The Competitive Advantage of Nations: Porter's Diamond Framework for Croatia

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THE COMPETITIVE ADVANTAGE OF NATIONS: PORTER'S DIAMOND FRAMEWORK FOR CROATIA

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1.INTRODUCTION

European countries or more precisely EU countries are more or less all highly developed countries. The presence of EU as an institution has contributed to both positive and negative changes in the same. Currency change, fluctuations, political parties and legal regulations all needed a certain configuration and restruction in order for the Union to be fully established, even though some have obviously left negative long-term consequences.

The founding six countries; Belgium, Germany, the Netherlands, Luxembourg, Italy and France have all ,more or less, managed to keep the standards of well developed countries, with Italy being the only odd one out due to political and economic crisis (European Union 2012).
A few decades after, the 6 founding countries grew to become 28 countries in European Community or Union with last member being a country which is a topic of my thesis- Croatia (Ott 2006).

The reason why I am mentioning Croatia in this precise context is because we will be able to see the changes Croatia has gone through in its short period of existence regarding political and economic condition together with the impact European Union has left on Croatia as a country in these different aspects (Ott 2006).

In my thesis I will obviously focus on Porter's Diamond Model on its own and how it appears in the sense of Strategic Management (Navas Lopez Guerras Martin, 2018). Also, I will explain its main focuses and characteristics; how the model itself differs from others and what is so unique about it (Smit 2008).

I will then put Croatia in the context of the model itself ,as well as, explain why is the model suitable for the demonstration of competitive advantages in Croatia. I will also compare it to other similar functioning and similar standard countries.

Finally, I will compare the advantages and disadvantages Croatia has had in its past and what it has now. I will analyze how they changed throughout the existence of Croatia as a country and give an opinion on what could be changed in order to achieve an even better advantageous position.

2. IMPORTANCE OF STRATEGIC MANAGEMENT IN DEVELOPMENT OF NATIONAL COMPETITIVNESS

While studying economics, we have been acquinted with different fields of this science, but mostly all people can agree that management, as a field inside economics, involves the largest number of subfields, with strategic management being one of them (Ritson 2018).

Management is essential for organized life and necessary to run all types of management. Good management is the backbone of successful organizations. Managing life means getting things done to achieve life's objectives and managing an organization means getting things done with and through other people to achieve its objectives.

Whether management is an art or science, it will continue to be a subject of debate. However, most management thinkers agree that some form of formal academic management background helps in managing successfully. Practically, all CEO's are university graduates. Hence, the reason for including business degree programs in all academic institutions.

Management is a set of principles relating to the functions of planning, organizing, directing and controlling, and the application of these principles in harnessing physical, financial, human and informational resources efficiently and effectively to achieve organizational goals.

Many management thinkers have defined management in their own ways. For example, Van Fleet and Peterson define management, 'as a set of activities directed at the efficient and effective utilization of resources in the pursuit of one or more goals.' (Van Fleet 1994).

Megginson, Mosley and Pietri define management as 'working with human, financial and physical resources to achieve organizational objectives by performing the planning, organizing, leading and controlling functions'.

Kreitner's definition of management:

'Management is a problem solving process of effectively achieving organizational objectives through the efficient use of scarce resources in a changing environment.'

According to F.W. Taylor , 'Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way '.

According to Harold Koontz, 'Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals.'

A leader has certain inherent qualities and traits which assist him in playing a directing role and wielding commanding influence which others. Leadership is an integral part of management and plays a vital role in managerial operations, while management is an integral component of technical as well as social processes. The practice of management is as old as human civilization. However, the study of management in a systematic and scientific way as a distinct body of knowledge is only of recent origin. In some form or another, it is an integral part of living and is essential wherever human efforts are to be undertaken to achieve desired objectives. The basic ingredients of management are always at play, whether we manage our lives or our business.

Strategic management is the continuous planning, monitoring, analysis and assessment of all that is necessary for an organization to meet its goals and objectives. It is the management of an organization's resources to achieve its goals and objectives.

Strategic management involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies, and ensuring that management rolls out the strategies across the organization.

It is divided into several schools of thought: a prescriptive approach to strategic management outlines how strategies should be developed, while a descriptive approach focuses on how strategies should be put into practice. These schools differ on whether strategies are developed through an analytic process, in which all threats and opportunities are accounted for, or are more like general guiding principles to be applied.

Business culture, the skills and competencies of employees, and organizational structure are all important factors that influence how an organization can achieve its stated objectives. Inflexible companies may find it difficult to succeed in a changing business environment. Creating a barrier between the development of strategies and their implementation can make it difficult for managers to determine whether objectives have been efficiently met (White 2004).

Strategic management extends to internal and external communication practices as well as to tracking, which ensures that the company meets goals as defined in its strategic management plan. While an organization's upper management is ultimately responsible for its strategy, the strategies themselves are often sparked by actions and ideas from lower-level managers and employees. An organization may have several employees devoted to strategy rather than relying on the chief executive officer for guidance.

Because of this reality, organization leaders focus on learning from past strategies and examining the environment at large (Klimoski & Zaccaro 2001). The collective knowledge is then used to develop future strategies and to guide the behavior of employees to ensure that the entire organization is moving forward.

Fast-paced innovation, emerging technologies and customer expectations force organizations to think and make decisions strategically to remain successful. The strategic management process helps company leaders assess their company's present situation, chalk out strategies, deploy them and analyze the effectiveness of the implemented strategies. The strategic management process involves analyzing cross-functional business decisions prior to implementing them. Strategic management typically involves (Keller 2013) :

- Analyzing internal and external strengths and weaknesses
- Formulating action plans
- Executing action plans
- Evaluating to what degree action plans have been successful and making changes when desired results are not being produced (Ritson 2018)

Strategic management is quite important due to its contribution to all areas of business because it necessitates a commitment to strategic planning, which represents an organization's ability to set both short-term and long-term goals. It is an organizational management activity that is used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment. It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, with a focus on the future. Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, but also how it will know if it is successful.

It then determinates the decisions and actions that need to be taken in order to reach those goals. The strategic management process is a management technique used to plan for the future; organizations aim at creating a vision by developing long-term strategies. This helps identify necessary processes and resource allocation to achieve those goals. It also helps a company or in this case a country ,to strengthen and support their core competencies.

By determining a strategy, a party (whether it is a company or a country) can make logical decisions and develop new goals quickly to keep pace with the changing business environment. Strategic management can also help an organization gain competitive advantage and improve market share (Forbes, 2011).

Large part of strategic managemnet relies on SWOT analysis.
SWOT analysis is a crucial element of strategic management because it assists in helping companies identify their strengths, weaknesses, opportunities and threats. The SWOT analysis helps detect and analyze internal and external environments and other factors that may impact the business. It helps organizations prepare for the future. It also aids decision-makers by analyzing key aspects of their organizational environment to help formulate competitive strategies.

The SWOT analysis of both company or in this case country, aims to achieve the main goal which is to create competitive advantage, outperform competittors, achieve dominance and help a country in surviving business and political changes. The basic purpose of it is to gain sustained-strategic competitiveness of the country of business. It is possible by developing and implementing such strategies that create value for the country. It focuses on assessing the opportunities and threats, keeping in mind firm’s strengths and weaknesses and developing strategies for its survival, growth and expansion.
Strenghts usually represent the internal characteristics of a country, such as its governmental and financial resources ,as well as resources that help them achieve successful outcomes.

