediterranean for relaxing holidays in a healthy natural ambience". This means:

- Offer original and healthy home-made food
- Raise ecologic standards to a maximum and drastically increase fines for non-compliance, particularly with regard to the purity of the sea and undersea
- Ecologically acceptable disposal of bulky waste and wastewater

Considering the fact that Croatia has numerous thermal springs, mountains and the sea, it is predestined for health/wellness tourism all over the country. The proximity to demographically "older and older" but financially strong societies such as Germany, Austria, Switzerland and Italy is generating a growing demand accordingly. Meanwhile, Croatians living in countries abroad have grown into a recognized human potential in the health and wellness industry which Croatia should incorporate into its offering. The final result of such efforts could be a 12-month season.

## **5. Agriculture and Woodworking**

By the strategic guideline "Agriculture and Woodworking", Croatia strives to achieve the following main goals:

- Nutritional independence
- Protection of agricultural areas from (foreign) monoculture farming (i.e. inexpensive rape production for fuel)
- Extension of the value added chain – from raw material to finished wood products
- Affirmation of Croatia as exporter of healthy food and food products (eco-certification, non-GMO).

Considering the climatic preconditions, Croatia is in a very favorable position in terms of production in the agriculture and wood production. The primary requirement of nutritional independence is to decrease the risk of "production under the sky". Taking into account Croatia's strategic advantages resulting from the water reserves, an essential move would be the extension of arable land under systematical irrigation. According to the data from the Census of Agriculture of 2003, it is assessed that from the 1.077.403 ha of used agricultural surfaces in Croatia, only 0,86 per cent are being permanently irrigated, most of which are located in the Dubrovnik-Neretva County, followed by Split-Dalmatia County, and the least in Lika-Senj County. From the total of 1,5 billion hectares of sown areas in the world, about 250 million, or approximately 17 per cent, are being irrigated.<sup>13</sup>

On the other hand, it is also necessary to protect arable land against flooding.

A relatively large portion of the Croatian population is, in various manners, linked to the countryside. The mass rural exodus which we have been witnessing for decades has finally subsided. People are becoming more and more aware that life on the countryside and agricultural activities can be an alternative way of life. The State can support such model by tax incentives for return to rural areas, especially of young families. The State can also assist small producers of healthy food in

finding markets and distribution channels, primarily towards Croatian hotels, restaurants and specialized stores, but also in establishing partnerships with potential strategic partners, such as (global) food companies and countries of the Middle East.

The main goal pursued by the strategic initiative of the woodworking industry is to extend the value added chain from the current raw material to future sophisticated final products with a recognized design, and the affirmation of Croatia as exporter of high quality wood products.

By the privatization from the beginning of the nineties of the previous century, the woodworking industry in Croatia was almost completely destroyed. The new owners of companies dealing with the processing of wood raw material or even producing finished products sold out the machinery, mainly to Serbia and Bosnia and Herzegovina and dismissed the workers. However, regardless of that, the equipment pool can be renewed in Croatia, and adequately qualified workers can be found. Given the increasing affirmation of Croatian product designers, first of all, this combination can be used to encourage/educate domestic demand for Croatian wood products, by promoting the good quality-price ratio and recognized design. The restaurants and hotels along the Croatian coast can serve as lead-buyers of Croatian wooden furniture and act, through tourism, as multipliers for future export.

An additional communications push can be based, for instance, on the history of Croatian quality wooden material. This way, the "marketing story" about Marco Polo from the island of Korčula can be extended to Venice which was built on pylons of Croatian oak. The several centuries old wooden houses of the Slavonia and Posavina Region can also bear testimony to the quality of Croatian wood and, most of all, to the tradition of using wood for construction purposes.

## **6. Small and medium crafts/enterprises**

Given the fact that direct investments and mega projects have bypassed Croatia and that Croatia cannot count on them in the near future, Croatia can achieve its main goals by focusing on small and medium crafts/enterprises:

- employment of working-age population
- increase of national share in the creation of added value
- capitalization of Croatian innovation potential.

According to the figures of the German Institute for SME Research in Bonn, in 2012, SMEs (with fewer than 500 employees and revenues of less than EUR 50 million) accounted for 99.6 percent of all companies in the Federal Republic of Germany. The created net added value of these companies in 2010 amounted to 51.8 percent. In some strongly developed regions in Germany, such as the Federal State of Baden-Württemberg, this contribution is significantly higher. Hence, Croatia need not have to worry in case there are no megalomaniac foreign investments in the future, because the economic growth in Croatia would be based on diverse SMEs<sup>14</sup>.

