

CONFERENCE PAPER

Implications of Business and Economic Environment and Strategic Management and Performance Management in Selected Countries of Central and Eastern Europe (CEE)

Balcar Petr¹, Taušer Jozef, University of Economics, Faculty of International Relations, Prague, Czech Republic

***ABSTRACT** – This paper focuses on main characteristics of the recent development of the business environment, business education and management procedures in selected countries of Central and Eastern Europe (CEE), the Baltic and Balkan countries, and emphasizes important aspects influencing business performance. Our conclusions are based on analyses of 30 international business companies, nonprofit, and public organizations, academic and business sources, and on our personal hands on business experience. We have observed differences especially in long-term development of entities, strategic management, controlling, performance management, employee appraisal, as well as other areas related to performance management. Due to space limitations we do not include a comparative analyses of procedures based on identical aspects for selected countries but rather emphasize the most important elements.*

***KEY WORDS:** strategic management, process management, performance management, financial management, CEE countries and managerial performance*

Introduction

The goal of this article is to assess the business environment and governance procedures in selected countries of Central and Eastern Europe (CEE), and the Baltic and Balkan countries. The research is based on a sample of 30 international business companies, nonprofit, and public organizations. Key strategic and performance-related issues that help business firms and other organizations cope will be our focus and we will investigate the details of managerial approaches in respective countries in order highlight both the weaknesses and strengths within the CEE region. This will provide the foundation for systematic highlighting of the main challenges that the region faces to keep up with advanced western capitalist economies.

More specifically, we focus on strategic management and performance management characteristics and specific needs for improvement to catch up and compete successfully in the international business arena. This research topic is part of a broader goal for our work.

¹ University of Economics, Faculty of International Relations, W. Churchill Square 4, 130 67 Prague 3, Czech Republic, balcar.petr86@gmail.com

We also include information from our hands-on experience working with firms, and in-depth interviews with their top management.

The anticipated outcome of this paper is to develop to the extent to which it is important to use effectively standard strategic procedures and management processes to achieve a competitive level of performance in production, sales and service provision in international business. Gaining and maintaining a competitive advantage are key conditions of success in current business dynamics. This paper emphasizes key steps for success in selected world regions influencing international business cooperation.

From the authors' experience in working with a wide variety of smaller, especially start up firms; they quite often do not emphasize quality of governance. Both the shareholders and the management primarily focus on core business operations that support a fast launch of products and services into the market. Their primary goal is the growth of output and revenue. Investments in management systems and governance improvement, especially supporting improvement of effectiveness and competitiveness have lower priority. We have observed the lack of attention to this goal also among several large international business players. The public sector especially has much room for improvement of governance procedures.

We also aim to provide general conclusions on the extent to which it is important to improve governance, the managerial processes of organizations and professional core-business- related development. Tracking all up-to-date development trends, especially in Information Systems and Information Technology (ISIT), is difficult. In the past two decades many organizations have decided to outsource key processes and activities, including parts of ISIT functions. The "profile", i. e. strategically important activities, however, usually remained with the know-how "owners", within a core business. Because ISIT has not only an infrastructure supporting function, but it is integral to all company business processes, this paper focuses on how effectively ISIT is used by our sample entities. Finally, we include a full comparative analysis for the most important elements of procedures, based on the same characteristics for selected countries.

Worldwide management system trends

Business procedures vary substantially in many aspects across geographical areas. These differences can be ascribed to specific fundamental values, cultural traditions, working habits, and by economic and overall level of progress. One would expect, however, that governance of companies and institutions worldwide should be rather similar in principle.

Nevertheless, differences in governance internationally occur not only among various industries but also within the same sector. Such differences also exist within geographically and culturally similar regions. In general, there is almost never only one best management solution, especially in a combination with an ISIT solution. It is always important to consider "Best Practices" experience relevant to the nature, size and other specifics of an organization in question. For doing business internationally it is crucial to align optimally Best Practices within a particular sector, with circumstances of the respective geopolitical region, expectations and preferences of shareholders and thus the management.

High quality governance is closely linked with **core business competences**. It is the key precondition for a long term conceptual strategic approach to the organization's development. Business process areas are usually grouped as outlined below with selected **typical processes** falling into these groups:

- **Management processes** as primarily strategic management, risk management, research and development, legal services, process and organization structure maintenance, internal audit, PR and communications;
- **Core processes** as the ones that represent the primary specialization of an organization; and
- **Infrastructural processes** as finance, ISIT (penetrating into all company processes), human resources, security and safety.

Company processes need to be aligned and effectively managed in a coordinated way throughout the entire value chain. It is crucial primarily to use available **theoretical sources** on management, ideally in relevant sectors, to set a rational balance in designing and executing all processes that are supporting achieving and keeping a company's competitive advantage.

Another important step is to analyze the degree of success in **implementing the theory into practice**, i. e. an ability to suggest and adopt, based on an up to date theory, steps towards entity's **performance improvement**. We need gradually to analyze results, consider needs for ongoing corrections and take actions towards strategy improvements. It is necessary to utilize effectively a potential for implementation of new information. An anticipated outcome of this task would be to balance the status among learning new skills, speed of their implementation, quality of work and the final organization's outcome.

Unlike as claimed in former communist countries we do not recognize two separate types of economic theories and thus business categories, domestic versus international. There is only one "business world", even if operations are not international. Due to a gradual opening of many economies towards international trade of goods, services, information, knowledge, science and values we only need to consider specifics of various geopolitical regions.

