

Annex 1: Recommendations at a Glance

The following table brings together a set of recommendations developed by the review panel. This aims to facilitate discussion around recommendations given to strengthen entrepreneurship innovation and economic development at local level and to develop local action plans that could be followed by policy makers at national and sub-national levels.

Modernisation, diversification and internationalisation of existing SMEs	
<i>Analysis of the SME market</i>	Most of the activities and interventions made in support of the SME sector appear to be “supply-driven”, i.e. they reflect the knowledge and capacities of those agencies delivering the service. There was much less evidence of “demand-driven” policies, reflective of the identified needs of SMEs themselves and tailored to their individual circumstances. Demand-driven policies are more likely to achieve the results sought and to provide a cost-effective use of public funding. In order to design more demand-driven interventions, it is necessary to understand the needs and opportunities of the SMEs being targeted. On a quantitative level, there is a reasonable understanding of the SME sector in Croatia in terms of its scale, structure, geographic and sectoral distribution. There is less understanding of the structure of the SME sector in terms of its growth potential, the specific constraints on growth that it faces, and the types of support most likely to mitigate these constraints. Gathering such information requires direct contact with SMEs, and it is recommended that a series of surveys are undertaken at regional and local level.
<i>Evaluation of programmes and policies to date</i>	The wide range of programmes and policies being delivered to the SME sector is a strength for Croatia, reflecting a high degree of commitment to the objective of encouraging growth. Over time, however, it is important to become more selective in the programmes being delivered, homing in on those which can be shown to achieve the greater benefits. It is recommended therefore that a series of evaluations be undertaken of the range of SME support policies currently being delivered at both national and local level. This will involve measuring outcomes against original objectives, and comparing outcomes across different programmes. In order to identify the impact of policies at the level of individual SMEs, it will generally be necessary to talk directly with client businesses in order to establish how they have benefited from support. In order to avoid “survey overload”, it should be possible to incorporate evaluation questions into the market surveys recommended earlier. SMEs could be asked about their take-up of support so far, what actions they took in response to it, and how those actions improved their growth potential and performance. The results of the evaluation work can be used to refine the range of support measures, concentrating on those with the highest impact and simplifying access for the SMEs themselves.
<i>Improved links with other policy areas</i>	Success in achieving a more innovative and internationally competitive SME sector will require a multi-disciplinary approach. We identified a lack of connection across policy areas. In order to create a more supportive environment for SME growth, better connections across policy areas will be required. Two particular areas where improved links could be effective are with FDI policy and with R&D policy. Success in attracting FDI to Croatia creates a potential new source of demand for goods and services locally. A key element in successfully making a productive connection between FDI and local suppliers is to intervene early in the process, as the investment is being considered and made rather than after the event. The international investor needs to have the confidence that local supply capability can be developed, and will need to be directly involved in advising and training local SMEs. Similarly, the SMEs will require time to develop the service levels and skills demanded.

Another key policy connection necessary on behalf of SMEs is with the R&D infrastructure in universities, colleges and research institutions. Small companies with growth aspirations will generally be able to identify for themselves where they need product or process improvements. But they may not have the detailed technical knowledge or time to develop these on their own. Improved connections with sources of technology innovation will be required, along with a greater degree of market and business orientation from the relevant institutions.

Outsourcing opportunities

The potential for some SMEs to modernise and internationalise through providing an outsourcing service to international companies was highlighted on a number of occasions during the visit. Outsourcing provides an opportunity to work very closely with an overseas customer, improving the quality of local products and services, gaining an entry point into export markets and developing local management and technical skills, while benefiting from a steady revenue stream. There are potential disadvantages of course, in terms of dependence on one or two large customers and over-specialisation on those customers' technical requirements. But on balance, the approach offers a "fast track" to product innovation and exporting. We therefore recommend that the potential of an outsourcing initiative be examined in more detail through a feasibility assessment. The market opportunity should be measured, specific potential customers identified, technical requirements determined and local capacity measured. Any barriers to market entry would be identified, and support provided to address these. The feasibility work could be undertaken under the auspices of HAMAG in collaboration with relevant local enterprise agencies in areas where the sectoral potential is highest. There may also be a role for the Chamber of Commerce in supporting the initiative through export promotion and trade exhibitions.

