



A satellite-style map of Southeastern Europe with five orange circular markers indicating city locations. The markers are labeled with the following city names: LJUBLJANA, ZAGREB, SARAJEVO, PODGORICA, BELGRADE, and SOFIA. The map shows the Balkan Peninsula and the surrounding regions.

Economic prospects, challenges and opportunities for Southeastern Europe

1st regional conference of managers from Southeastern Europe

Dr. Ivan Šimek, Roland Berger Strategy Consultants

Portorož, April 4, 2008

Southeastern Europe (SEE) from a top-down view

Preface



- Southeastern Europe has shown **steady economic development** in recent years
- The region is **economically important**, with more than 28million inhabitants and a combined GDP of EUR 139 billion (**no. 3 in CEE** after Russia and Poland)
- However, strong differences in the **economic framework** make business development difficult
- At the same time, companies from other countries have started to internationalize strongly, thus **increasing the pressure** on domestic businesses
- This presentation takes a look at the economic prospects, challenges and opportunities for **businesses in Southeastern Europe**

The competition for a strong position in Southeastern Europe is in full swing

- 1 Southeastern Europe is an **important growth region** in Central and Eastern Europe, and it will remain attractive in years to come – But growth could be faster
 - 2 Although the situation is very **diverse**, there are still plenty of positioning opportunities (for countries and companies)
 - 3 The race for leading positions in many industries is **still open**, but there are **obvious problems** doing business
 - 4 Managers from Southeastern Europe are announcing that they will **intensify their (regional) business activities**
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- 5 Opportunities: Companies can achieve fast growth in Southeastern Europe, but they will need **more effort and resources**

Southeastern Europe is a relatively large but often neglected region in Central and Eastern Europe

Southeastern Europe

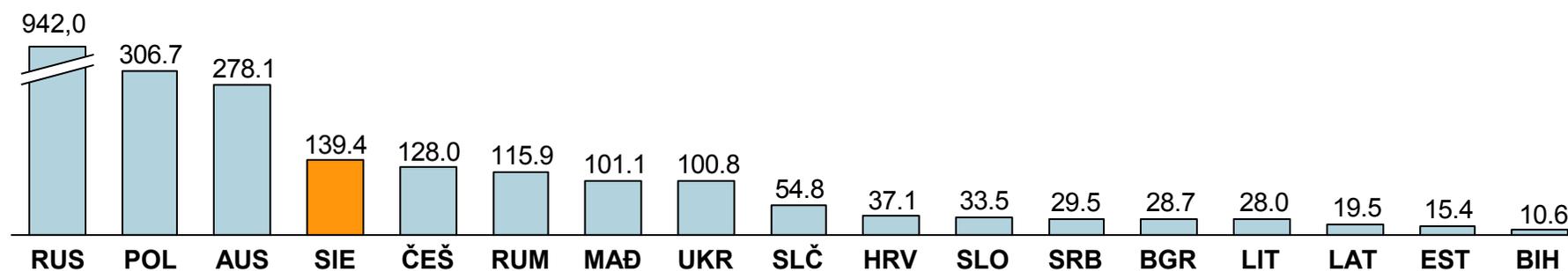


- Southeastern Europe has **seven countries**
- It is an interesting region with **28 million inhabitants**
- It is **very diverse** in terms of culture, history and business development
- The region is home to **both the richest and the poorest new EU member states** (Slovenia, Bulgaria)
- Other countries often fail to take note of the region because it is **heavily fragmented** with many **small individual markets**
- There are **confusing names for the region**

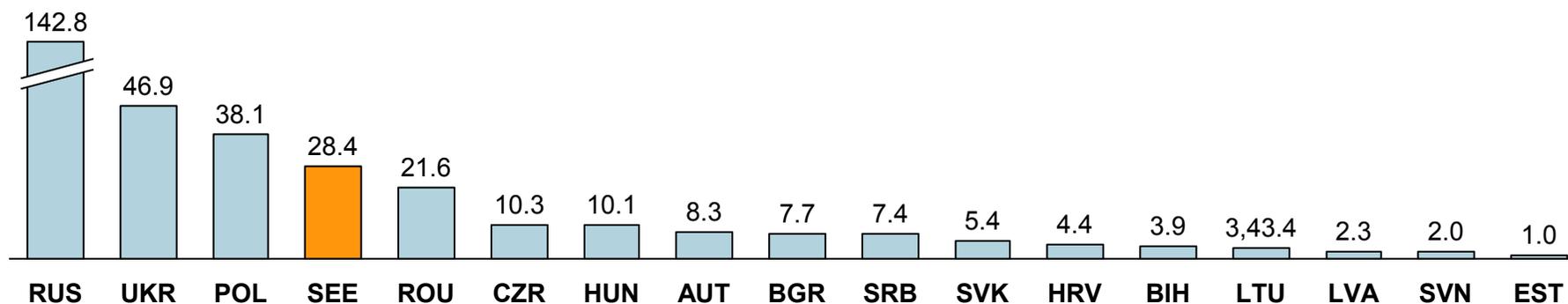
The region is the third largest economy in Central and Eastern Europe

Southeastern Europe in Central and Eastern Europe, 2006

GNP [EUR bn]