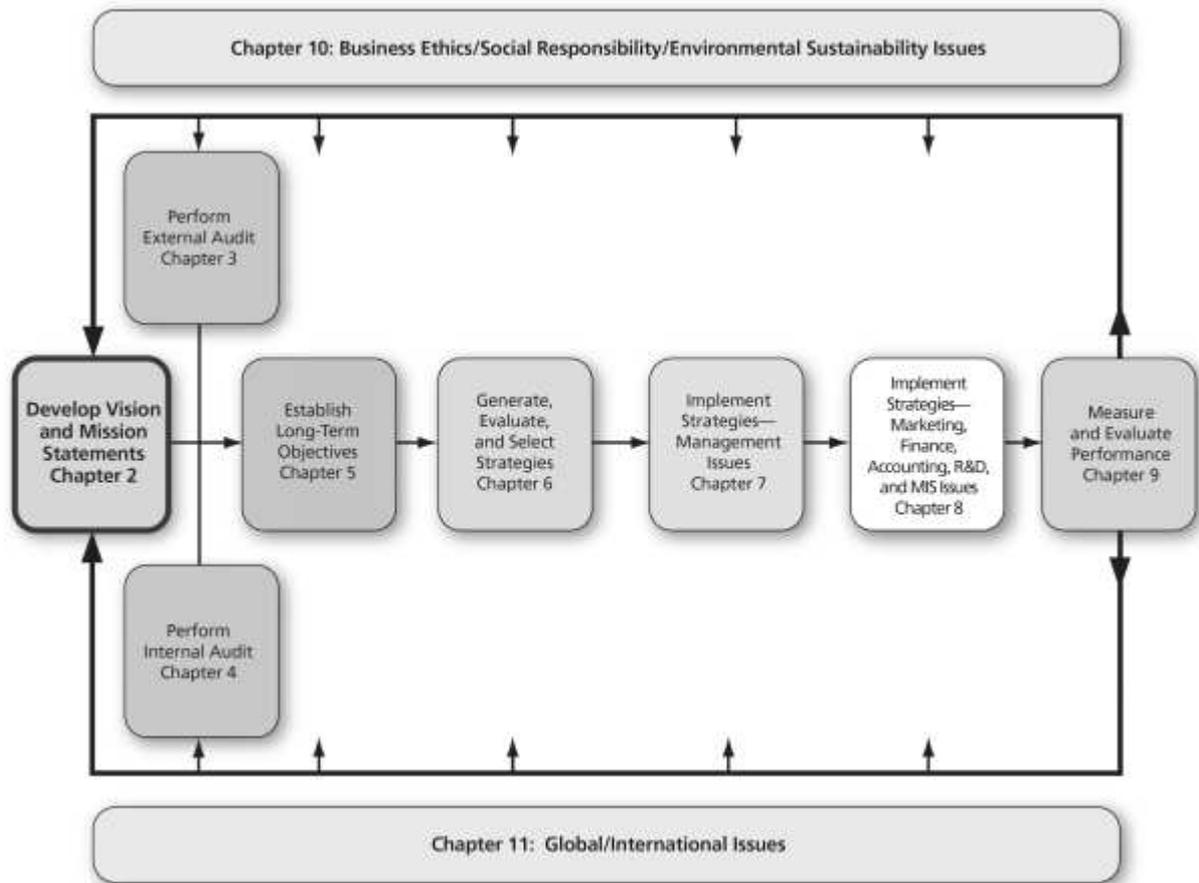
An impact of international aspects of doing business on the importance of using a strategic approach and, consequently, structured financial and performance management in international business, is another focus of this article.

Analysis of current situation – key issues

This analysis includes the **managerial environment** of companies operating in various countries, in connection with their existing local **political, economic, and business environment**. The sample entities operate both domestically internationally. The key research areas are **strategic management** and **performance management**, and their connection to **financial management and controlling**.

An initial analysis will be a starting point for stating hypotheses and a consequent testing in a dissertation that will follow. The main theoretical bases used for the analyses portion are standard frameworks and procedures of strategic management such as Strategic Management Framework by Fred David (2013):

Diagram 1. A Comprehensive Strategic-Management Model



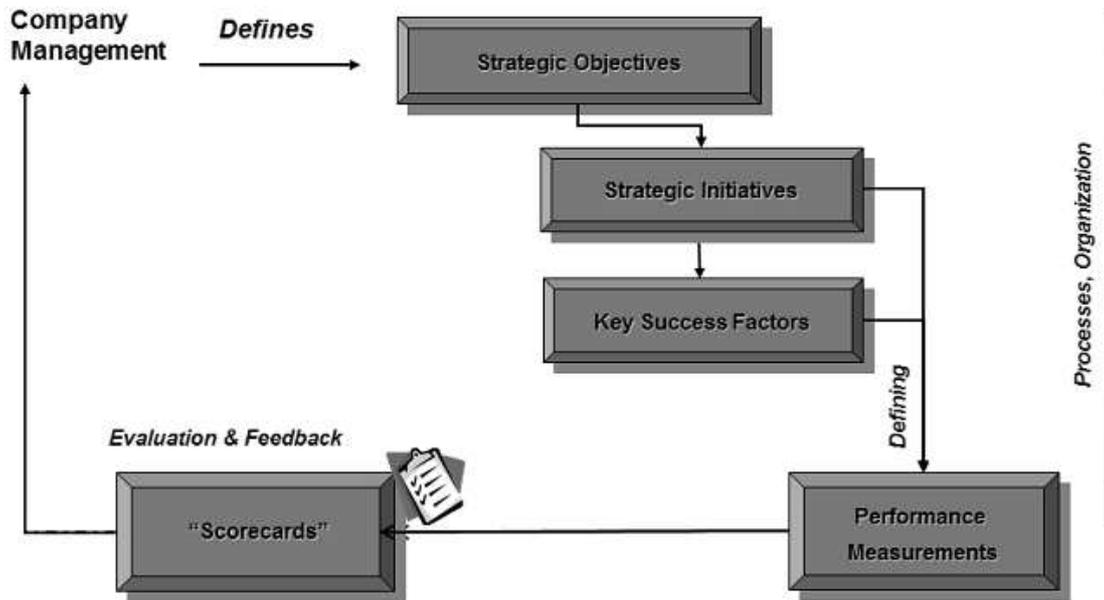
Source: David (2013), p. 47

The above Strategic-Management Model outlines particular phases and components of strategic management, which can be linked to a controlling framework, comprehensive performance management framework models such as the Balanced Scorecard, to modern financial management concepts such as CFO Framework, and to other current governance practices. Due to its logical structure this comprehensive strategic model is compatible with process based management approaches and can be used in a process based organization.