Local clustering opportunities

Most development agencies worldwide have adopted clustering as a model for their industry interventions. Most have also identified a similar mix of industries on which to build clusters, for example life sciences, ICT and semiconductors. As a result, the overall concept has been diluted and does not offer the competitive advantage that it was initially intended to. Nevertheless, it can work well in specific circumstances and this is often the case where the cluster is built upon a well established natural resource or industrial capability. The Scottish forest industries cluster is an example of this, and is presented as a learning model later in this report. In the case of Croatia, there are a number of similar examples that offer potential for a cluster approach at regional or local level. This is already developing with boatbuilding in Istria. Other possibilities identified during the visit were organic food and drink, and bio thermal energy. These opportunities could be best exploited at regional and local level, beginning with systematic audits of the SME base in the selected sectors and its links with the local education and technical infrastructure.

Technology-based SMEs policies

Identify technology niches in Croatian universities and existing technology-based companies

Seeking to generate technology entrepreneurship throughout all of Croatia at the same time is impractical and a waste of scarce resources. If the federal government is to effectively support the growth of technology-based entrepreneurship, it should determine where such policies and programs will have the greatest chances for success and focus existing resources on them. Currently it appears that the federal government's technology policies and programs have focused on developing broadly scattered technology or entrepreneurship zones and programmes that are not focused on particular geographical locations or existing strengths of universities and technologies. If this were done, the government could then target scarce mentoring and financial resources on those areas of technology and entrepreneurship that are strongest in both university labs and within private industry, e.g., pharmaceuticals, ship building technologies, IT and CIT, alternative energy systems, and advanced materials to name a few. Federal programs could then be concentrated in those areas of the country where there are major research universities with strength in some of these technologies as well as applied engineering curricula, multi-disciplinary research programs and a trained technology workforce. In technology-based economic development it is many times more important to do a few things well than many things poorly.

<i>Regional technology programme and unique central agency/ministry</i>	<p>As we have seen, most current federal technology and entrepreneurship programs currently suffer from lack of resources and apparent diffusion across a number of ministries, each with layers of time-consuming bureaucracies. As a result, many people feel that these programs and policies need to be simplified and integrated into a single business support system – one managed by a single government agency. In addition, these programs need to be made readily accessible to entrepreneurs and other clients at a regional level and need to be implemented by experienced entrepreneurs and businesspeople.</p> <p>By placing all federal technology and entrepreneurship management under one agency, clients could be more easily tracked and helped through an integrated business development support system that could include “proof of concept,” strategic business planning, mentoring and financing. In addition, the success or failure of such an integrated strategy could be more easily measured and modified to account for changes in business development strategies and resource needs, and availability.</p> <p>The agency that appears to have the most ability to implement such an approach is BICRO which currently provides mentoring and small amounts of seed capital to technology-based entrepreneurs. In addition, BICRO staff also have private sector experience in building new technology companies.</p>
<i>National science and technology growth strategy</i>	<p>It does not appear that there are adequate protections for scientific discoveries made in Croatia. Without some means of granting ownership of technology innovations to entrepreneurs and university researchers who develop new technology-based products, there will be little interest in pursuing technology commercialization. That protection must be created at the highest levels of government and be a crucial part of a national Croatian science and technology policy.</p> <p>That strategy should also include a clear statement from the central government that encourages the commercialization of technologies by state-sponsored universities, in addition to their other two missions of research and teaching. Universities are rapidly becoming a major economic development force in the United States as state governments look to them as a source of “new economy” businesses...</p>
<i>Banking reform, financing laws and seed capital creation</i>	<p>The current business financing policies of the federal government are difficult to implement because current legislation does not allow banks or investors to quickly recapture their investment if a company fails. Because of this impediment many start-up companies – particularly technology-based companies – find it almost impossible to gain financing through regular banking or equity channels. Though the federal government has done what it can in providing both guarantees and interest rate subsidies, most banks will not lend without collateral and most seed and venture capitalists will shy away from high risk investments. Appropriate legislation will be required to encourage equity investments in start-up technology companies.</p> <p>Seed capital is the life-blood of entrepreneurs and technology-based company growth. Unfortunately there is little seed capital available in Croatia, other than some funding that has begun to be provided by the EU to the ministries and organizations such as BICRO. The federal government should consider enacting tax credits or some other form of incentive to encourage the formation of early-stage seed capital funds in Croatia. Both the central government as well as RDA’s should look to the EU for help in developing such funds. Seed and venture capital programmes are being studied in other Eastern and Central European countries that have recently joined the European Union. Though the temptation is great to recommend that the federal government create a national seed and venture capital fund, it has been the experience in the United States that incentivizing the private sector to create such funds is a much preferred option.</p>
<i>Human capital development</i>	<p>Start to build a better workforce now. Make the teaching of entrepreneurship and business building a required subject in both primary and secondary schools. Develop a strong science and technical curriculum within the school system and incentivize students to study it.</p> <p>Croatia needs a stronger technical workforce and more entrepreneurs. One way to accomplish this is through new education and training policies aimed at getting young people to understand that the only future in front of them is not necessarily going to work for someone else. There is a more thorough discussion of this issue in another part of this report.</p>