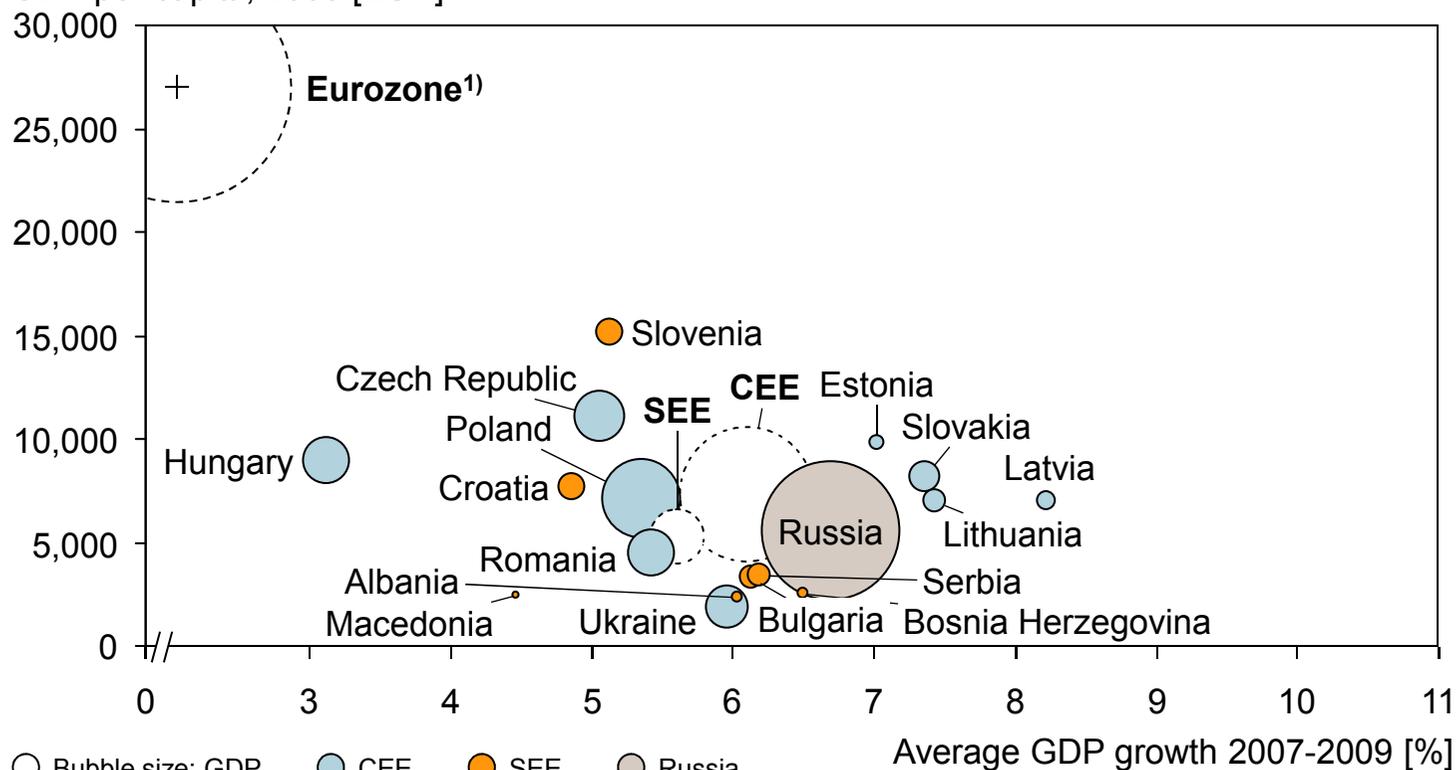
Inhabitants [million]



Growth for Southeastern Europe is too slow, actions are needed

Regional performance indicators, 2007-2009

GDP per capita, 2006 [EUR]

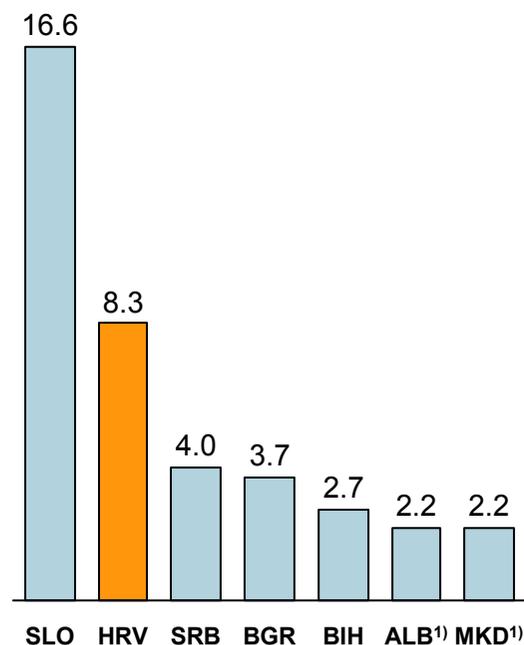


○ Bubble size: GDP ● CEE ● SEE ● Russia
 SEE: Bulgaria, Bosnia and Herzegovina, Croatia, Macedonia, Serbia, Slovenia, Albania
 CEE: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Ukraine
 1) Euro zone bubble size does not reflect accurate GDP value due to out of scale size (GDP = EUR 8,403 bn)

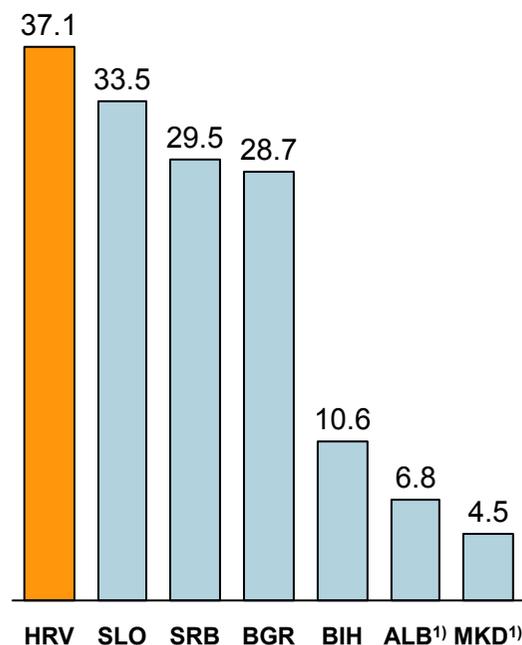
Within the region, Croatia has the strongest economy