The following scheme shows how a **Balanced Scorecard** performance management framework that includes evaluation and feedback is **linked with a strategy**.

Picture 2. Performance Measurement and Management Cycle Framework

BSC – Performance Measurement & Mgmt Cycle



Source: Drawn by the authors on the basis of the Balanced Scorecard concept by Robert Kaplan and David Norton (1996)

Professional education, improvement of qualification

Education level, knowledge and skill sets of individuals are the first area of this analysis. To successfully conduct business processes in a particular function, role, resp. the employees are required to achieve a certain level of relevant professional education.

Right after the communist takeover of the former socialist bloc countries of the CEE, very few managers had a formal management education and possessed management skills. Most of them in the nationalized enterprises were workers by profession. Their primary “qualification” was their loyalty to the communist regime. That changed in a positive way over years. If we abstract from the fact that upper level positions were directed by nomenclature rules, it was rather usual up to the 80s of last century that higher management positions would be held by people with a **sector related degree**. With the overall development of management education an **interdisciplinary approach** has become more common. This approach was introduced in other advanced capitalist countries earlier than in the CEE countries. Today, employees are expected to acquire new skills consistent with their evolving managerial roles. This can be seen especially in SMEs where individuals have to assume a wider range of roles. It can, however, also be seen at big international corporations or public institutions where there may be a need to replace an old way of thinking with a best-practices mind set.

Another way of upgrading education is earning advanced degrees from reputable internationally recognized universities, as MBA, MS, or other specific programs as ACCA, CFA, CFBA, CIA, CIMA, CMA, CPA, FRM, various specific certifications in ISIT, etc.

There are various ways of assessing and evaluating of education achieved. An academic value of a program studied matters. Still, the individuals' qualities are always crucial. Overall considering, the above and similar programs are more valued in the western developed countries. For instance, when comparing starting salaries of employees in business an academic degree plays a significant role:

Table 1. Source: Starting Salaries in Business

Completed Academic Degree	Starting Salary in Thousand \$
Associate in Business Administration	30 – 50
Bachelor in Business Administration	51 – 88
Masters in Business Administration	73 – 103

Source: <http://www.businessschooledge.com/starting-salaries-for-business-school-graduates>, July 11, 2013

Furthermore, due to competition for MBA graduates in the USA sign-on bonuses are a common part of the compensation package for MBAs. According to Joop Hartog and Hessel Oosterbeek (1998) "Almost half of all companies offer a signing bonus, and the median bonus is \$15,000".

A degree from a prestigious master program itself plays a significant role in the starting salary. A number of economic and other social science studies on the subjective utility of working have shown that higher levels of education are unambiguously associated with higher levels of satisfaction, e.g. Hartog and Oosterbeek (1988) or Catherine Ross & Marieke Van Willingen (1997). However, there are several investigations that support the negative effects of perceived over-qualification on dimensions of job satisfaction (Joop Hartog, 2000) and that over-schooling negatively affects job satisfaction.

A high quality education from advanced countries is also very well remunerated in most of countries in Asia, Africa and Latin America. Many organizations in the Czech Republic do not consider additional education in the determination of employees' salaries. On the other hand, there are companies and institutions that compensate for specific education and training as part of a gradual professional growth of their employees. Investment of this kind in the Czech Republic and other CEE countries has grown since the 1990s of last century due to a high demand for new modern management education and skills. The 2007 economic crisis that hit this region caused dramatic cuts in financial abilities of companies to pay for such courses.

Investment for ISIT education and training is to some extent a separate factor that not entirely follows economic cycles. Special training is needed to implement new software solutions or upgrades. In recent years there was a considerable slow down in spending for both new IT systems and the respective training programs, as part of overall cost cutting. With the overall improvement of specialized management knowledge and skills managers tend to use their own organization's more qualified employees, often newly hired professional, as training lecturers. For example, utility companies and banks build their own

in-house consulting and training departments that often recruit skilled advisors and auditors from reputable firms.

Experience of employees

Sector-specific knowledge is only part of what one needs to conduct effective management. Such knowledge has to be instantly supported by acquiring new, primarily management, skills. This also holds for lower management levels and to some extent for all staff at most levels. Therefore, we can observe that the best dynamic professional managers, who in some cases do not know in detail all specifics of the, for them relatively new, sector, are recruited into high or top position as a CEO, CFO, CSO, CRO. High profile business people with experience in dynamic business environments as consulting, audit and tax firms, but from another sector, also take such top positions as independent professionals.

A very important trend is sharing international experience acquired during studies as well as during the working period. While it is maybe difficult to transfer experience internationally into a local environment, a wider international perspective enables assessment of work tasks from a broader viewpoint. This amplified perspective may suggest new alternative solutions in contrast to merely routine existing ones.

Readiness to work in a modern management environment

Strategic management framework, importance of strategy for a company or institution, design, implementation and evaluation of strategy and its further utilization for an effective governance are still today unknown in many organizations. On the one hand, the importance of a strategy must not be overstated. Time devoted to strategy alone should not detract from the core business. Strategy is a standard integral part of daily activities and is the spine that connects all management, core and infrastructural activities in a harmonized way. Managements of many companies, including important international corporations and state institutions, quite often do not properly use the potential of their strategy. If it exists at all it is then only a formal static document.