The first prerequisite for the above is availability of adequate labor. This issue will be addressed in more detail in the strategic guideline "Education". The State can contribute here by promoting vocational schools so that these become more attractive to students. It stands to reason that the message "safe job" is the most attractive one.

If spurring of economic dynamics is not to depend directly on the State only and if equity capital is to help spur the economy at an increasing rate, private initiatives must be assured that their investments will pay off, which particularly includes abolition of all parafiscal, local and other taxes imposed on SMEs after their good performance has been proved.

The State can also take up the role of a mediator and link between innovators and financiers, encouraging and enhancing their cooperation, or can proactively and systematically promote Croatia as a country of innovations. This should be relatively easy because Croatian innovators regularly win medals at world's innovator competitions. The problem obviously lies in poor conditions for the development of innovations into industrial products and services, for which the State is responsible. A potential solution to the problem would be to use funds released by streamlining the State apparatus, which would be partly transferred to the State fund for SME development.

The State can support private business initiatives also by further administrative simplification and cost reduction of the start-up process. A few years ago, in Germany was launched the "Ich AG" or "You, Inc." model. Based on the demand for cheap, i.e. cheaper services, the German Government has maximally simplified the process of self-employment, e.g. small craft enterprises, minor construction works, gardening/landscaping, trade, micro production, services for enterprises, health/care/wellness, private tutoring, music, foreign languages, babysitting, administration, maintenance and cleaning. Considering the fact that demand for the above mentioned services is already present in Croatia, it could be met from the army of unemployed persons and/or technological

surplus coming from Government administration whose practical knowledge and abilities would be used. The State stimulates unemployed persons that launch a start-up by offering them subsidies in the temporary phase, lower own social security contributions and (partial) exemption from parafiscal taxes and various contributions.

## **7. Education**

The main goals of the strategic initiative of education are first to ensure that Croatian labor force is adequately educated for the upcoming economic challenges. Based on the above, Croatia can be positioned as an attractive country for education (learn-life-balance). Finally, education creates prerequisites for attracting research and development companies to come to Croatia, according to the Singapore model.

Labor force education standard depends primarily on the quality of educational institutions and their employees. Hence, benchmarking should be carried out for all courses and professors at state universities, faculties and professional schools with regard to future economic needs. Criteria should be tightened for private universities and faculties in the process of quality evaluation and recognized international diplomas and certificates should be awarded.

Croatia's faculties and schools should be linked even more closely with relevant internationally recognized institutes so that undergraduates from faculties and professional schools can meet the needs of the Croatian and European economies as much as possible. Furthermore, concrete cooperation between the academic community and the business should be intensified. This can include several practical semesters for university and secondary school students or joint investments into research and development. The Technical University of Stuttgart changed its economic studies in 1980s already so that students had to attend, beside courses in economics, also additional technical courses, together with future engineers. In this way, the University aligned its curriculum with the industry needs in one of the most developed industrial regions in the world. In order to manage local high-tech companies even more successfully, future managers need basic technical/technological knowledge. The cooperation of the Technical University of Stuttgart with the industrial sector has been so strong that one of the most powerful computers in the world is located today at the University and shared by both the industry and science. Similarly, the cutting-edge wind tunnel in which the German automobile industry tests its new products is an integral part of the University.

Larger European companies establish their own faculties and schools and thus create a pool of adequately educated labor force. With this in mind, Deutsche Telekom in Berlin and Telekom Austria in Vienna set up their universities with a focus on information and telecommunications technology (ICT).

In the perspective, i.e. after affirmation of the above mentioned 7 strategic industries, Croatia can become an attractive country for research and development centers. It would actually be a Singapore scenario, the city that has evolved, without any natural resources, from the logistic industry to service industries (finance, education), into a globally relevant research and development center for the ICT and pharmaceutical industries. Croatia has an even better starting point because of its natural resources.