Overview

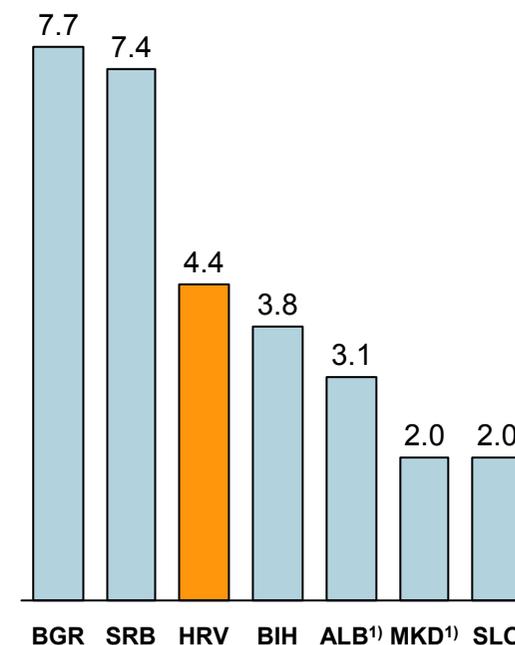
GNP/inhabitant
[EUR '000]¹⁾



GNP
[EUR bn]¹⁾



Inhabitants
[million]²⁾



1) Data for 2006; data for ALB and MKD for 2005 2) Data for 2005

We are dealing with a very diverse region – Competition between countries has begun

Major economic indicators

	SVN	HRV	SER	BGR	BIH	MON	MAK
• Tax on income	23%	20%	10%	10%	10/30%	9%	10%
• Infrastructure ¹⁾	3.0	3.0	2.0	3.0	2.3	2.0	2.3
• Liberalization ²⁾							
• Unemployment rate	5%	10.2%	21.2%	7.3%	44%	Approx. 30%	Approx. 36%
• "Ease of doing business in 2008" ³⁾	55	97	86	46	105	81	75
• EU status	✓	Accession candidate	SAA	✓	SAA	SAA	Accession candidate

1) EBRD infrastructure reform index, 1 to 4+ (4+ equals industrialized market economy standard)

2) Roland Berger evaluation (postal services, rail, energy, telecoms)

3) Conducted annually by the World Bank (1=best country/Singapore, 178=worst country/Congo)

Development of business is very difficult in SEE – Companies must deal with numerous obstacles

Restrictions for business Example Croatia¹⁾

Business culture

- Initiating meetings and keeping to deadlines
- Quality of secretaries
- Keeping to agreements

Executive/employee development

- Serious lack of management know-how, strategic capabilities, knowledge in general

Absurd laws and regulations

- At 63%, the top tax rate is prohibitive
- There are hardly any specialists from SEE

Poor travel infrastructure

- Poor air, rail and road connections in the region
- Public transport in its infancy

Pervasive nepotism

- Corruption is rife
- Structures are inflexible

Inefficient civil service

- It is unclear what the civil service is good for
- Very slow (e.g. permits)

1) These restrictions similarly apply in other SEE countries

Some (mostly international, but also Slovenian) pioneers have already established themselves

Companies with a significant presence in SEE – Examples

Industry	Company	Present in
Telecoms		SL, HR, SR, BG, MK
Postal services		SK, HR, HU
Oil and gas	  	SL, HR, SR, BIH, BG
Construction		SL, HR, ME, SR, BG
Electricity		BG, MK
Retail	  	Almost all
Transportation		SL, HR, BIH, ME, MK, SR

A recent study showed that executives are becoming more and more active

Regional executives

... expect **regional SEE headquarters** to become located in their countries

... expect the **government to finally take action** in the following areas

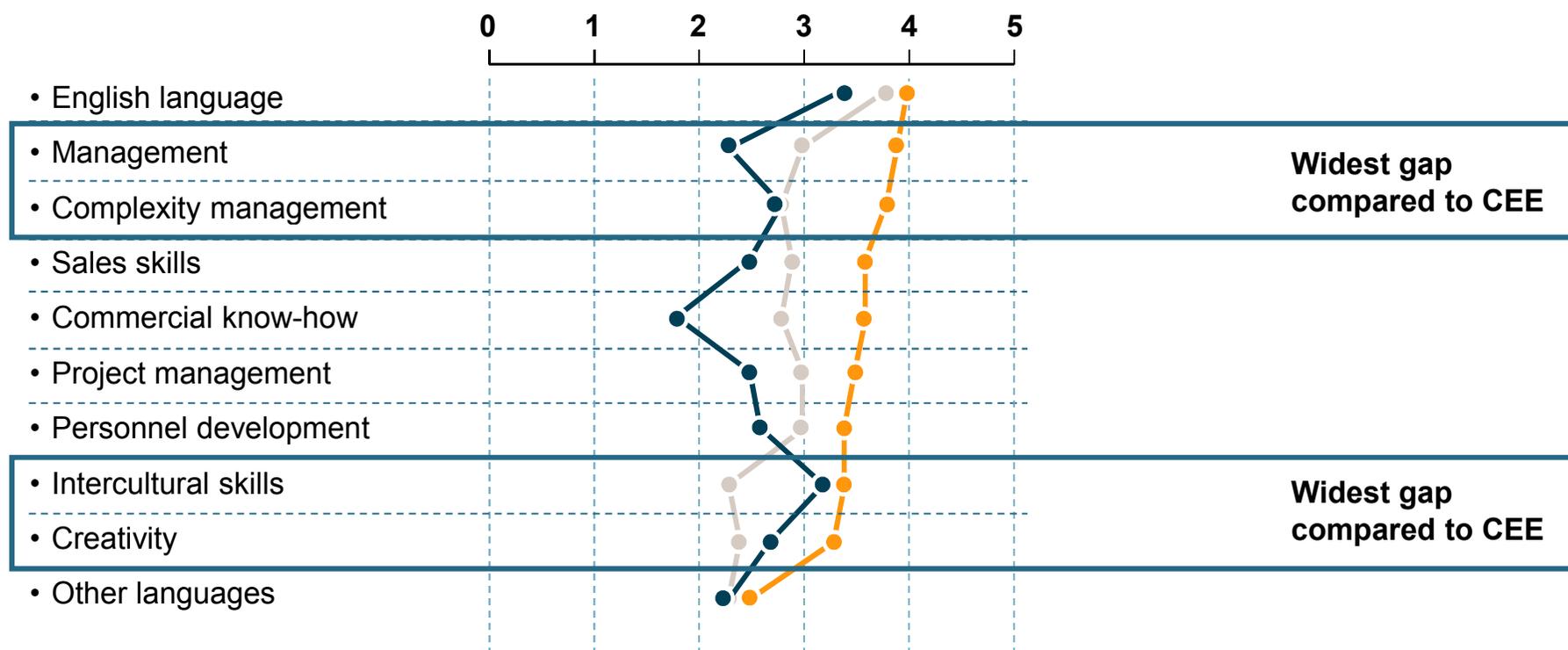
- Education
- Efficiency of public administration
- Legal system
- Reduction of subsidies