The typical format for a strategy includes formulation of strategic goals and strategic initiatives for particular processes and the organization units of an entity. It is possible to accomplish once the management team has identified and organized business processes that exist in the entity even without being properly designed according to usual formal definitions and procedures. Following a clearly designed process structure allows forming a **process-based organization structure**.

In connection with the above the organizations need to manage their revenue and cost structures and flows. Simultaneously they need to track efficiency of all economic centers to enable transparent planning, reporting and evaluation of results. For this purpose it is important to establish a controlling system. "Controlling" as a term has been historically more widely used in European business environment. The same process is commonly called "management accounting" in the US. This is the key platform for effective financial, operational, and project management. It is impossible to exercise modern financial management without a structured controlling, statutory accounting and thorough knowledge of tax agenda.

Controlling systems are often too robust to allow for flexible governance of a company. For a successful management of a company at all levels it is therefore important to introduce a performance management system linked to a strategy. It should be designed as a common platform for shareholders, all levels of management, and all employees. One very effective method for performance management is the Balanced Scorecard approach. Also used are separate Management Information Systems (MIS) which compile management results in a more condensed form. Complexity and a way to support strategy, financial management and performance management by appropriate ISIT SW solutions are the key tasks for most organizations in business, and nonprofits, including the public sector.

The first obstacle for a decision on ISIT support is the perception of key decision makers towards an entity strategy. Many managers with a long-term experience with a particular sector have adopted routine procedures and it is difficult, or, for various rational reasons inappropriate to change them. Most of old-fashioned governance procedures, especially in the CEE region, were not based on a process-based management. Organization structure would then often be designed, and along with general set of rules, used without any major changes for many years. On the one hand the rules were often conforming to a central plan. Also, tasks would often be solved on an ad hoc basis, without any link to a rational strategy.

After the fall of communism many firms and companies experienced a dynamic growth. A remarkable portion of them failed to focus on proper and efficient management. It was for capacity reasons or because of a rapidly developing demand which was by the management considered more important than improvement of management procedures. Such companies concentrated primarily on growth of production, imports, exports, and sales. Strategy and performance management were not their initial focus. In addition, up to date complex ISIT solutions were not sometimes seriously considered.

Currently, the level of experience of employees using an advanced strategic approach to financial management, controlling, and performance management differs considerably among organizations. Growing competition among new management candidates motivates especially young people towards a higher interest in increasing their qualifications for this field. Simultaneously, many older managers are adverse to the use management information from MIS and other sources that could be introduced and implemented.

Specifics of business environment in selected economies

This section identifies the main political, economic and business environment characteristics of selected countries of CEE, the Baltic and Balkan countries.

Visegrad group countries – Czech Republic, Hungary, Poland, Slovakia

The economies of Visegrad Group (V4) countries, the Czech Republic (CZ), Hungary (HU), Poland (PL), and Slovakia (SK) can be considered as relatively economically advanced. They have gradually recovered from the communist system. All joined the OECD between 1995 and 2000, and became EU members in 2004.

GDP in purchasing power standards (PPS) in 2013 reached in these emerging economies between 66 and 82 percent of the EU28 average index (CZ 82, HU 66, PL 67, SK 75).² Real GDP growth of the Visegrad group countries in 2007, i.e. before the last economic crisis, with the exception of HU (0.5), was relatively high – CZ (5.5), PL (7.2), and SK (10.7). Growth in 2014 was relatively balanced – CZ (2), HU (3.6), PL (3.3), and SK (2.4).³

The V4 unemployment rate in 2013 was with the exception of CZ (7.0) above the EU28 average of 9.5 percent – HU (10.2), PL (10.3), and SK (14.2).⁴ Since then, except for CZ, there has been a strong trend to leave one's own country and work abroad, primarily in the West. This typically, but not exclusively, has held for younger generation.

V4 countries have been relatively politically stable. They have moved from center-right governments to center- or even rather center-left ones but are still adopting western capitalist business models. All four countries do actively cooperate for the most part within the EU.

Further, we see evidence of openness to international cooperation, often accompanied by much inefficiency due to lack of experience and language skills. Knowledge of foreign business languages has improved considerably, especially among younger people.

Local V4 university education is approaching Western standards, including an exchange of students within the EU as well as with universities from overseas. Academic degrees from international, primarily Western universities are mostly well respected in the V4 countries. Overall, there is an advanced knowledge of business management procedures in major and middle size companies. Foreign language business skills are improving in the state sector but have room for much improvement.

All V4 transportation infrastructure is far behind world standards. For example comparing prices per km of new highways among countries is disheartening. The Czech Republic has a sad reputation of paying much higher prices than Germany or the USA. Yet, the road infrastructure in V4 countries, with the exception of major highways in Hungary and Croatia, is poor to very poor. V4 railways are functioning and slowly but gradually improving. However, there are still roadbed quality limitations for operating high-speed trains. State institutions are still inefficient but the trend is for slowly improving professionalism and competencies.

The banking sector in the V4 countries experienced a rather conservative risk management, especially for mortgage loans, which turned out to be a positive factor during the 2008 financial crisis. Several major bad-debt cases occurred that cost many local bank clients and tax payers dearly. Nowadays the banking sector, overall, has been rather favorable to local and international investors for loan approval. A vast majority of financial institutions were privatized by international, primarily West European banks. Foreign banks have realized the highest return on investment from the region. Local clients have suffered from record high fees imposed in the CEE overall. Many companies face financial problems related to foreign currency loans (in DM, EUR) due to exchange rate fluctuations.