- Adequate financial resources.
- Well-thought-of by buyers.
- An acknowledged market leader.

- Well-conceived functional area strategies.
- Access to economies of scale.
- Insulated (at least somewhat) from strong competitive pressures.
- Proprietary technology.
- Cost advantages.
- Better advertising campaigns.
- Product innovation skills.
- Proven management.
- Ahead on experience curve.
- Better manufacturing capability.
- Superior technological skills

Weaknesses are obviously the right opposite, meaning the barriers that are created from the internal organs (e.g. unreliable government) that lead to unsuccessful results or that may stand on a way of achieving goals.

• No clear strategic direction.
• Obsolete facilities
• Profitability issues
• Lack of management depth and talent
• Missing some key skills or competencies
• Poor track record in implementing problems
• Falling behind in R&D
• Too narrow product line
• Weak market image
• Weak distribution network.
• Below-average marketing skills
• Unable to finance needed changes in strategy
• Higher overall unit costs relative to key competitors

Opportunities and threats are focused on the impact of external factors (neigbouring countries, impact of the union, trade) that also lead to achieving or failing in the goal accomplishment. Together with the SWOT analysis, Porter's Diamond Framework is one of the most representative techniques of analysing and presenting the greatest influences of a country.

• Ability to serve additional customer groups or expand into new markets or segments
• Ways to expand product line to meet broader range of customer needs
• Ability to transfer skills or technological know-how to new products or businesses
• Integrating forward or backward
• Falling trade barriers in attractive foreign markets
• Complacency among rival firms
• Ability to grow rapidly because of strong increases in market demand
• Emerging new technologies

Threats are usually :

• Entry of lower-cost foreign competitors
• Rising sales of substitute products
• Slower market growth
• Adverse shifts in foreign exchange rates and trade policies of foreign governments
• Costly regulatory requirements
• Vulnerability to recession and business cycle
• Growing bargaining power of customers or suppliers
• Changing buyer needs and tastes
• Adverse demographic changes

Exhibit 1. SWOT Analysis

SOURCE: Workshopbank; https://workshopbank.com/swot-analysis

Strategic management involves several types of strategies, but they all lead to achieving the same goals:

- Establishing vision
- Designing mission
- Setting objectives
- Strategy formulation
- Performing environmental appraisal
- Considering strategies
- Carrying out strategic analysis
- Making strategies
- Preparing strategic plan
- Implementation of strategy
- Putting strategies into practice
- Developing structures and systems

- Managing behavioural and functional implementation
- Strategic Evaluation and Control
- Performing evaluation
- Exercising control
- Recreating strategies

Structure is also an element that together with a well-developed strategy, forms a base for competitive advantage. Functional strategy is the most common form of structure. This divides the organisation up into its main activities or functions (production, sales, accounting and so on) in which all similar specialist activities are grouped together into interdependent departments. A manager is placed in charge of each function under the overall control of the owner or a senior manager.

It is mostly used due to its many advantages:
• Specialised resources are used efficiently
• Quality is enhanced by other specialists from the same functional area
• Opportunities exist for extensive division of labour
• A career structure enables people to advance within their functional specialism
• It is easier to manage specialists if they are grouped together, especially when the manager has the same experience
• It fosters communication between specialists and enhances the development of skill and knowledge
• It does not duplicate specialist resources throughout the organisation and promotes economies of scale
• It is suited to conditions which stress functional specialism, where the environment is stable, and when the technology is routine, requiring little interdependence between departments

Also, there are other types of structure like divisional, product, geographical, matrix and other complex forms, but functional is definitely the most common one.

When focusing on a more macroeconomic point of view, there are sveral frameworks to be considered:

- Hoftede's Cultural Dimensions
- PESTEL Analysis

- Porter's Diamond Framework

Hofstede’s cultural dimensions theory is a framework for cross-cultural communication, developed by Geert Hofstede. It describes the effects of a society’s culture on the values of its members, and how these values relate to behavior, using a structure derived from factor analysis. Over the years, this study led to six cultural dimensions on which nations can be ranked:

- Power Distance
- Individualism/Collectivism
- Masculinity/Femininity
- Uncertainty Avoidance
- Long-term/Short-term Orientation and
- Restraint/Indulgence

PESTL Analysis which firstly originated as PEST Analysis, is used in the early phases of strategy development to describe the landscape and environment in which a firm operates It stands for Political, Economic, Social, Technological, Environmental and Legal points of view. It is sometimes transformed into SLEPIT (Social, Legal, Economic, Political, Intercultural, Technological), STEEPLE (Social, Technological, Economic, Environmental, Legal, Ethical) and DESTEP (Demographic, Economic, Social, Technological, Environmental, Political). This tool is especially useful when starting a new business or entering a foreign market. It is often used in collaboration with other analytical business tools such as the SWOT Analysis and Porter's Five Forces to give a clear understanding of a situation and related internal and external factors. Porter's Diamond Framework is probably the most commonly used example and strategy for analysis of a macro-level framework which is why I will focus on it in more details.

2.1 PORTER'S DIAMOND FRAMEWORK

International competitiveness of countries is an ever-growing concern for governments, firms as well as academic scholars (Ketels 2017). It is also one of th**e** most misused and misunderstood terms in the popular press and academic literature today. Some call it “the elusive concept of national competitiveness”. According to him, there is no consensus on how to measure, explain and predict international competitiveness of countries, and “perhaps none is warranted”. This new interest in country competitiveness has opened up the debate on the true meaning and understanding of international competitiveness of countries. The reason for the debate is based on the implicit assumption underlying the management theories that firm competitiveness can be extended to country competitiveness as popularised by Porter with his Diamond Framework and the world competitiveness reports.

According to Stone and Ranchold (2006: 284), Porter's "focus on competition or 'rivalry' is a diversion from traditional economic thinking". This general belief by management academics that countries are somehow in competition with one another probably explains why Porter's Diamond Framework is very commonly used. The Porter Diamond is a model that is designed to help understand the competitive advantage nations or groups possess due to certain factors available to them, and to explain how governments can act as catalysts to improve a country's position in a globally competitive economic environment.

Michael Porter's Diamond Model (Porter 1980), also known as the Theory of National Competitive Advantage of Industries, is a diamond-shaped framework that focuses on explaining why certain industries within a particular nation are competitive internationally, whereas others might not.

The model was created by Michael Porter, a recognized authority on corporate strategy and economic competition, and founder of the Institute for Strategy and Competitiveness at the Harvard Business School. He was an academic known for his theories on economics, business strategy, and social causes. He is the University Professor at Harvard Business School and he was one of the founders of the consulting firm The Monitor Group which is now part of Deloitte and FSG, a social impact consultancy. He is credited for creating this model, which is instrumental in business strategy development today. Porter refers to these forces as the microenvironment, to contrast it with the more general term macroenvironment.