... are **determined** to implement the required actions and make up for lost time

The region is therefore likely to become **more dynamic from within**. This should stimulate business in the region

When it comes to the soft factors, managers often lacks some key capabilities

Future requirements – Example Croatia¹⁾



1) "What future skills will be required in your industry in the next few years?" (+5 = very relevant; 0 = not relevant)

Southeastern Europe offers attractive growth options

How to build a successful business in Southeastern Europe

- **Technical expertise, management knowledge and knowledge in general** are of crucial importance. The region does not have enough of it and desperately needs it
- Companies need **straightforward procedures**, patience, assertiveness and **perseverance** to overcome the restrictions and break open inflexible structures
- **(International) recruiting and employee development** are especially important because HR is a major bottleneck
- Working with a **good lobbyist** and **local (!) lawyers** is helpful to prepare the ground for corporate activities

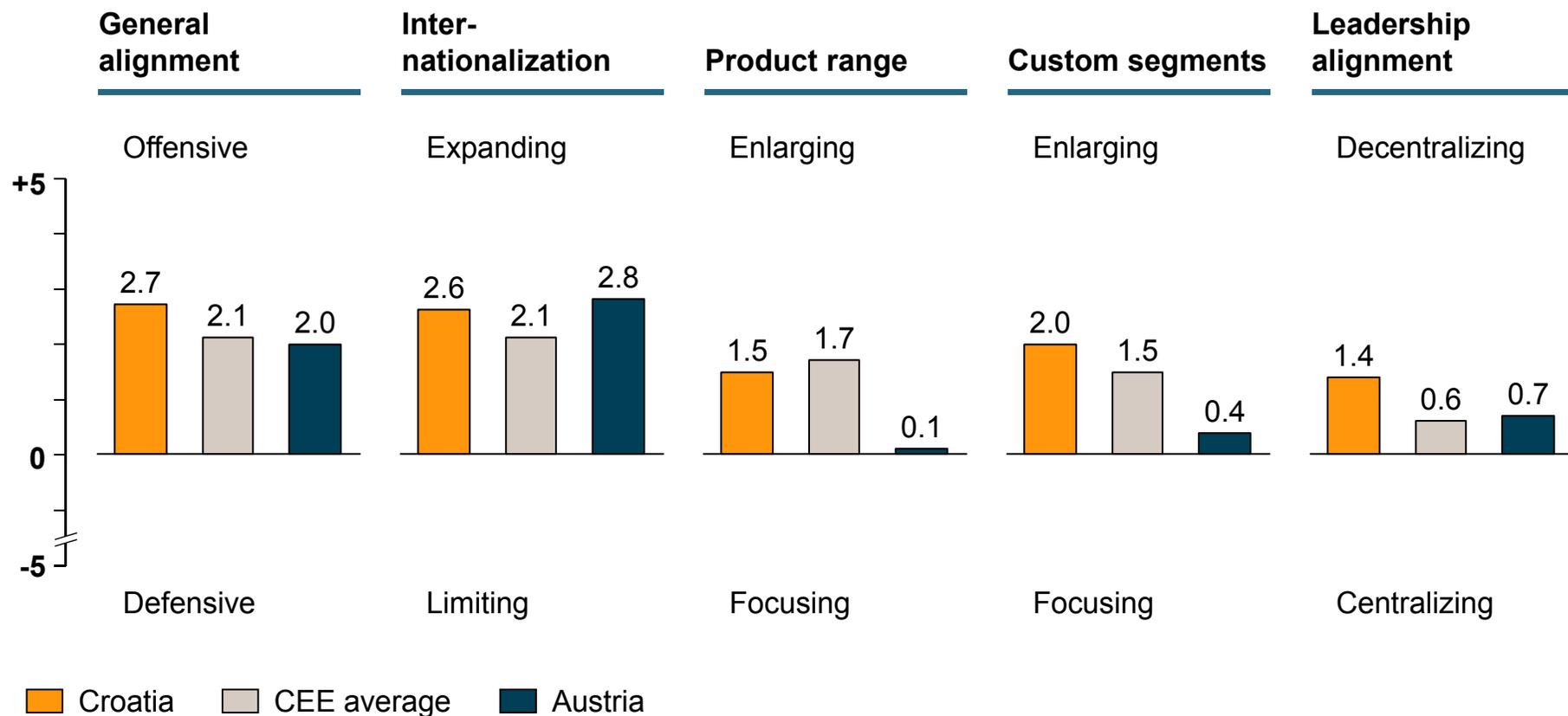


The effort is worth it, especially because of the "return on internationalization"