Entrepreneurship policy design and delivery framework

<p><i>Improve the systematic collection and analysis of evidence</i></p>	<p>Understanding regional and local needs is currently hampered by the uneven availability of appropriate statistics, analysis and knowledge about local and regional economies. Better tailoring of policy and service programmes to regional and local needs requires deeper understanding and knowledge of the local customer base of entrepreneurs and small businesses. More systematic and rigorous analytical approaches will also be required to demonstrate capacity, understanding and preparedness to develop programmes and projects for EU funds, for example in undertaking <i>ex ante</i> appraisals of regional and local conditions. Greater and regular consultation with appropriate stakeholders, especially intended users and beneficiaries, can enhance strategy and policy effectiveness too and ensure the appropriateness of local institutional structures. Regional and local institutions are currently involved in relatively small scale local survey and evidence collection work to assist local analysis and policy development. Such efforts should ensure consistent use of methodologies and standards to allow longitudinal and comparative research and analysis to proceed from a solid evidence base. Utilisation of existing national level studies and dialogue with the national statistical office to improve the quality and coverage of sub-national statistics is also important.</p>
<p><i>Enhance co-ordination and integration at the national level</i></p>	<p>Establish a clear division of labour and distinct spheres of responsibility between the analysis, strategy development, policy design and evaluation role of the Ministries and the operational and delivery functions of the arms-length agencies. For example, the MINGORP should focus upon strategy, policy framework and programme development and more readily and quickly devolve programme delivery to HAMAG. In addition, the horizontal cross-departmental institutional mechanisms (i.e. Task Forces, Working Groups) at the Ministerial level already in place in some policy areas should be extended to the entrepreneurship field. Strategy and policy development processes could also be further opened up to dialogue and consultation with relevant user associations and groups such as the Croatian Employers' Association, Chamber of Commerce, Chamber of Crafts, UHIPP (Association of Croatian Institutions for Enhancing Entrepreneurship), trade unions and CEPOR. The aim would be to increase dialogue and, understanding and to identify opportunities for co-ordination and integration of activities, especially at the national level.</p>
<p><i>Incorporate regional and local perspectives into national strategies</i></p>	<p>Better connection between the aims of national and regional and local strategies can be achieved through the incorporation of regional and local perspectives in national strategies. This process of vertical integration between levels can help to tailor and differentiate policy for different types of regions and localities — helped by the finer grained analysis of regional and local needs from the strengthened evidence base (see the first recommendation above). Where this link is not present a degree of disconnection is evident, for example the national science and technology strategy lacked a regional or local dimension. International good practice suggests the sub-national dimension to science and technology strategy and policy delivery is increasingly important in the creation of effective territorial innovation systems. Practical guides to support the cross-checking of the regional and local dimensions of national strategies and policies — so-called 'region-proofing' — are available.</p>
<p><i>Enhance connection and consistency between the aims and purpose of strategy, policy, programmes and projects</i></p>	<p>Strategy builds on analysis to set out and justify the aims, objectives and priorities. Policy sets the framework, instruments and measures through which such aims are to be achieved. Programmes are the sets of interconnected projects that will deliver the policy and strategy. More integrated approaches need to be deployed to ensure that connections and consistency are embedded within the policy process in the round. This then provides a means of countering the problems of fragmentation and underpins greater co-ordination and effective policy development and delivery. For example, aims and priorities need clear identification and articulation throughout the policy process. Given Croatia's stage of economic development, the quantity of new start-up businesses is understandably a concern but issues of quality — for example survival rates, growth potential and innovativeness — need also to be incorporated into the analysis and strategy development. Similarly important is the relative weight in entrepreneurship policy given to participation and the targeting of particular social groups, ownership structures and places.</p>