They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a business unit to re-assess the marketplace given the overall change in industry information. The overall industry attractiveness does not imply that every comoany in the industry will return the same profitability. Firms are able to apply their core competencies, business model or network to achieve a profit above the industry average. A clear example of this is the airline industry. As an industry, profitability is low because the industry's underlying structure of high fixed costs and low variable costs afford enormous latitude in the price of airline travel. Airlines tend to compete on cost, and that drives down the profitability of individual carriers as well as the industry itself because it simplifies the decision by a customer to buy or not buy a ticket. A few carriers- Richard Branson's Virgin Atlantic is one-have tried, with limited success, to use sources of differentiation in order to increase profitability.

Porter's five forces include three forces from 'horizontal' competition--the threat of substitute products or services, the threat of established rivals, and the threat of new entrants--and two others from 'vertical' competition- the bargaining power of suppliers and the bargaining power of customers.

Porter developed his five forces framework in reaction to SWOT, which he found both lacking in rigor and outdated. Porter's five-forces framework is based on the structure-conduct- performance paradigm in industrial organizational economics. Other Porter strategy tools include the value chain and generic competitive strategies.

And why is it that certain companies in certain countries are capable of consistent innovation, whereas others might not?

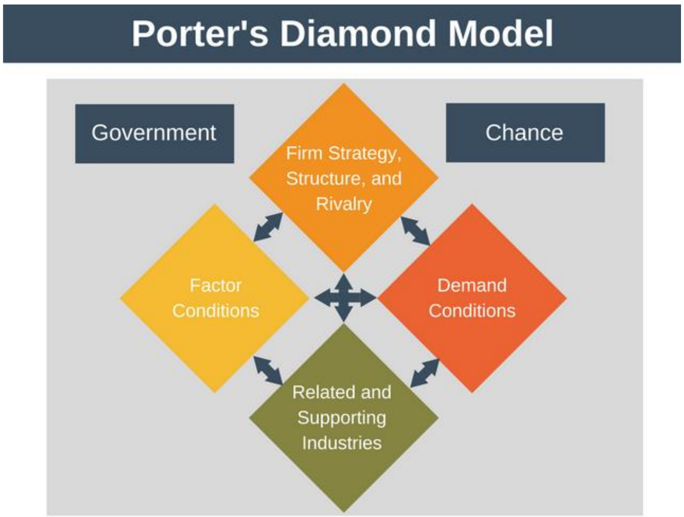
Porter argues that any company's ability to compete in the international arena is based mainly on an interrelated set of location advantages that certain industries in different nations posses, namely:

- Firm Strategy, Structure and Rivalry;
- Factor Conditions;
- Demand Conditions; and
- Related and Supporting Industries (Claessens 2016).

If these conditions are favorable, it forces domestic companies to continiously innovate and upgrade. The competitiveness that will result from this, is helpful and even necessary when going internationally and battling the world's largest competitors. All of them explain the role of the Government and Chance. Together they form the national environment in which companies are born and learn how to compete.

Porter's Diamond model explains the factors that can drive competitive advantage for one national market or economy over another. It can be used both to describe the sources of a nation's competitive advantage and path to obtaining such advantage. The model can also be used by businesses to help guide and shape strategy regarding how to approach investing and operating in different national markets.

Exhibit 2. Porter's Diamond Model



SOURCE: Geoghegan,D ,*The Successful Leader*, https://expertprogrammanagement.com/wp-content/uploads/edd/2017/02/The-Successful-Leader.pdf

However, from the very appearance of this model to its wide application, the model has faced a lot of criticism. Those critics are mostly directed towards the lack of concrete causal relationships between the very model factors and the lack of its forecasting value. Also, criticism objects the fact that it did not comprise the digitalization, globalization and deregularization as important contemporary competitiveness factors (Ritson 2018).

Also, according to Porter the analysis of competitive forces or advantages should be directed towards the key factors of competition country. Porter’s diamond model offers a holistic and flexible concept which enables all interest groups in a certain country to examine the competitiveness in all its complexity, as well as the constructive communication that serves the improvement of surroundings with and aim to improve the industrial competitiveness.

2.1.1.Firm Strategy, Structure and Rivalry

The national context in which companies operate largely determines how companies are created, organized and managed: it affects their strategy and how they structure themselves. Moreover, domestic rivalry is instrumental to international competitiveness, since it forces companies to develop unique and sustainable strenghts and capabilities. s the competition in the home market that drives innovation and quality. When there’s lots of competition and lots of rivalry, this keeps companies on their toes, and so they try to out-compete each other by continually developing more innovative and quality products and or services.

The more intense domestic rivalry is, the more companies are being pushed to innovate and improve in order to maintain their competitive advantage. In the end, this will only help companies when entering the international arena. A good example for this is the Japanese automobile industry with intense rivalry between players such as Nissan, Honda, Toyota, Suzuki, Mitsubishi and Subaru. Because of their own fierce domestic competition, they have become able to more easily compete in foreign markets as well. Germany has a luxury cars industry which is another example as well. The car manufacturing industry in German has a regional advantage because it satisfies the four key factors in Porter’s Diamond. With firm strategy and rivalry, we see that there is strong rivalry amongst lots of car manufacturers and so they compete intensely and keep developing more innovative and quality products.

2.1.2 Factor conditions

The first element of the diamond is the nation's possession of factors of production. Consistent with the factor proportions theory (Heckscher-Ohlin), every country has a relative abundance of certain factor endowments. In his diamond model, Porter distinguishes between basic and advanced factors.

Basic factors are those such as land, climate, natural resources or demographics, while advanced factors relate to more sophisticated ones, including the nation's stock of knowledge resources (e.g. scientific, technical or market knowledge), the transportation and communication infrastructure or a sophisticated and skilled labour force (Rugman/Collinson 2012, p. 303).

In the diamond model, the advanced factors are regarded as being most significant for competitive advantage. These factors can be created through training, research and innovation and thus are a product of investment by individuals, companies or the government. The basic assumption is that a nation must continually upgrade or adjust its factor conditions. The basic factors provide the country with an initial advantage that can subsequently be reinforced by investing in advanced factors. On the other hand, disadvantages in basic factors mean that countries need to invest in advanced factors (Porter 1990). Thus, upgrading a nation's advanced factors, such as the educational system or infrastructure, is regarded as a means to improve a nation's competitive advantages.

Factor conditions in a certain country refer to the natural, capital and human resources available. Some countries are for example very rich in natural resources such as oil for example (Saudi Arabia). This explains why Saudi Arabia is one of the largest exporters of oil worldwide. With human resources, we mean created factor conditions such as a skilled labor force, good infrastructure and a scientific knowlegde base. Porter argues that especially these ‘created’ factor conditions are important opposed to ‘natural’ factor conditions that are already present. It is important that these created factor conditions are continiously upgraded through the development of skills and the creation of new knowledge. Competitive advantage results from the presence of world-class institutions that first create specialized factors and then continually work to upgrade them. Nations thus succeed in industries where they are particularly good at factor creation.

2.1.3 Demand Conditions

Demand conditions refer to the nature and size of the domestic demand for an industry's products and services. Here, the main characteristics are the strength and sophistication of domestic customer demand. Porter (1990b, pp. 79-80) argues that companies are most sensitive to the needs of their closest customers. Thus, home market demand is of particular importance in shaping the attributes of the companies' products. The more sophisticated and demanding their local customers, the more pressure is created for innovation, efficiency and upgrading product quality. Therefore, it is assumed that with increasing consumer sophistication in their home markets and, consequently, with increasing pressure on local sellers, their competitive advantage will escalate.