Appendix

CEE companies will turn to offensive, expanding and enlarging strategies – Croatia most offensive

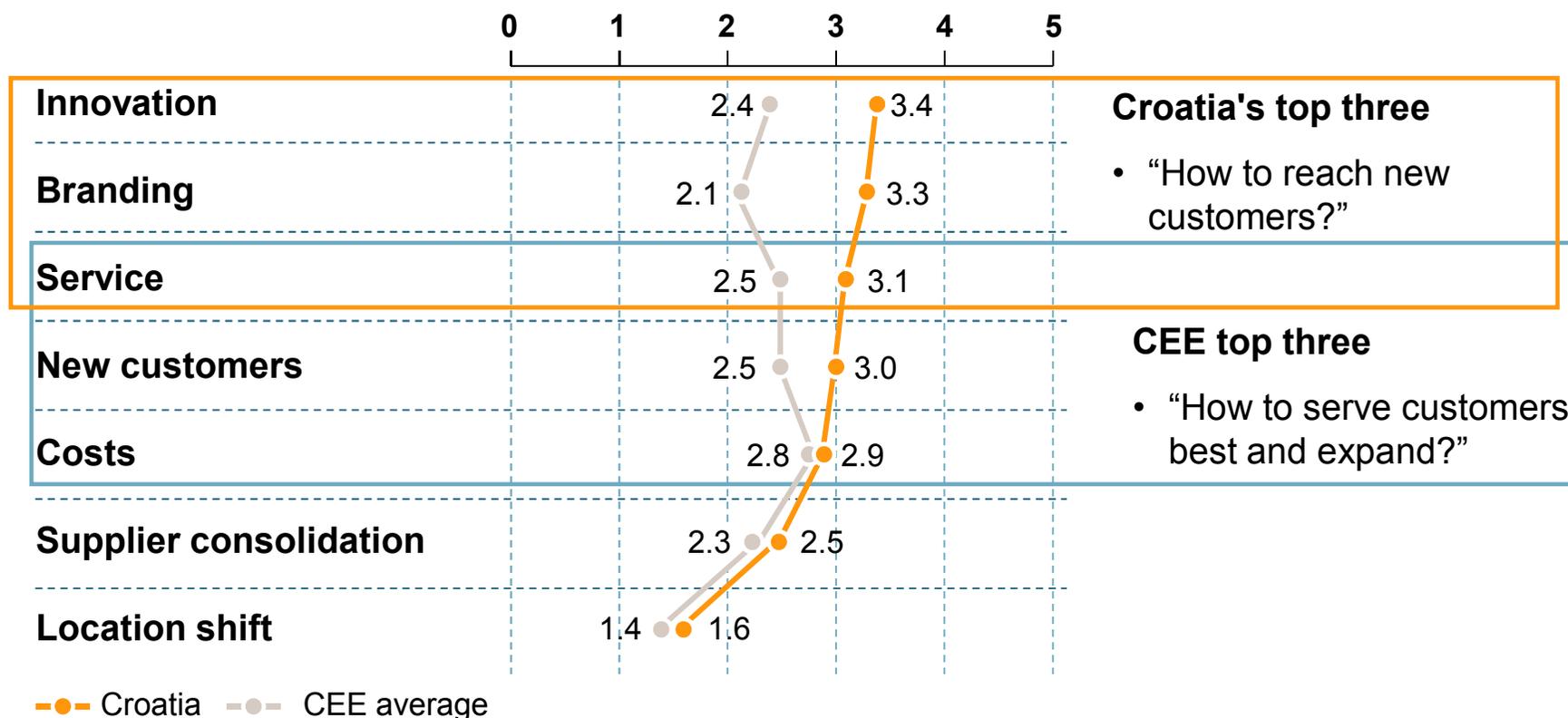
Company strategy¹⁾



1) B.7.b: "Facing these changes, your company's strategy will be, concerning... ?"

Croatia sees higher need for several strategic components at the same time – Little focus

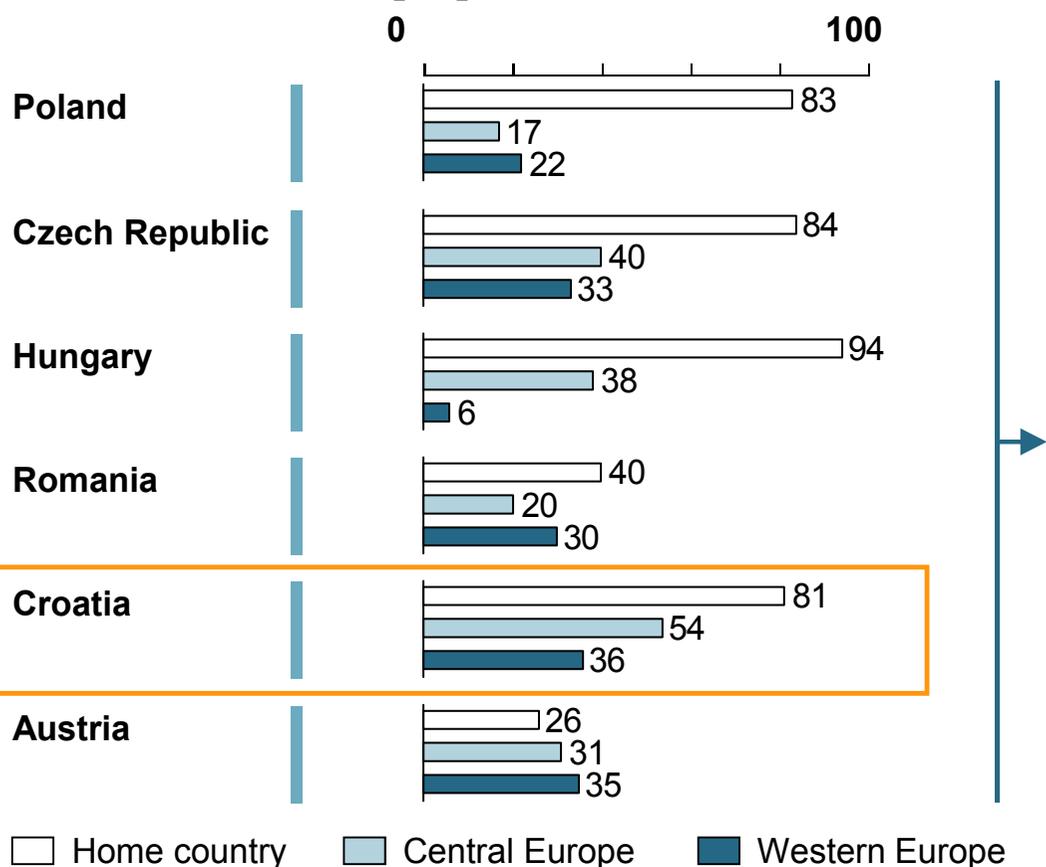
General strategies for the next ten years¹⁾