² GDP per capita in PPS, Index (EU28 = 100), Data from 1st of December 2014,

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1>

³ Real GDP growth rate – volume, Percentage change on previous year,

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1>

⁴ http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

Globally, in the ranking of 189 economies, compared to the regional average OECD rank of 40, Hungary stands at 20, Czech Republic at 37, Poland at 52, and Slovakia at 55 on the ease of enforcing contracts.⁵

Business relationships in V4 countries are often based on strong lobbying, especially by politicians. A considerable part of business has been moved to off-shore companies. The countries have suffered from huge state budget losses due to in many cases sophisticated intentional fraud, especially linked to privatization. Many politicians benefited from that. As a result of that, there is a lower degree of transparency and safety in doing business in V4 countries. There is a relatively high openness to corruption in V4. There are many serious cases under investigation and in court, especially in the Czech Republic. The courts often appear not to be independent and are under the influence of excessive and improper lobbying.

Belarus

Belarus is one of the remaining few communist dictatorships in the world and the last in Europe. Its heavy political heritage is strictly from the former USSR and still maintains very close ties with Russia. Several top politicians there are subject to EU and US sanctions due to severe human rights violations. Political stability in the police state is forced and any active opposition is unfortunately still heavily opposed.

Comparatively, Belarus had been a relatively economically advanced region of the USSR with “relatively well-developed industrial base which is now outdated, energy inefficient, and dependent on subsidized Russian energy and preferential access to Russian markets - following the breakup of the USSR.”⁶ It experienced a capitalist “reform” between 1991-94, which included “privatization of state enterprises, creation of institutions of private property, and development of entrepreneurship. About 80% of all industry remains in state hands. A few banks, which had been privatized after independence from the USSR, were renationalized. State banks account for 75% of the banking sector”.⁷ Overall, the business climate does not favor of foreign investment. Within the socialist system limits, Belarus had a traditionally high standard of technical education that allowed industrial development. The citizens have had only very limited access to current modern international education and international business, as well as international travel.

The infrastructure barely functions with extremely rigid state institutions. Despite the fact that the country political system includes a bicameral parliament and a government, the power of the President is very strong. Socialist-style economic central planning is de facto under control of the dictator. Professionalism and competencies are often questionable. Preparedness for and openness to international cooperation in institutions and firms is limited, also due to limited foreign business language experience. There is large potential for improvement due to limited level of modern business and management skills.

⁵ Doing Business 2015, Comparing business regulations for domestic firms, World Bank Group, 2015, <http://www.doingbusiness.org/data/exploreeconomies/~media/giawb/doing%20business/documents/profiles/country/CZE.pdf>

⁶ www.cia.gov/library/publications/the-world-factbook/geos/bo.html

⁷ <https://www.cia.gov/library/publications/the-world-factbook/geos/bo.html>

Involvement of international companies in the country, other than the Russian investors, is rare with only a few projects in major industries co-funded by the EU. Support of the President and his cronies is required for any successful business cooperation.

Bulgaria

The country is overall relatively less advanced within the EU, having joined in 2007. The country is slowly but successfully recovering from communism. It joined the EU in 2007. GDP in purchasing power standards (PPS) in 2014 reached Bulgaria at 45% of the EU28 average index.⁸ Real GDP % growth in 2007, i.e. before the last economic crisis, was relatively high - 6.9, and 1.7 in 2014.⁹

Due to a relatively high unemployment rate – 13% overall in 2013, youth unemployment rate for people between 15 and 24 years of age between 2000 and 2013 was between 25 and 28.4%.¹⁰ The trend is to leave one's own country and work abroad, especially, however, not exclusively among the young generation.¹¹... in the period 1990-93, 458,000 Bulgarians left the country, of these 330,000 emigrated to Turkey and the rest mainly to the United States, Canada, South Africa, and Western Europe (Germany and Austria) (Yulian Konstantinov, 1996).¹²

Politically, the country tends to adopt western business models. The Government is driving opening of the country economy to international cooperation and foreign investment. There is, however slow dissemination of this process, i.e. a low preparedness and openness to do international business at the company level. Bulgaria recently has had the lowest corporate profit tax and corporate income tax in Europe – 10% in 2015. The banking sector is following the government trend and is favorable to both local and foreign investors. Bulgaria is also a popular place for real western estate investment. On the other hand there is a relatively high risk for investors due to low enforcement of contracts, including a low institutional protection against organized unofficial crime groups. As a result transparency of doing business is lower. Also, pos-contract negotiations of already settled matters can be reopened.

There is a high respect for education from international, primarily Western, universities including those in Central Europe and international business education is improving. Knowledge of foreign business languages is gradually increasing for new graduates. There is a limited level of modern business and management skills, and thus a big potential for improvement.

Transportation infrastructure in Bulgaria has much room for improvement. Roads are in very severe disrepair hindering development of all business, including tourism. The country

⁸ GDP per capita in PPS, Index (EU28 = 100), Data from 1st of December 2014,

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1>

⁹ http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

¹⁰ http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

¹¹ http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

¹² Patterns of Reinterpretation: Trader-Tourism in the Balkans (Bulgaria) as a Picaresque Metaphorical Enactment of Post-Totalitarianism; Yulian Konstantinov; Source: *American Ethnologist*, Vol. 23, No. 4 (Nov., 1996), pp. 762-782

has excellent access to the Black Sea and good climate. Tourism business at the coastline and sea freight transportation plays an important role in the country economy.

Also, on the minus side state institutions are rather rigid and ineffective. Response time to matters already agreed in meetings, including EU funded projects may take several months. Professionalism and competencies have been sometimes questionable. There is a higher resistance to change in Bulgaria related to adopting and implementing EU regulations. According to Transparency International ranking from 2014 Bulgaria with a rank 69 is among the European countries that are most vulnerable to corruption.¹³

Croatia

Croatia has been severely affected by Yugoslavian Civil War in 1991-1999. The economy of Croatia is relatively less advanced. The country is slowly but successfully recovering from communism. It joined the EU in July, 2013.