While the nature of home market demand mainly relates to pressure to improve local companies' performance, the *size* of the home market is important, as it enables companies to achieve economies of scale and experience curve advantages. This is even more important when scale economies limit the number of production locations. In this case, the size of its market is an important determinant of the country's attractiveness as a potential location. Additionally, empirical evidence shows that efficient firms are often forced to look for international opportunities at stages when their early (large) home market becomes saturated. Their home markets provide these companies with scale advantages that can be used in the global marketplace (Hollensen 2014, pp. 103-104). The home demand largely affects how favorable industries within a certain nation are. A larger market means more challenges, but also creates opportunities to grow and become better as a company. The presence of sophisticated demand conditions from local customers also pushes companies to grow, innovate and improve quality. Striving to satisfy a demanding domestic market propels companies to scale new heights and possibly gain early insights into the future needs of customers across borders. Nations thus gain competitive advantage in industries where the local customers give companies a clearer or earlier picture of emerging buyer needs, and where demanding customers pressure companies to innovate faster and achieve more sustainable competitive advantages than their foreign rivals.

2.1.4 Related and Supporting Industries

The presence of related and supporting industries provides the foundation on which the focal industry can excel. Companies are often dependent on alliances and partnerships with other companies in order to create additional value for customers and become more competitive. Especially suppliers are crucial to enhancing innovation through more efficient and higher-quality inputs, timely feedback and short lines of communication. A nation’s companies benefit most when these suppliers themselves are, in fact, global competitors. It can often take years (or even decades) of hard work and investments to create strong related and supporting industries that assist domestic companies to become globally competitive. However, once these factors are in place, the entire region or nation can often benefit from its presence. We can for example see this in Silicon Valley, where all kinds of tech-giants and tech-start-ups are clustered in order to share ideas and stimulate innovation (David 2009).

2.1.5 Government

The role of the government in Porter's Diamond Model is described as both 'a catalyst and challenger'. Porter doesn't believe in a free market where the government leaves everything in the economy up to 'the invisible hand'. However, Porter doesn't see the government as an essential helper and supporter of industries either. Governments cannot create competitive industries; only companies can do that. Rather, governments should encourage and push companies to raise their aspirations and move to even higher levels of competitiveness. This can be done by stimulating early demand for advanced products (demand factors); focusing on specialized factor creations such as infrastructure, the education system and the health sector (factor conditions); promoting domestic rivalry by enforcing anti-trust laws; and encouraging change. The government can thus assist the development of the four aforementioned factors in the way that should benefit the industries in a certain country.

Each of these four attributes defines a point on the diamond of national advantage; the effect of one point often depends on the state of others. Sophisticated buyers will not translate into advanced products, for example, unless the quality of human resources permits companies to meet buyer needs. Selective disadvantages in factors of production will not motivate innovation unless rivalry is vigorous and company goals support sustained investment. At the broadest level, weaknesses in any one determinant will constrain an industry's potential for advancement and upgrading.

But the points of the diamond are also self-reinforcing: they constitute a system. Two elements, domestic rivalry and geographic concentration, have especially great power to transform the diamond into a system—domestic rivalry because it promotes improvement in all the other determinants and geographic concentration because it elevates and magnifies the interaction of the four separate influences.

The role of domestic rivalry illustrates how the diamond operates as a self-reinforcing system. Vigorous domestic rivalry stimulates the development of unique pools of specialized factors, particularly if the rivals are all located in one city or region: the University of California at Davis has become the world's leading center of wine-making research, working closely with the California wine industry. Active local rivals also upgrade domestic demand in an industry. In furniture and shoes, for example, Italian consumers have learned to expect more and better products because of the rapid pace of new product development that is driven by intense domestic rivalry among hundreds of Italian companies. Domestic rivalry also promotes the formation of related and supporting industries. Japan's world-leading group of semiconductor producers, for instance, has spawned world-leading Japanese semiconductor-equipment manufacturers.

The effects can work in all directions: sometimes world-class suppliers become new entrants in the industry they have been supplying. Or highly sophisticated buyers may themselves enter a supplier industry, particularly when they have relevant skills and view the new industry as strategic. In the case of the Japanese robotics industry, for example, Matsushita and Kawasaki originally designed robots for internal use before beginning to sell robots to others. Today they are strong competitors in the robotics industry. In Sweden, Sandvik moved from specialty steel into rock drills, and SKF moved from specialty steel into ball bearings.

Another effect of the diamond's systemic nature is that nations are rarely home to just one competitive industry; rather, the diamond creates an environment that promotes clusters of competitive industries. Competitive industries are not scattered helter-skelter throughout the economy but are usually linked together through vertical (buyer-seller) or horizontal (common customers, technology, channels) relationships. Nor are clusters usually scattered physically; they tend to be concentrated geographically. One competitive industry helps to create another in a mutually reinforcing process. Japan's strength in consumer electronics, for example, drove its success in semiconductors toward the memory chips and integrated circuits these products use. Japanese strength in laptop computers, which contrasts to limited success in other segments, reflects the base of strength in other compact, portable products and leading expertise in liquid-crystal display gained in the calculator and watch industries.

Once a cluster forms, the whole group of industries becomes mutually supporting. Benefits flow forward, backward, and horizontally. Aggressive rivalry in one industry spreads to others in the cluster, through spin-offs, through the exercise of bargaining power, and through diversification by established companies. Entry from other industries within the cluster spurs upgrading by stimulating diversity in R&D approaches and facilitating the introduction of new strategies and skills. Through the conduits of suppliers or customers who have contact with multiple competitors, information flows freely and innovations diffuse rapidly. Interconnections within the cluster, often unanticipated, lead to perceptions of new ways of competing and new opportunities. The cluster becomes a vehicle for maintaining diversity and overcoming the inward focus, inertia, inflexibility, and accommodation among rivals that slows or blocks competitive upgrading and new entry.

In the continuing debate over the competitiveness of nations, no topic engenders more argument or creates less understanding than the role of the government. Many see government as an essential helper or supporter of industry, employing a host of policies to contribute directly to the competitive performance of strategic or target industries. Others accept the "free market" view that the operation of the economy should be left to the workings of the invisible hand.

Both views are incorrect. Either, followed to its logical outcome, would lead to the permanent erosion of a country's competitive capabilities. On one hand, advocates of government help for industry frequently propose policies that would actually hurt companies in the long run and only create the demand for more helping. On the other hand, advocates of a diminished government presence ignore the legitimate role that government plays in shaping the context and institutional structure surrounding companies and in creating an environment that stimulates companies to gain competitive advantage.

Government's proper role is as a catalyst and challenger; it is to encourage-or even push-companies to raise their aspirations and move to higher levels of competitive performance, even though this process may be inherently unpleasant and difficult. Government cannot create competitive industries; only companies can do that. Government plays a role that is inherently partial, that succeeds only when working in tandem with favorable underlying conditions in the diamond. Still, government's role of transmitting and amplifying the forces of the diamond is a powerful one. Government policies that succeed are those that create an environment in which companies can gain competitive advantage rather than those that involve government directly in the process, except in nations early in the development process. It is an indirect, rather than a direct, role.