1) C.4. "Which general strategies will shape your industry during the next ten years?" (+5 = extremely relevant; 0 = not relevant)

The CEE countries still rely heavily on their home countries – Structural disadvantage for Croatia

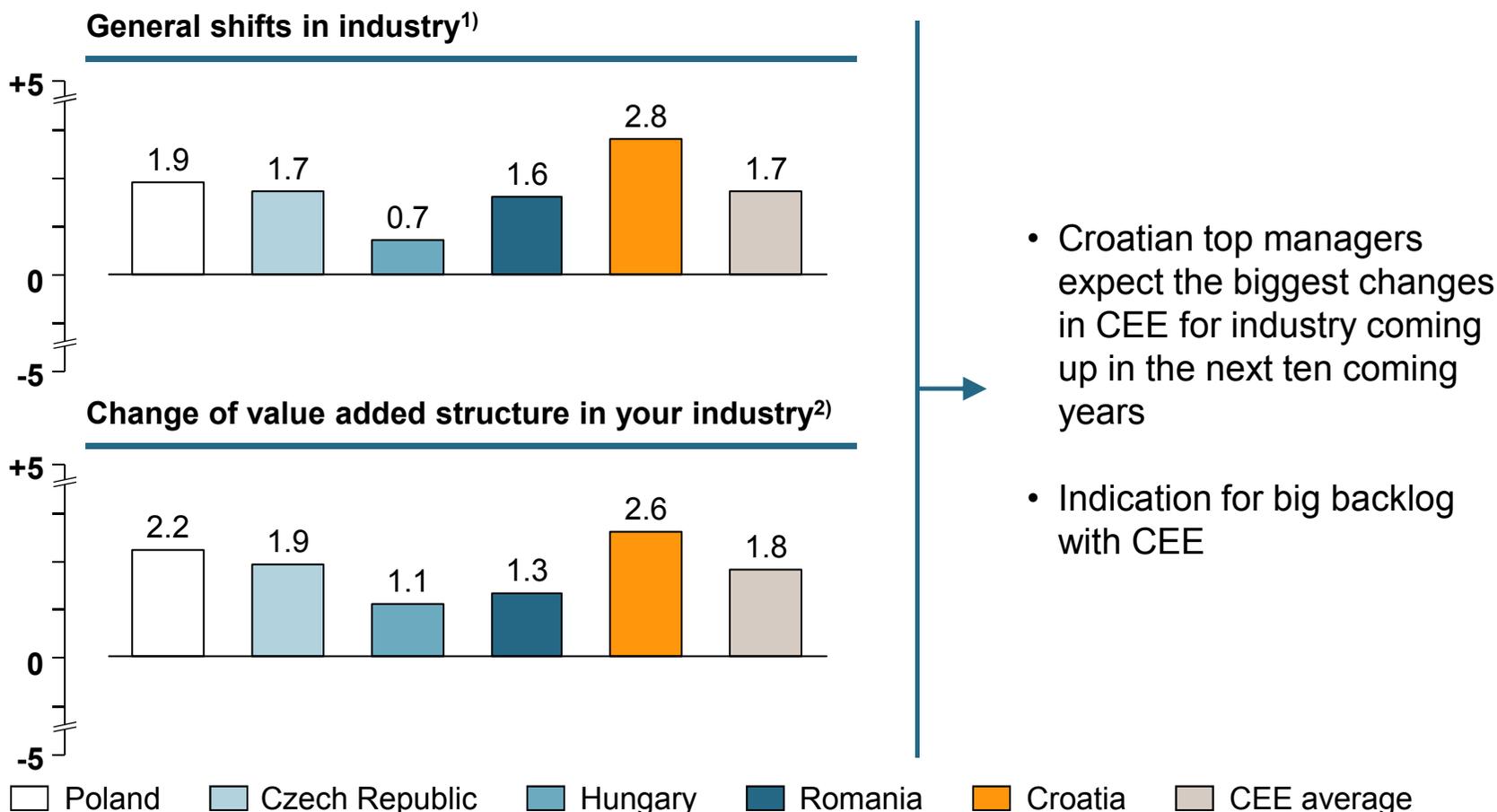
Home market¹⁾ [%]



- Strong structural disadvantage for Croatia due to small home market
- In addition to that, high dependence on small home market
- Austria as good benchmark for an internationalized economy

1) C.5: "What is the home market of your company?" (open question)