Achieve a clear and effective balance in the decentralisation of authority and resources

A more effective balance needs to be found between the national centre and regional and local levels in developing and delivering entrepreneurship policies. In a relatively small state such as Croatia the roles and balances between the various levels is critical, particularly since shared responsibilities between levels of government are not clearly defined. In addition, over-burdened central Ministries could devolve more responsibilities and achieve greater levels of effectiveness.

A first practical step could be a review of who does what and at which levels accompanied by reflection on the fundamental questions of what is the appropriate geographical scale at which to design and deliver entrepreneurship policy. The current context may be timely for such an exercise given the ongoing discussions regarding EU regionalisation and the potential establishment of 3 new regional entities at NUTS II level or the further deconcentration of functions to the NUTS II level. Critically, regional and local level institutions have the potential better to understand regional and local level needs and are more able to tailor policy effectively to address them. Disparities in entrepreneurial performance across Croatia suggest the need for differential approaches in addressing the issues.

Improve co-ordination and integration amongst regional and local agencies

Co-ordination and integration between regional and local agencies can be improved but this must not be at the expense of the strengths of local institutional diversity, initiative and innovation. Regional and local institutions should not be subsumed into a universal, 'one-size-fits-all' model. MMTPR is taking the right approach in seeking to establish minimum framework guidelines on what RDAs should do, their service quality levels and so on but, crucially, it should leave room for regional and local discretion and diversity in specific institutional solutions.

There are several practical ideas to improve co-ordination. First, utilisation of the 'single gateway' or 'one-stop-shop' concept may provide a means of enhancing co-ordination. The idea is to establish a single entry point for entrepreneurs and small businesses to access the business support network and be signposted to appropriate services. The concept suggests a single gateway to the wider network of service providers including public, public/private and private bodies. Second, the standardisation and accreditation measures delivered by HAMAG to ensure service provider quality and consistency, especially for specialised consultants, should be rolled-out more fully and quickly. This will encourage consolidation and rationalisation within the institutional network as weaker providers will be forced to upgrade to meet appropriate quality standards or withdraw from the market. Third, the good practice knowledge exchange should be developed and built upon amongst the National Association of Institutions for SME Development and the County Development Agencies network.

Introduce more systematic assessment and evaluation of policy interventions

More proactive and searching evaluation mechanisms need to be introduced and embedded into the policy design and delivery cycle with the aim of learning lessons and making subsequent strategy and policy more effective. The current approach of functionally checking outputs is limited and risks squandering opportunities for learning and development from policy design and delivery experience. Appropriate and consistent indicators of programme outcomes can be developed to support comparative and longitudinal analyses. With a more rigorous and robust assessment framework, more policy pilots and experiments could be undertaken supported by a systematic means to evaluate exactly what is effective and ineffective policymaking.