Japan's government, at its best, understands this role better than anyone—including the point that nations pass through stages of competitive development and that government's appropriate role shifts as the economy progresses. By stimulating early demand for advanced products, confronting industries with the need to pioneer frontier technology through symbolic cooperative projects, establishing prizes that reward quality, and pursuing other policies that magnify the forces of the diamond, the Japanese government accelerates the pace of innovation. But like government officials anywhere, at their worst Japanese bureaucrats can make the same mistakes: attempting to manage industry structure, protecting the market too long, and yielding to political pressure to insulate inefficient retailers, farmers, distributors, and industrial companies from competition.

It is not hard to understand why so many governments make the same mistakes so often in pursuit of national competitiveness: competitive time for companies and political time for governments are fundamentally at odds. It often takes more than a decade for an industry to create competitive advantage; the process entails the long upgrading of human skills, investing in products and processes, building clusters, and penetrating foreign markets. In the case of the Japanese auto industry, for instance, companies made their first faltering steps toward exporting in the 1950s—yet did not achieve strong international positions until the 1970s.

But in politics, a decade is an eternity. Consequently, most governments favor policies that offer easily perceived short-term benefits, such as subsidies, protection, and arranged mergers—the very policies that retard innovation. Most of the policies that would make a real difference either are too slow and require too much patience for politicians or, even worse, carry with them the sting of short-term pain. Deregulating a protected industry, for example, will lead to bankruptcies sooner and to stronger, more competitive companies only later.

Policies that convey static, short-term cost advantages but that unconsciously undermine innovation and dynamism represent the most common and most profound error in government industrial policy. In a desire to help, it is all too easy for governments to adopt policies such as joint projects to avoid "wasteful" R&D that undermine dynamism and competition. Yet even a 10% cost saving through economies of scale is easily nullified through rapid product and process improvement and the pursuit of volume in global markets—something that such policies undermine.

There are some simple, basic principles that governments should embrace to play the proper supportive role for national competitiveness: encourage change, promote domestic rivalry, stimulate innovation. Some of the specific policy approaches to guide nations seeking to gain competitive advantage include the following:

Focus on specialized factor creation. Government has critical responsibilities for fundamentals like the primary and secondary education systems, basic national infrastructure, and research in areas of broad national concern such as health care. Yet these kinds of generalized efforts at factor creation rarely produce competitive advantage. Rather, the factors that translate into competitive advantage are advanced, specialized, and tied to specific industries or industry groups. Mechanisms such as specialized apprenticeship programs, research efforts in universities connected with an industry, trade association activities, and, most important, the private investments of companies ultimately create the factors that will yield competitive advantage.

Avoid intervening in factor and currency markets. By intervening in factor and currency markets, governments hope to create lower factor costs or a favorable exchange rate that will help companies compete more effectively in international markets. Evidence from around the world indicates that these policies—such as the Reagan administration's dollar devaluation—are often counterproductive. They work against the upgrading of industry and the search for more sustainable competitive advantage.

The contrasting case of Japan is particularly instructive, although both Germany and Switzerland have had similar experiences. Over the past 20 years, the Japanese have been rocked by the sudden Nixon currency devaluation shock, two oil shocks, and, most recently, the yen shock—all of which forced Japanese companies to upgrade their competitive advantages. The point is not that government should pursue policies that intentionally drive up factor costs or the exchange rate. Rather, when market forces create rising factor costs or a higher exchange rate, government should resist the temptation to push them back down.

Enforce strict product, safety, and environmental standards. Strict government regulations can promote competitive advantage by stimulating and upgrading domestic demand. Stringent standards for product performance, product safety, and environmental impact pressure companies to improve quality, upgrade technology, and provide features that respond to consumer and social demands. Easing standards, however tempting, is counterproductive.

Sharply limit direct cooperation among industry rivals. The most pervasive global policy fad in the competitiveness arena today is the call for more cooperative research and industry consortia. Operating on the belief that independent research by rivals is wasteful and duplicative, that collaborative efforts achieve economies of scale, and that individual companies are likely to underinvest in R&D because they cannot reap all the benefits, governments have embraced the idea of more direct cooperation. In the United States, antitrust laws have been modified to allow more cooperative R&D; in Europe, megaprojects such as ESPRIT, an information-technology project, bring together companies from several countries.

Deregulate competition. Regulation of competition through such policies as maintaining a state monopoly, controlling entry into an industry, or fixing prices has two strong negative consequences: it stifles rivalry and innovation as companies become preoccupied with dealing with regulators and protecting what they already have; and it makes the industry a less dynamic and less desirable buyer or supplier. Deregulation and privatization on their own, however, will not succeed without vigorous domestic rivalry—and that requires, as a corollary, a strong and consistent antitrust policy.

Promote goals that lead to sustained investment. Government has a vital role in shaping the goals of investors, managers, and employees through policies in various areas. The manner in which capital markets are regulated, for example, shapes the incentives of investors and, in turn, the behavior of companies. Government should aim to encourage sustained investment in human skills, in innovation, and in physical assets. Perhaps the single most powerful tool for raising the rate of sustained investment in industry is a tax incentive for long-term (five years or more) capital gains restricted to new investment in corporate equity. Long-term capital gains incentives should also be applied to pension funds and other currently untaxed investors, who now have few reasons not to engage in rapid trading.

Reject managed trade. Managed trade represents a growing and dangerous tendency for dealing with the fallout of national competitiveness. Orderly marketing agreements, voluntary restraint agreements, or other devices that set quantitative targets to divide up markets are dangerous, ineffective, and often enormously costly to consumers. Rather than promoting innovation in a nation's industries, managed trade guarantees a market for inefficient companies.

Government trade policy should pursue open market access in every foreign nation. To be effective, trade policy should not be a passive instrument; it cannot respond only to complaints or work only for those industries that can muster enough political clout; it should not require a long history of injury or serve only distressed industries. Trade policy should seek to open markets wherever a nation has competitive advantage and should actively address emerging industries and incipient problems.

Where government finds a trade barrier in another nation, it should concentrate its remedies on dismantling barriers, not on regulating imports or exports. In the case of Japan, for example, pressure to accelerate the already rapid growth of manufactured imports is a more effective approach than a shift to managed trade. Compensatory tariffs that punish companies for unfair trade practices are better than market quotas. Other increasingly important tools to open markets are restrictions that prevent companies in offending nations from investing in acquisitions or production facilities in the host country—thereby blocking the unfair country's companies from using their advantage to establish a new beachhead that is immune from sanctions.

Any of these remedies, however, can backfire. It is virtually impossible to craft remedies to unfair trade practices that avoid both reducing incentives for domestic companies to innovate and export and harming domestic buyers. The aim of remedies should be adjustments that allow the remedy to disappear.