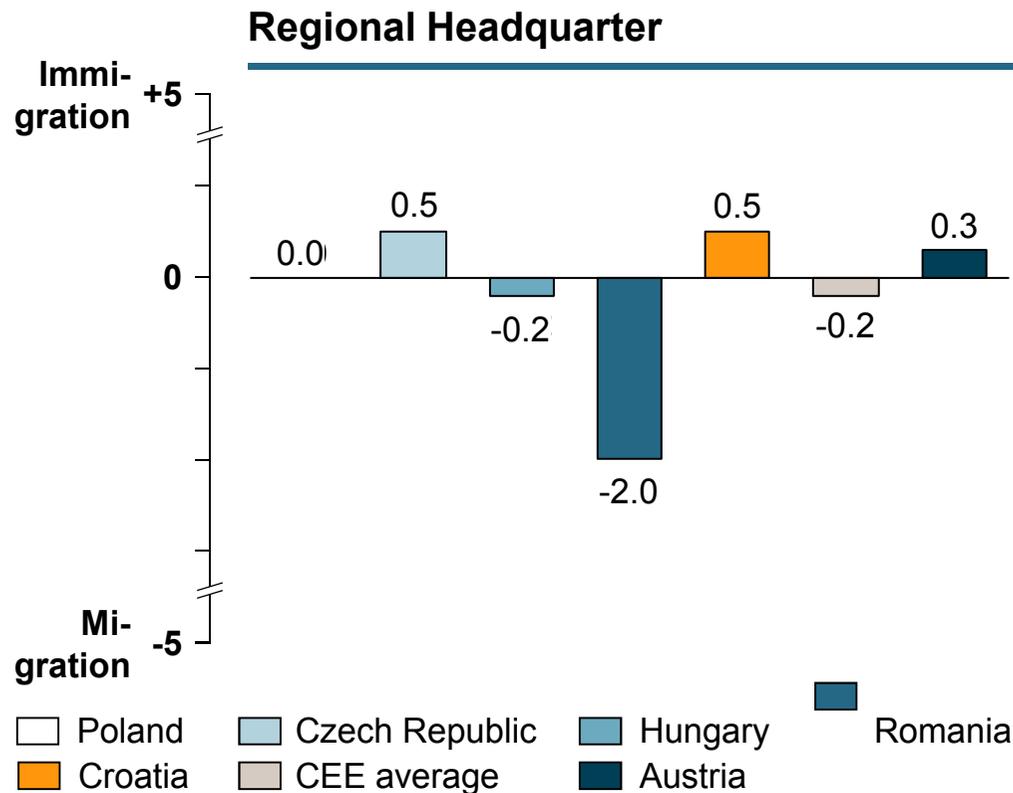
A further change in the industries is expected – Biggest changes expected in Croatia



1) D.1: “Global perspective: How strong will be the general shift tendencies concerning the value added of your industry?” (+5 = very strong; 0 = not relevant)
 2) D.2: “How strong will be the value added structure change in your industry in your country within the next ten years?” (+5 = very strong; -5 = very negative)

The number of headquarters will decrease in CEE – Croatia sees increase of regional headquarters

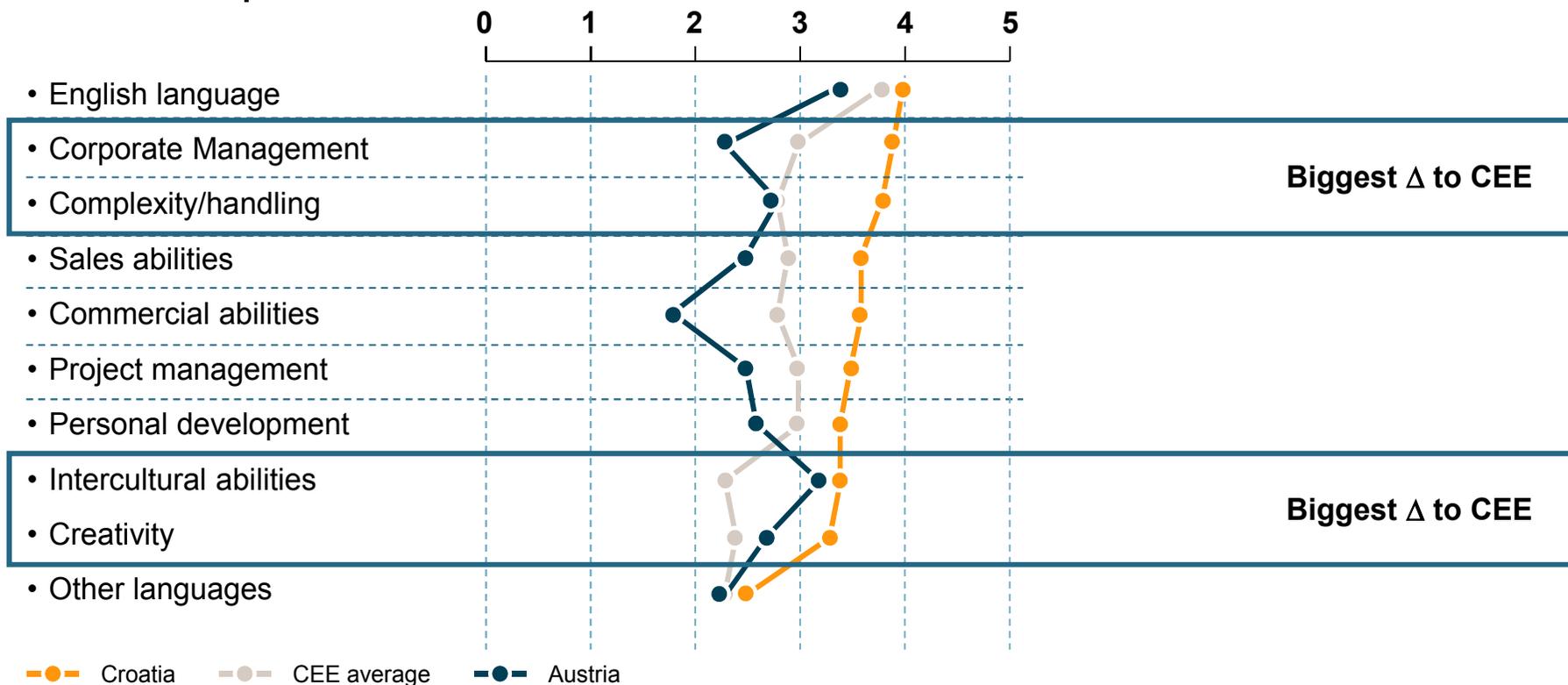
Shifts of headquarters¹⁾



1) D.8: "In the given framework, will the headquarters in your industry be shifted away from or into your country?" (+5 = immigration; -5 = migration)