GDP in purchasing power standards (PPS) in 2014 reached Croatia 61% of the EU28 average index.¹⁴ Real GDP % growth in 2007, i.e. before the last economic crisis, was relatively high, 5.2, and -0.4 in 2014.¹⁵

Due to a relatively high unemployment rate – overall in 2013, 17.2% - youth unemployment rate for people between 15 and 24 years of age between 2000 and 2013 was between 25 and 49.7%.¹⁶ There is a trend to leave one's own country and work abroad, especially, however, not exclusively among the young generation." A typical feature in Croatia is that people have multiple jobs to cover their living costs.

Politically, the public opinion is split between sympathy for Russia and the EU prosperity. The Government tends to adopt western business models and support opening of the country economy to some international cooperation and foreign investment. By the World Bank Doing Business 2014 report the process of getting credit in Croatia has only begun. In 2012 the " ... private credit bureau started to collect and distribute information on firms, improving the credit information system." ¹⁷

There is a high respect for education from international, primarily Western universities including those in Central Europe and international business education is improving. Croatia has new business schools that partner with good international universities and lure students from other former countries. Knowledge of foreign business languages is gradually improving with new graduates. There is a limited level of modern business and management skills, and thus a big potential for improvement.

¹³ Corruption Perceptions Index, 2014, <http://www.transparency.org/cpi2014/results>

¹⁴ GDP per capita in PPS, Index (EU28 = 100), Data from 1st of December 2014, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1>

¹⁵ Real GDP growth rate – volume, Percentage change on previous year, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1>

¹⁶ http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

¹⁷ http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/04/29/000260600_20140429155911/Rendered/PDF/828170Croatia0HRV0Box0382097B00PUBLIC0.pdf

Transportation infrastructure in Croatia has improved considerably. A new highway connects Central Europe with Mediterranean tourist resorts. Sea ports also play an important role in the Croatian economy. State institutions are gradually changing as part of the EU legislation harmonization process. Close personal relationships are often crucial for successful business cooperation. Compared to the regional average OECD rank of 40, Croatia's ranking of 49 of 189 economies globally on the ease of enforcing contracts is relatively good. However, there is still a lower transparency of doing business. According to Transparency International ranking from 2014 Croatia with a rank 61 is among the European countries that are vulnerable to corruption.¹⁸

Slovenia

Slovenia was not severely affected by Yugoslavian Civil War in 1991-1999, and is one of the most advanced emerging economies. The country is successfully recovering after splitting from Yugoslavia, joining the EU in May, 2004. GDP in purchasing power standards (PPS) in 2013 reached in Slovenia 82% of the EU28 average index¹⁹. Real GDP % growth of Slovenia in 2007, i.e. before the last economic crisis, was relatively high, 6.9, and 2.6 in 2014.²⁰

The unemployment rate in 2013 was 10,1%, slightly above EU28 average of 9.5%, youth unemployment rate for people between 15 and 24 years of age was in 2013 21.6%.²¹ Unlike in other former Yugoslavia countries there are considerably more business opportunities in Slovenia and the workforce is not fleeing the country.

Slovenia is a relatively political stable country and promotes western orientation. It is open to international cooperation with the Slovenian government protecting the economy by primarily encouraging domestic investment into local business. Positive political and business influence comes from Italy. Slovenia has a good level of education including foreign business languages with advanced level of modern business and management skills in the country.

Road infrastructure is well connected to Italy and Austria, as well as to the East. The country has a limited access to the Mediterranean sea because of its short coastline remaining after Yugoslavia split.

Compared to regional average OECD rank of 40, Slovenia's ranking at 122 of 189 economies globally on the ease of enforcing contracts is relatively very high. Recently, contract enforcement takes on average 1270.0 days, costs are 12.7% of the value of the claim, and it requires 32.0 procedures.²²

¹⁸ Corruption Perceptions Index, 2014, <http://www.transparency.org/cpi2014/results>

¹⁹ GDP per capita in PPS, Index (EU28 = 100), Data from 1st of December 2014, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1>

²⁰ Real GDP growth rate – volume, Percentage change on previous year, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1>

²¹ http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

²² Doing Business in Slovenia, World Bank, 2015, <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Profiles/Country/SV N.pdf>

According to Transparency International ranking from 2014 Slovenia with a rank 39, the same as Lithuania is among the countries less vulnerable to corruption.²³

Baltic countries – Estonia, Latvia, Lithuania

Compared to the emerging economies of the former communist bloc, all three Baltic countries, Estonia (EE), Latvia (LV), and Lithuania (LT) are relatively advanced. They are successfully recovering after freeing themselves from the USSR in 1991. All joined the EU in 2004 and became part of the EURO zone (in 2011 EE, 2014 LV, 2015 LT).

GDP in purchasing power standards (PPS) in 2013 reached in these economies on average around 70% of the EU28 average index (EE 73, LT 73, LV 64).²⁴ Real GDP % growth of these countries in 2007, i.e. before the last economic crisis, was relatively high – EE 7.9, LT 11.1, and LV 9.8. The same category was in 2014 relatively balanced – EE 2.1, LT 2.9, and LV 2.4.²⁵

Compared to the EU28 average of 10.8% the unemployment rate in 2013 theirs was as follows: ES – 8.6, LV - 11.9, LT - 11.8.²⁶ Unlike some other emerging economies, brain-drain has not been a typical problem for these countries.

The population portion of Russian origin before the split from the USSR - as of 1989 was in EE - 30%²⁷; LT 10%²⁸, and LV 34%²⁹. Currently, the countries are politically stable internally. With their international political orientation is towards the West. They have, however, a very high external political risk from the current Russian expansion policy.