Even though Porter originally didn't write anything about chance or luck in his papers, the role of chance is often included in the Diamond Model as the likelihood that external events such as war and natural disasters can negatively affect or benefit a country or industry. However, it also includes random events such as where and when fundamental scientific breakthroughs occur. These events are beyond the control of the government or individual companies. For instance, the heightened border security, resulting from the September 11 terrorist attacks on the US undermined import traffic volumes from Mexico, which has had a large impact on Mexican exporters. The discontinuities created by chance may lead to advantages for some and disadvantages for other companies. Some firms may gain competitive positions, while others may lose. While these factors cannot be changed, they should at least be monitored so you can make decisions as necessary to adapt to changing market conditions (David 2009).

All of these factors are basically aimed at representing the way firms operate, but here I will analyze Croatia's position according to all of these conditions while mostly relying on current status.

Exhibit 3. : Diamond Framework Conditions

Chance	Firm Strategy, Structure and Rivalry	Factor Conditions	Demand Conditions	Related and Supporting Industries	Government
- Random events - Natural disasters - Scientific break-throughs - Terrorist attacks	- Company strategies - Structure of the organization - Managerial system - Intense competition between local rivals	- Natural resources - Human resources - Capital resources - Infrastructure - Scientific knowledge - Technological innovation	- Size of the domestic market - Sophisticated and demanding domestic customers - Customer needs that anticipate those elsewhere	- Presence of competitive related and supporting industries - Domestic suppliers that are strong global players themselves	- Government policies - Industry regulation - Government role as a catalyst and a challenger

SOURCE: Business2U, https://www.business-to-you.com/porter-diamond-model/

Bargaining Power of Buyers

Buyers can influence the industry due to their talent to compress prices, snip for superior quality products or services and to play competitors off against each other. Bargaining power of buyers assess the demand scenario of the industry (Henry 2008). Global textile and clothing industry is presently measured around US$ 440 billion. The global textile trade is dominated by the US and European markets. With the removal of quotas the textile trade is estimated to increase to US$ 650 billion. Even though China is expected to become the supplier of choice but India will also gain from it as overseas importers wouldn’t take the threat of buying from one country only. As a result the exports of India will rise.

Bargaining Power of Suppliers

Suppliers can exercise bargaining power over members in an industry by boosting prices or dropping the quality of purchased good and services Henry says that ” the factors that increases supplier power are the mirror image of those that increase buyer power” (Henry 2008). India is the third major producer of cotton which is the main raw material in textile industry. Due to the rich accessibility of cotton and its low prices, it assists the manufacturers to lesser its production cost and maintain pricing pressure on the buyers. The other benefit that India has is its low labour cost per hour as compared to other countries like US, China, Taiwan Hong Kong and South Korea.

Threat of New Entrants

It is the situation where the new competitors decide to enter the particular industry to decrease the level of profits earned by existing firms. Those industries attracts more new entrants in which existing firms earns returns more than their cost of capital (Henry, 2008). The removal of MFA quotas has given the opportunity to all the countries to enter the textile sector. As a result many big players are entering the textile sector. Smaller players which cannot enter the international markets are entering the national market creating excess supply thus deteriorating the cost structure. For instance, even if the major players like Arvind mills, Raymond and Alok industries consolidate with international companies they still cannot maintain their margins unless they have the ability of capturing the major part of foreign markets.

Threat of Substitutes

This is the threat from those products and services which can fulfil similar requirements. The consumer can shift to these substitutes due to difference in prices and performance (Henry 2008). India has a threat from low cost producing countries like Pakistan and Bangladesh which may hinder India's exports demand.

Competitive Rivalry

The main disadvantage of India is its geographical distance from major global markets of US, Europe and Japan in contrast to its rivals like Mexico, China etc which are comparatively nearer. Big geographical distance results in high shipping expenses and lengthy lead-time. Another disadvantage of Indian textile industry is its fragmented structure. The country has time-consuming and most complicated supply chains in the world.

3. NATIONAL COMPETITIVNESS OF CROATIA THROUGH THE LENSE OF PORTER'S DIAMOND FRAMEWORK

National competitiveness has become one of the central preoccupations of government and industry in every nation. Yet for all the discussion, debate, and writing on the topic, there is still no persuasive theory to explain national competitiveness. What is more, there is not even an accepted definition of the term “competitiveness” as applied to a nation. While the notion of a competitive company is clear, the notion of a competitive nation is not.

Some see national competitiveness as a macroeconomic phenomenon, driven by variables such as exchange rates, interest rates, and government deficits. But Japan, Italy, and South Korea have all enjoyed rapidly rising living standards despite budget deficits; Germany and Switzerland despite appreciating currencies; and Italy and Korea despite high interest rates.

Others argue that competitiveness is a function of cheap and abundant labor. But Germany, Switzerland, and Sweden have all prospered even with high wages and labor shortages. Besides, shouldn’t a nation seek higher wages for its workers as a goal of competitiveness?

More recently, the argument has gained favor that competitiveness is driven by government policy: targeting, protection, import promotion, and subsidies have propelled Japanese and South Korean auto, steel, shipbuilding, and semiconductor industries into global preeminence. But a closer look reveals a spotty record. In Italy, government intervention has been ineffectual—but Italy has experienced a boom in world export share second only to Japan. In Germany, direct government intervention in exporting industries is rare. And even in Japan and South Korea, government’s role in such important industries as facsimile machines, copiers, robotics, and advanced materials has been modest; some of the most frequently cited examples, such as sewing machines, steel, and shipbuilding, are now quite dated.

A final popular explanation for national competitiveness is differences in management practices, including management-labor relations. The problem here, however, is that different industries require different approaches to management. The successful management practices governing small, private, and loosely organized Italian family companies in footwear, textiles, and jewelry, for example, would produce a management disaster if applied to German chemical or auto companies, Swiss pharmaceutical makers, or American aircraft producers. Nor is it possible to generalize about management-labor relations. Despite the commonly held view that powerful unions undermine competitive advantage, unions are strong in Germany and Sweden—and both countries boast internationally preeminent companies.

Clearly, none of these explanations is fully satisfactory; none is sufficient by itself to rationalize the competitive position of industries within a national border. Each contains some truth; but a broader, more complex set of forces seems to be at work.

The lack of a clear explanation signals an even more fundamental question. What is a "competitive" nation in the first place? Is a "competitive" nation one where every company or industry is competitive? No nation meets this test. Even Japan has large sectors of its economy that fall far behind the world's best competitors.

Is a "competitive" nation one whose exchange rate makes its goods price competitive in international markets? Both Germany and Japan have enjoyed remarkable gains in their standards of living—and experienced sustained periods of strong currency and rising prices. Is a "competitive" nation one with a large positive balance of trade? Switzerland has roughly balanced trade; Italy has a chronic trade deficit—both nations enjoy strongly rising national income. Is a "competitive" nation one with low labor costs? India and Mexico both have low wages and low labor costs—but neither seems an attractive industrial model.

The only meaningful concept of competitiveness at the national level is productivity. The principal goal of a nation is to produce a high and rising standard of living for its citizens. The ability to do so depends on the productivity with which a nation's labor and capital are employed. Productivity is the value of the output produced by a unit of labor or capital. Productivity depends on both the quality and features of products (which determine the prices that they can command) and the efficiency with which they are produced. Productivity is the prime determinant of a nation's long-run standard of living; it is the root cause of national per capita income. The productivity of human resources determines employee wages; the productivity with which capital is employed determines the return it earns for its holders.