English language, corporate management and complexity handling needed most in the future

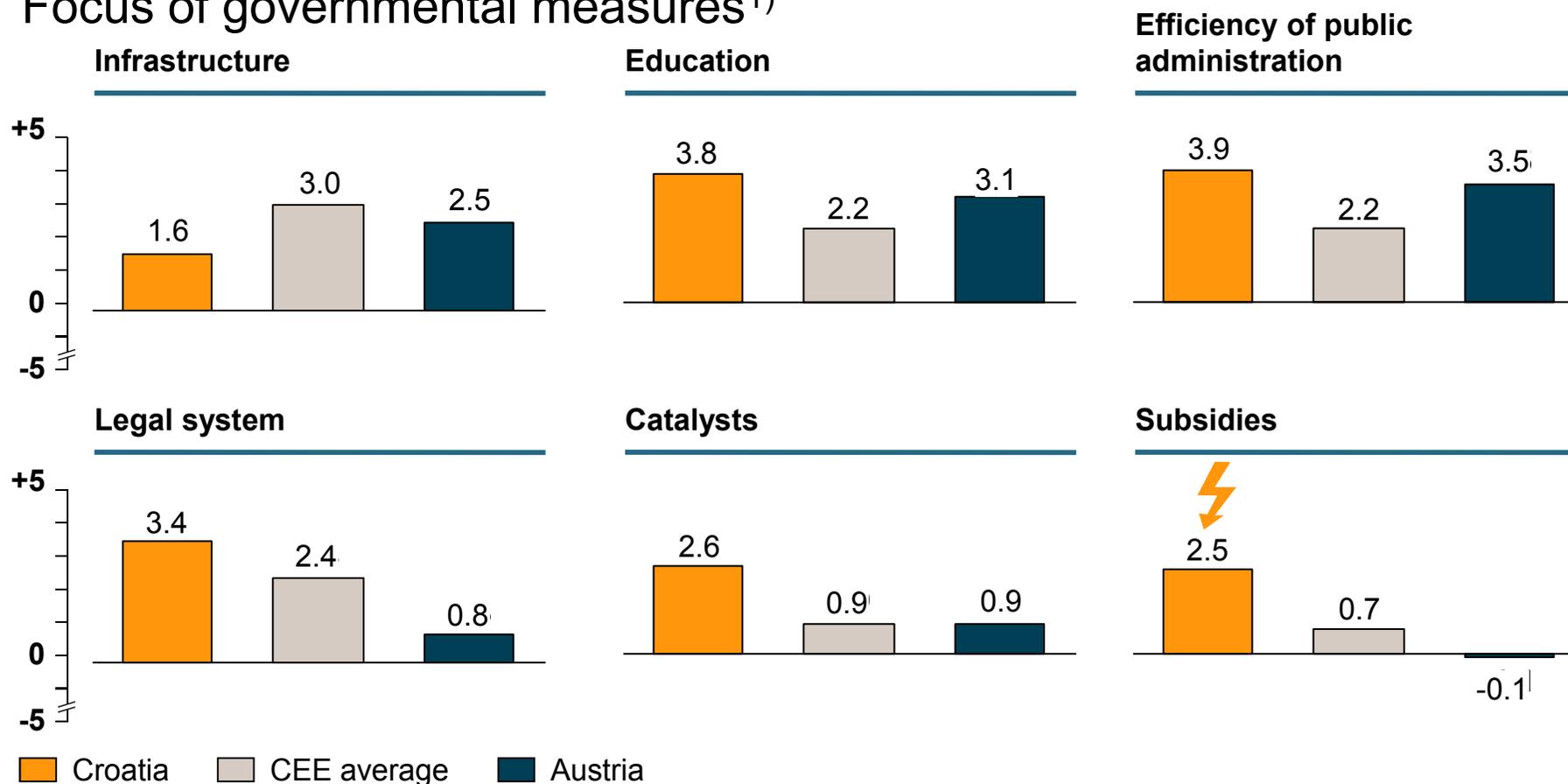
Future requirements¹⁾



1) C.4. "Which future requirements will shape your industry during the next ten years?" (+5 = extremely relevant; 0 = not relevant)

Efficiency of public administration, education and the legal system are seen as top areas for action

Focus of governmental measures¹⁾



1) F.4.a: "Where should the focus be in the future?" (percentage)

Businesses need to implement basic business mechanisms first – secondly: gain critical size

Be fast! Be professional! Implement!

- Establish most modern management principles
- Build up skills – throughout the organization
- Invest into intellectual capital/human resources
- Invest into and develop high tech
- Internationalize (physically and mind)
- Benchmark constantly with the best (worldwide)
- Implement!

BUSINESSES



The state has to lower it's engagement to a minimum and facilitate entrepreneurship and business

Facilitate job and value creation!



STATE

- Restructure public administration – Invest into talents, increase efficiency significantly!
- Create high-tech infrastructure (broadband, traffic, city movement, renewable energy)
- Reform the education (schools, universities, education next to work)
- Support entrepreneurship – lower public engagement to a minimum
- Restructure finances, create budget surplus – Invest into future high tech areas

Delivering **results**

Roland Berger
Strategy Consultants