Entrepreneurship skills and culture

Adopt a programme-driven approach

In policies, programmes and instruments, structures appear to be imposed and very few initiatives truly originate in the communities or as a result of the communities' needs. To inject dynamism into the entrepreneurial system, there must be room for new, private initiatives to emerge. If the present dynamic is not reversed, there is a danger that the new generation of entrepreneurs and support staff will depend systematically on central Government funds for their survival. This is not much better than enriching a system of employment insurance or social assistance. The Government should not become the depository for a series of programmes introduced to deal with potential problems.

<i>Build an entrepreneurial culture</i>	This involves encouraging a dynamic based on sustainable collective enrichment. It starts from refocusing the general view of entrepreneurship on the work of small firms and their importance, and changing the legal system quickly, so that the market can operate within the rules. It is important to involve the economic community in an extensive campaign to clean up the corruption currently flourishing within its ranks. This requires accountability for all those involved. The answer may be individual or collective entrepreneurship throughout the country. Entrepreneurship is a powerful way of achieving social and economic democracy.
<i>Cultivate an entrepreneurial culture</i>	Encourage champions, successful initiatives and project proponents wherever possible, and capitalise on their success. It is possible to introduce a process that will encourage successful organisations to teach, exchange and extend their projects into other regions or other organisations. This would not only speed up the knowledge transfer process, but would also help forge contacts between stakeholders and take advantage of the experience accumulated by model initiators. Moreover, introduce new <i>National Entrepreneurship Contest</i> involving a wide range of entrepreneurial players and recognising a variety of different entrepreneurial projects. This would help capitalise on the entrepreneurial successes of recent years. Furthermore, use the media more intensively to enhance the value of entrepreneurship and entrepreneurs and reposition their role in the current economic and political transformation; inform (educate) the population and the entrepreneurial community through ongoing activities in the entrepreneurial system. Finally, organise events at which stakeholders can gather, discuss and make collective progress. This will speed up the learning process and allow the existing system, which is already fairly dynamic, to reach maturity more quickly (e.g. conference; convey good practices; website).
<i>Incorporate entrepreneurship education into the educational system</i>	Especially in the vocational schools, which have a more practical orientation, either by presenting a range of entrepreneurial models and inviting teachers to use the models that most resemble their own lives, so as to avoid culture shock (e.g. the social economy, cooperatives, environmental micro-firms, etc.) or by introducing different teaching methods that allow students to experiment and learn by solving problems. These methods should encourage creativity, autonomy, tolerance for risk, mutual support and social responsibility, individual commitment and so on. It is important to find innovative ways of involving the scientific community and introducing entrepreneurship into the universities as quickly as possible, e.g. by supporting university research in order to create a community of interest and a national movement in university circles towards the development of entrepreneurship knowledge. It may also be possible to create an entrepreneurship and small business university.
<i>Develop entrepreneurial and managerial skills</i>	There are different levels of learning, and teaching methods must be adjusted accordingly. The first level is knowledge development. This can be done through a variety of channels, including the media, conferences and so on. There are a host of subject areas that would help enrich the entrepreneurial toolbox: one-off and continuous training, conferences, continuous information, distance education, etc.; good stewardship practices; business ethics; marketing products and services; foreign markets; foreign languages; how to sell, negotiate and get to know customers; case opportunity; accounting and finance; regulations; and etc. The second level of learning involves the development of attitudes and skills: continuous training, practical cases, project testing, etc. It has been shown that entrepreneurs, because of their specific profile, would rather learn by starting a real-life project, preferably their own. It is therefore easier to motivate entrepreneurs by offering continuous interactive training that will allow them to develop their own projects. The third level of training involves experimentation. This allows entrepreneurs to test their acquired knowledge and use their new skills. Experience is obtained through action and over time, but there are ways of speeding up the process, such as sharing experience through mentoring, coaching and networking. Fostering the development of contacts by setting up groups of entrepreneurs with shared business interests. Even if they are supported by the Government, entrepreneurs will be unable to meet the challenges they now face if they do not have opportunities to talk to their counterparts in other firms.