A nation's standard of living depends on the capacity of its companies to achieve high levels of productivity—and to increase productivity over time. Sustained productivity growth requires that an economy continually upgrade itself. A nation's companies must relentlessly improve productivity in existing industries by raising product quality, adding desirable features, improving product technology, or boosting production efficiency. They must develop the necessary capabilities to compete in more and more sophisticated industry segments, where productivity is generally high. They must finally develop the capability to compete in entirely new, sophisticated industries.

International trade and foreign investment can both improve a nation's productivity as well as threaten it. They support rising national productivity by allowing a nation to specialize in those industries and segments of industries where its companies are more productive and to import where its companies are less productive. No nation can be competitive in everything. The ideal is to deploy the nation's limited pool of human and other resources into the most productive uses. Even those nations with the highest standards of living have many industries in which local companies are uncompetitive.

Yet international trade and foreign investment also can threaten productivity growth. They expose a nation's industries to the test of international standards of productivity. An industry will lose out if its productivity is not sufficiently higher than foreign rivals' to offset any advantages in local wage rates. If a nation loses the ability to compete in a range of high-productivity/high-wage industries, its standard of living is threatened.

Defining national competitiveness as achieving a trade surplus or balanced trade per se is inappropriate. The expansion of exports because of low wages and a weak currency, at the same time that the nation imports sophisticated goods that its companies cannot produce competitively, may bring trade into balance or surplus but lowers the nation's standard of living. Competitiveness also does not mean jobs. It's the type of jobs, not just the ability to employ citizens at low wages, that is decisive for economic prosperity.

Seeking to explain "competitiveness" at the national level, then, is to answer the wrong question. What we must understand instead is the determinants of productivity and the rate of productivity growth. To find answers, we must focus not on the economy as a whole but on specific industries and industry segments. We must unders stand how and why commercially viable skills and technology are created, which can only be fully understood at the level of particular industries. It is the outcome of the thousands of struggles for competitive advantage against foreign rivals in particular segments and industries, in which products and processes are created and improved, that underpins the process of upgrading national productivity.

When one looks closely at any national economy, there are striking differences among a nation's industries in competitive success. International advantage is often concentrated in particular industry segments. German exports of cars are heavily skewed toward high-performance cars, while Korean exports are all compacts and subcompacts. In many industries and segments of industries, the competitors with true international competitive advantage are based in only a few nations.

Our search, then, is for the decisive characteristic of a nation that allows its companies to create and sustain competitive advantage in particular fields—the search is for the competitive advantage of nations. We are particularly concerned with the determinants of international success in technology-and skill-intensive segments and industries, which underpin high and rising productivity.

Classical theory explains the success of nations in particular industries based on so-called factors of production such as land, labor, and natural resources. Nations gain factor-based comparative advantage in industries that make intensive use of the factors they possess in abundance. Classical theory, however, has been overshadowed in advanced industries and economies by the globalization of competition and the power of technology.

A new theory must recognize that in modern international competition, companies compete with global strategies involving not only trade but also foreign investment. What a new theory must explain is why a nation provides a favorable home base for companies that compete internationally. The home base is the nation in which the essential competitive advantages of the enterprise are created and sustained. It is where a company's strategy is set, where the core product and process technology is created and maintained, and where the most productive jobs and most advanced skills are located. The presence of the home base in a nation has the greatest positive influence on other linked domestic industries and leads to other benefits in the nation's economy. While the ownership of the company is often concentrated at the home base, the nationality of shareholders is secondary.

A new theory must move beyond comparative advantage to the competitive advantage of a nation. It must reflect a rich conception of competition that includes segmented markets, differentiated products, technology differences, and economies of scale. A new theory must go beyond cost and explain why companies from some nations are better than others at creating advantages based on quality, features, and new product innovation. A new theory must begin from the premise that competition is dynamic and evolving; it must answer the

questions: Why do some companies based in some nations innovate more than others? Why do some nations provide an environment that enables companies to improve and innovate faster than foreign rivals?
In order to more precisely explain Porter's Diamond, I will use an example of several industries in Croatia, but will mostly reffer to tourism industry (Croatia.eu 2018).

Croatia’s declaration of independence in 1991 contributed to the breakup of Yugoslavia, which was a Union of five countries, along both ethnic and religious lines. Its year of formation is considered to be 1991., but actually the country managed to perform its roles as a government after the war ended in 1995. Its first president, Dr. Franjo Tuđman, managed to pull Croatia out from the Yugoslavian roof and succeeded in bringing her out of the war. Along the years, Croatia joined NATO in 2009 and the European Union in 2013 during the time of Prime Minister dr. Ivo Sanader, which obviously strenghtened its position in the world status and the european one also .What mostly impacts Croatia's position is political uncertainty which hinders economic progress. Croatia has changed a great variety of ruling parties which finnally led to her being both unstable and financially volatile. The 2008 crisis brought Croatia to a great financial bottom along with other political scandals that struck her throughout the years.

It relies on several industries with shipbuilding and tourism being the major ones.In the past couple of years Croatia has become a largely visited touristical destination all around the world which is why we can say her reliance on tourism is quite large (more than 60 % of the GDP).A more recent event in 2018 led to an agreement to avoid bankruptcy, which positioned a Russian bank as the largest shareholder in Croatia’s largest private company, Agrokor. After this great crash a large percentage of Croatia's agricultural export was shut down.Still, we do have weak export base, large emigration, and the slow pace of privatization which still remain as significant challenges.

Croatia’s economic freedom score is 61.4, making its economy the 86th freest in the 2019 Index. Its overall score has increased by 0.4 point, with a spike in fiscal health offsetting a precipitous drop in judicial effectiveness. Croatia is ranked 38th among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

In 2018, the government announced three main reform goals: improved economic competitiveness, an education system tied to labor market needs, and sustainable public finances. The debt-restructuring process of Agrokor, Croatia's largest company, may add to the fiscal deficit. Significant remaining challenges include political volatility and a level of public-sector debt that makes government spending on health care and pensions fiscally unsustainable. There is a significant risk that the government will struggle to pass far-reaching reforms in other areas. Pervasive corruption undermines the rule of law, and protection of property rights is weak.

3.1 STRATEGY, STRUCTURE AND RIVALRY

As I have explained earlier, Croatia is a very young country with lots of resources that have all led to it's position in the world. Its size has not impacted its position in Eastern Europe because we can say that it is one of the most if not the most developed Eastern European country. In the approximately thirty years of its existence it basically focused on agricultural, touristical and building industries and in that way building its strategy towards the development after communism. It took Croatia a lot of time to find the direction in which it will head towards, which stillnhas not been set precisely, but it is on its good way.

Focusing on tourism as one of our main exports, Croatia has managed to pull herself out of some kind of crisis in the employment and financial sector. With the rate of unemployed people in 2011 being 13,25, the number continued to rise until 2014 when it was 17.1, but has been falling with a slower pace since then due to increasing number of job opportunities in touristical sector. Hotels, campsites, trips, agencies, cultural and festive events such as Zagreb Christmas market somehow represent tools of fight against employment crisis.