## **Key factors for successful strategic management implementation**

For management of the Croatian economy, based on the main strategic (corporate) management principles, to be successful one has to comply with relevant, practice-proven crucial factors for success:

1. consensus on strategy, focus on crucial issues, persistence and consistency in application;
2. positive selection of staff on all levels and in all relevant sectors according to the following criteria: current knowledge, ability, international experience, evidenced results;
3. systematic benchmarking with regard to costs of the State and all its entities
  - a. comparing the costs of the State with those of other states
  - b. setting of SMART goals regarding state costs (short-term, long-term)
  - c. implementation of measures which have proved to be successful in the reduction of state costs with a view to reducing burden on the citizens and the economy;
4. consequent application of performance management system in State-owned and State co-owned companies with transparent goals, personal accountability, deadlines, bonuses and maluses;

5. concentration of (semi)state institutions that develop economic strategy under leadership of the Ministry of the Economy;
6. State change management: replace the rhetoric of consolation, claiming that there are countries whose ailing economies are in an even worse state, with unconditional orientation towards the best-performing countries. This active positive competitive spirit will contribute to faster realization of the goal, namely that Croatia achieves its highest potential in the economic segments that are relevant for the country;
7. quantum jump in self-marketing (in other countries).

## Summary

With the impending accession of Croatia to the European Union, economic excellence has become the ultimate challenge for the Croatian Society. While all around the world reforms on Government level are in progress, the political elite in Croatia seems to have capitulated to (economic) challenges. One and the same persons have been offering, for decades, the same theoretical solutions to always the same problems. Even if these solutions break through the administrative and red tape barriers, their implementation in practice is still very poor. This is why we need positive selection of key staff and application of proven successful methods of company strategic management on the macro-economic level, which means to define the vision of the Croatian economy in ten years' time. After that, one should define the main goals and relevant strategic guidelines which should be realized in stages to achieve the mission. With this in mind, the vision of the Croatian economy can be based on the ambition that "in 2022, Croatia will be the leading transitional country within the EU by conditions of conducting business. Being a small, but dynamic country in the geographical heart of Europe, it will offer a stable legal framework, competitive prices of labor and unified transparent tax rates to national and foreign business entities. The economic system will be supported by efficient administration, focused on the continuous improvement of conditions for the economy, thus helping the economy build and retain its competitiveness on the global market."

Croatia can attain its vision with systematic and consistent work if it does not engage in an excessively wide business range, but focuses on the seven strategic industries where Croatia has obvious advantages and potentials (logistics, energy from alternative renewable sources, water, tourism 2.0, agriculture and wood, small and medium crafts/enterprises, education).

From today's perspective this seems maybe (too) ambitious. But, if you do not have any goals, you surely will not achieve them. One should mention here some famous world leaders and their visions (e.g. J. F. Kennedy – "In 10 years I want to see an American on the Moon"; Martin Luther King – "I have a dream") that were laughed at scornfully. On the local level, the Yugoslav leader Tito answered the question when Croatia would become an independent state, after fall of the Croatian Spring political movement calling for democratic and economic reforms in Croatia, that this would happen when the hell freezes over. Despite the fact that the latter has not happened, the Republic of Croatia is today an independent state which is about to join the EU, a class enemy in the past. It means that the Croatians were not discouraged by Tito's "vision". Quite the contrary, they defined and realized their own vision.

If Croatia manages to channel its negative energy (Yes, but...) to thinking about how things could be changed for the better, there will be no obstacles to economic recovery and significant growth. This change management should be the ultimate task of every Croatian government.

## Notes

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[http://www.naturefund.de/erde/atlas\\_der\\_welt/bedrohte\\_umwelt/sauberes\\_wasser\\_knappes\\_gut.html](http://www.naturefund.de/erde/atlas_der_welt/bedrohte_umwelt/sauberes_wasser_knappes_gut.html).
- 13 Ministarstvo poljoprivrede, šumarstva i vodnoga gospodarstva Republike Hrvatske (2005); Nacionalni projekt navodnjavanja i gospodarenja u Republici Hrvatskoj, page 17-19. /Ministry of Agriculture, Forestry and Water Management of the Republic of Croatia (2005); National Project of Irrigation and Management in the Republic of Croatia, page 17-19.
- 14 Institut für Mittelstandsforschung Bonn (2013), Kennzahlen zum Mittelstand 2010/2012 in Deutschland./ Institute for SME Research in Bonn (2013), Key figures about SME 2010/2012 in Germany.