The Baltic countries are successful with the EU harmonization and have progressive market-based pro-business economic policies with clear openness to overall international cooperation. Estonia itself has “one of the most liberal trade and investment policies in Europe.”³⁰ It was the first country to introduce a flat tax which was then followed by several other countries. The banking system in all Baltic countries is favorable to local and international investors. Globally, LT stands at 14, LV at 16, and EE at 32 in the ranking of 189 economies on the ease of enforcing contracts. “Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new

²³ Corruption Perceptions Index, 2014, <http://www.transparency.org/cpi2014/results>

²⁴ GDP per capita in PPS, Index (EU28 = 100), Data from 1st of December 2014, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1>

²⁵ Real GDP growth rate – volume, Percentage change on previous year, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1>

²⁶ http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

²⁷ <http://estonia.eu/about-estonia/country/population-by-nationality.html>,

²⁸ <http://euromaidanpress.com/2015/01/06/ethnic-russians-in-baltic-countries-love-russia-but-dont-consider-it-their-home/>

²⁹ <http://euromaidanpress.com/2015/01/06/ethnic-russians-in-baltic-countries-love-russia-but-dont-consider-it-their-home/>

³⁰ Investment in the Baltic States, A Comparative guide to investment in Estonia, Latvia, and Estonia, KPMG, 2011, <https://www.kpmg.de/docs/InvestmentBalticSeas.pdf>

customer fails to pay.”³¹ Also, lowering of court fees played an important role in enforcing contracts.

There is a very good level of local education and a high respect for education from international Western universities. The countries have historically close contacts with Scandinavia in both education and business. There is a good level of knowledge of foreign business languages as well as an advanced level of use of modern business management procedures. Due to progressive and dynamic improvements the state administration of the Baltic countries has earned a good reputation internationally.

All three countries have an access to the sea which supports freight transportation and tourism. The Baltic area is becoming very interesting for tourism.

As far as corruption is concerned, Estonia’s rank 26 is the highest of all emerging countries, followed by Lithuania (39), and Latvia (43).³²

Lessons learned from management procedures in selected transition economies

From a group of 30 international entities, based on interviews from business companies, nonprofit organizations and public institutions, and our personal business experience the following findings have been determined:

Pitfalls, room for improvement

It is very difficult to generalize accurately the **commitment to work** in transition economies. Commitment of employees to work effectively always depends on the individuals, but often also depends on the industry, the shareholders’ requirements and quality of management in companies. The Baltic countries, Slovenia and to some extent Visegrad Group economies can be considered as the ones with a high commitment to work.

Managing the same company in the same sector in various countries likely requires a country-specific approach and understanding the environment. The differences in commitment to work and understanding management goals by the employees may differ considerably. This characteristic still cannot be broadly used for the entire countries. There are areas that got hit by downsizing of activities in particular sectors. It then becomes difficult to manage restructuring of employment and thus achieving a satisfactory performance. Some geographic areas in the countries are, however traditionally more advanced as far as commitment to work than others.

Organizations in some of these emerging countries do not use modern management procedures. Apart from some very well-managed international but also local companies we often see a missing or an unclear structured **strategic management approach**. If companies have any strategy it may not be well-elaborated. Formulations of Vision and Mission statements may be missing or unclear. The same holds for strategic objectives, also called strategic goals, strategic initiatives, and key success factors.

³¹ Doing Business in Estonia, World Bank, 2015,

<http://www.doingbusiness.org/data/exploreeconomies/estonia/~media/giawb/doing%20business/documents/profiles/country/EST.pdf>

³² Corruption Perceptions Index, 2014, <http://www.transparency.org/cpi2014/results>

Strategy evaluation criteria are often missing, unclear, and / or inconsistent. If a strategy is already formulated and accepted, its implementation throughout an organization is ineffective, communication of strategy goals is missing or insufficient. Assigning of responsibilities for strategic goals and initiatives is often unclear. Often we realize that strategy evaluation and recommendations for improvement are missing.

Process management is often missing, which can then reflect a lack of knowledge of an entity process structure. The process approach is often understood as an additional structure to an existing organizational structure. In such a case there is danger of duplicate or multiple solutions of the same processes caused by an overlap or repeating of activities. As a result of that an organization structure is ineffective without a link to business processes.

Quite often too-rigid management structures are found with missing logical links and work flow understanding. In such cases company **controlling**, or management accounting, if any actually exists in a satisfactory form, is ineffective and a transparent way of doing business is uncertain. Then, logically a transparent link between controlling and statutory financial accounting is insufficient and non transparent, and thus questionable.

Another pitfall found is an ineffective **performance management** that is based on non existing effective structured process based performance management framework. Such organizations are then missing or have unclear performance metrics that are not well linked to the strategy.

Another insufficient approach is ineffective use of **project management** for solving individual, one-time tasks. A well-performed project management can support regularly repeating processes and many of project outcomes, which then become integral parts of business processes. If both approaches are missing, the company management becomes less effective and is less under control.

ISIT management, i.e. set-up of Management Information Systems activities, in several entities that were part of our research, also has a room for improvement. In several cases SW systems were not effectively consolidated into a compact Enterprise Resource Planning (ERP) solution. We found too many SW solutions that were incompatible with each other. Acquiring and coordinating information for planning, reporting and analyses for an ongoing tracking and managing of performance is then ineffective. An MIS reporting system, as a condensed system of reports for middle- and top-management, is often non-existing or insufficient, or existing but only partially used by management, especially by top managers.

Another pitfall found is non-conceptually based employee **training and education** by organizations. With this we have also occasionally observed insufficient HR management by line managers, which leads to low motivation of employees and a higher employee turnover. Apart from willingness of individuals to move into another country for work there has been traditionally a relatively **lower preparedness** of employees in Central and Eastern Europe (CEE) **to relocate** with their family to obtain a better job possibility within a country. Therefore, even though bigger cities may offer more lucrative jobs, many families decide to stay at their original home place and risk of a lower salary or being unemployed.

Suggestions for steps towards performance improvement and achievement of competitiveness

Following the above analyses we recommend that management define and implement a proper strategy to the degree as needed by an entity. On the one hand it is always good to keep in mind a simple and understandable solution that will cover all needs for an effective management focused on achieving and retaining competitive advantage. On the other hand, a superficial strategy formulation that will not be used for actually managing an organization and that does not address all stakeholders is useless.

It is always necessary to review the organization's existing set of processes and suggest a functioning process structure. Ideally, it is useful to do a process mapping and design a feasible process structure that becomes part of the management documentation. It is also necessary to review an organization structure that reflects the existing process structure.

Following that entities need to review the controlling process – planning, reporting, analyzing results, and adopt decisions for performance improvement. Selected items of controlling should become an essential part of performance management criteria. Then, the next step is to review the existing performance management system and suggest updates of performance as needed. This should be done periodically, at least once in a fiscal period.

Once the performance management model is set, the management needs to conduct regular appraisals of employees and acquire a two-way feedback among employees and management. Active participation on the performance evaluation is ideal for gaining a natural contribution of a wide portfolio of company staff in strategy fulfillment. These steps should be naturally linked to improvement of business processes and activities, improvement of process workflow, improvement of cooperation at all levels to increase performance.

Thus, it is necessary to consider an effective project management to solve new one-time tasks, such as innovations, launching new products or services, multiple internal improvement solutions, changes, etc. Several such projects may become strategic goals and later an integral part of the existing entity's process structure.

Simultaneously, it is permanently necessary to review and rationalize the ISIT process, optimize investment in ISIT, select a rational degree of outsourcing, and provide appropriate training to user teams.

The above tasks need to be considered in connection with the political and economic specifics of the particular international environment.

Conclusion and recommendations

This paper has introduced main characteristics of current business environment and management procedures in eleven post-communist emerging countries. This portfolio includes economies of CEE, from the Baltics through the Visegrad group to the Balkan countries. The only exception is Belarus which still has not yet been able to get itself rid of the communist dictatorship. The main emphasis of our work has been to investigate selected aspects that influence performance of individual organizations and thus a specific country economy.

Our findings and conclusions have been based on structured research interviews in 30 international business companies, non-for-profit organizations, and public institutions, academic and business sources, and on personal hands on business experience.

The main problem found in general with entities' business activities is a **non-systematic approach to conduct processes** needed for effective functioning. To improve this it is necessary to set a strategic direction consistent with a long-term vision. Simultaneously, the role of strategy should not be overstated. Strategy should not be an extremely intricate self-standing document. It should include only realistically achievable, yet always ambitious, tasks that will be well-understood and thus fulfilled.

A practical use of a strategy then requires an effective and efficient tracking of entity costs, based on transparent controlling and a functional performance management system. An inevitable integral part of "effective use" of discussed structures is then high quality support by integrated ISIT. Rational investment into this field is the key for good strategic management and performance management, all of which should lead to achieving and keeping strategic advantage in the current dynamic business and economic environment.

Based on our research there is still plenty of room for improvement of the strategic approach in business companies and other organizations in the CEE region. Western performance-based management procedures are becoming a standard in advanced entities. Due to considerable differences in education, especially in the management area, we can experience rigidity of many organizations and institutions, resistance to change and overall inefficiencies. Only a structured approach can improve performance of companies and thus contribute to the overall economic growth.

Research on Poland and Russia testing correlations between a performance management and two behavioral measures - trustworthy behavior and energized take-action behavior of employees - can be generalized for all post-communist transition countries: "Companies in transition economies should feel encouraged when introducing a performance management process." (Robert D. Costigan, Richard C. Insinga, Jason J. Berman et al., 2005).

The selected characteristics, recommendations and conclusions in this article are aimed to be considered by managements of entities in international business, i.e. in production, distribution and consumption of goods and services.

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Appendix

Abbreviations used:

ACCA - Associate Chartered Certified Accountant
CFA - Chartered Financial Analyst
CFAB - Certification in Finance Accounting and Business
CIA - Certified Internal Auditor
CIMA - Chartered Institute of Management Accountants
CMA - Certified Management Accountant
CPA - Certified Public Accountant
ERP - Enterprise Resource Planning, i.e. integrated business management software system
FRM - Financial Risk Manager
ISIT - Information Systems and Information Technologies
MBA - Master of Business Administration
MIS - Management Information System
MS - Master of Science (in various fields)
OECD - Organization for Economic Co-operation and Development
SMEs - Small and Medium Enterprises
R&D - Research and development
PR - Public relations

Problemi poslovnog i privrednog ambijenta i strategijski menadžment i upravljanje performansama u odabranim zemljama Centralne i Istočne Evrope (CEE)

REZIME – Rad se fokusira na glavne karakteristike razvoja poslovnog okruženja, poslovnog obrazovanja i procedura upravljanja u odabranim zemljama Centralne i Istočne Evrope (CEE), Baltika i Balkanskih zemalja, i naglašava važne aspekte koji utiču na poslovne performanse. Zaključci su doneti na osnovu analize 30 međunarodnih kompanija, neprofitnih i javnih organizacija, akademskih i poslovnih institucija, a na osnovu ličnog poslovnog iskustva. Primećene su razlike, posebno u dugoročnom razvoju kompanije, strateškom upravljanju, kontroli, upravljanju performansama, procenama zaposlenih, kao i drugim oblastima koje se odnose na upravljanje performansama. Zbog ograničenog prostora rad ne uključuje komparativne analize bazirane na identičnim aspektima za odabrane zemlje, već ističe najvažnije elemente.

KLJUČNE REČI: *strategijski menadžment, upravljanje performansama, poslovni ambijent*

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