Croatia is a country which does not posses large number of firms dominating its market, but Agrokor is definitely one that has to be mentioned. Even though 2018 was the year of bankrupcy and a final crash of this large conglomerate, Agrokor has contributed to gaining both domestic and international advantage in the private sector. With over 60000 employed and 30 firms within a region included in its structure, we can say that it basically respresented Croatia's economy and that with disappearance of the same, Croatia will not be able to prosper in a longer period.

Company sort of had a monopoly over Croatia's economy which is why it did not aim at innovation, but rather at keeping things the way they are. Balcanic area including Serbia, Bosnia and Herzegovina and Slovenia could not isolate a firm that could compete against Agrokor and in that way Agrokor did have a competitive advantage or more precisely, Croatia had a competitive advantage domestically and internationallywith Agrokor. Since in this area, Croatia did not have lots of competitors, it did not hesitate towards international expansion because it had a monopolistic power anyways. Other less dominant industries such as textile industries, gained lots of benefits by spreading globally because it led to their great mprovement structurally and financially.

Also if we focus on oil industry, the market is liberalizing slowly, but safely. The liberalization of retailing market of petroleum products in Croatia is proceeding slowly, with the increase of the number of foreign and new participants who are engaged in the market. The market is dominated by the home-company INA, Plc, but the foreign participants (OMV, MOL, Petrol) succeed in getting new attractive locations. Therefore, although INA, Plc. has a long-term presence, the rivals are in the position to use the shortcomings in the planning of retail network, deep-rooted in the approach “quantity before quality”, which is a characteristic of the previous monopolies owned by the State. More detailed analysis of the structural determinants of the Porter’s model shows the level of danger caused by the entrance of new competitors and high intensity of rivalry among market players in the oil product retailing sector in Croatia. Customers’ bargaining power and risk of substitute products is low, while the negotiating power of suppliers in oil product retailing sector in Croatia are intermediate.

3.2 FACTOR CONDITIONS

This category is in my sense one of our top priorities when highlighting competitive advantages. Natural, human and created resources is something that at the end mostly leads to improvement of country's position.

Croatia is famous for its beauty and diversity of its nature. The coastal part of Croatia is about 1,700 km long and has a great number of bays and caves. Croatia has a large archipelago of 1,185 islands; of which only 67 are inhabited. Croatia is an ideal place for sailing. It is also rich in UNESCO protected locations like Plitvice Lakes and a range of ancient cities, as well as numerous protected national parks of nature, such as Kornati islands, Paklenica Mountain Park, Krka waterfalls and many others. There is a mountain range Velebit, stretching across the whole coast. The mountain range preserves the coastal part of Croatia from cold winds and precipitation coming from the north.These robust natural resources make Croatia a very attractive destination for tourists. Given the fact that the tourism industry is still underdeveloped in Croatia, and the country is not yet as popular as Spain or France, it is on a good path to success.

The total workforce in 2009 was estimated to be 1.7 million people. According to IMF, unemployment in Croatia has risen from 8.3% in 2008 to 12.3% in 2010. However, according to the Croatian Central Bank ,unemployment in 2010 was as high as 17.4%. On the other hand, such unemployment rate does not seem to be unreasonably high, though. For example, during the period 2000 –2005 the average unemployment rate was 20.1% with the average real GDP growth of 4.3%.

In general, Croatian labour force is well-educated. Despite the high unemployment rate, the proportion of young educated workforce is quite high. According to Croatia.eu , 92.5% of Croatians between the ages of 20 and 24 had completed their secondary education, which was higher than in many EU countries. In spite of the fact that the country pays significant attention to education, the interviewed practitioners in industries such as hotels, testified that the level of education of employees was still poor. One reason for this may be the fact that the country had been isolated from the modern society for quite a long period of time (Yugoslavia, 1991-1995 war). The Croatian hotel industry is in its initial stage of development. Apparently, not much industry specific experience and knowledge has been accumulated.

With tourism being one of our most successful industries (since it approximates to over 30 % of country's GDP) we can say that natural resources are quite appropriately used. Large number of fields, National parks, seaside and varieties in such a small country all contribute to more and more people wanting to visit Croatia. Workforce is our large export because we have good structured education, universities at european and worldwide apppreciated levels, but all of these youger generations are the ones aiming at establishing their life somewhere else because Croatia as a government is not giving them enough opportunities. At the end there are lots of people who do represent a workforce, but they are mostly the ones employed in the primary sector (construction, service industries). Workforce is one of our strenghts, but

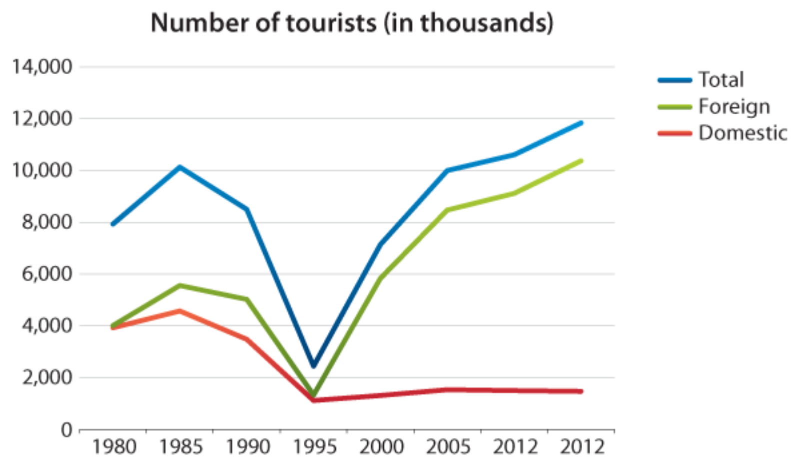
is slightly falling because of emmigration and even less people interested in working at this primary and scondary sector.
Summing everything up Croatia's basic factor conditions including unskilled labour and natural resources are quite more dominant then the advanced conditions (skilled workforce, specialist knowledge and capital resources), but this does not mean these are the ones that create competitive advantage. According to Porter, basic factor conditions cannot be the ones to create competitive advantage, but only the advanced ones. As an example of an advanced factor,Faculty of Electrical Engineering and Computing and Medical School produce graduates with very high computing skillsand knowledge. This, in turn, feeds a software competitive advantage for the Croatia and good doctors as well, but it is still not at the level of other highly more developed countries. These people are not given enough opportunities or credit to show off their knowledge and capabilities. Another advanced factor for Croatia is experiencing is a large pool of venture capital seeking to invest in technology startups. This further builds competitive advantage in this industry.

3.3 DEMAND CONDITIONS

The main factor of demand conditions is home market demand. To have a competitive advantage for an industry there must be a strong home market demand for the product or service. Croatia's tourism is a rapidly increasing product. The demand for this market when mixed with foreign public, results with a dominant position when taking into consideration competitive advantage.

At first it was not the home market that dictated the movement of Croatia's tourism, but rather the foreign one, but due to political and financial change, home market began to participate in the movement of tourism demand. As we can see in a period of about 30 years the number fluctuated rapidly, with the largest number of domestic tourists being in 1985, while the largest number of foreign tourists is now. Foreign numbers are still increasing rapidly, while the domestic ones are relatively static, but are beginning to contribute.

Exhibit 4. Number of tourists in Croatia from 1980 to 2012



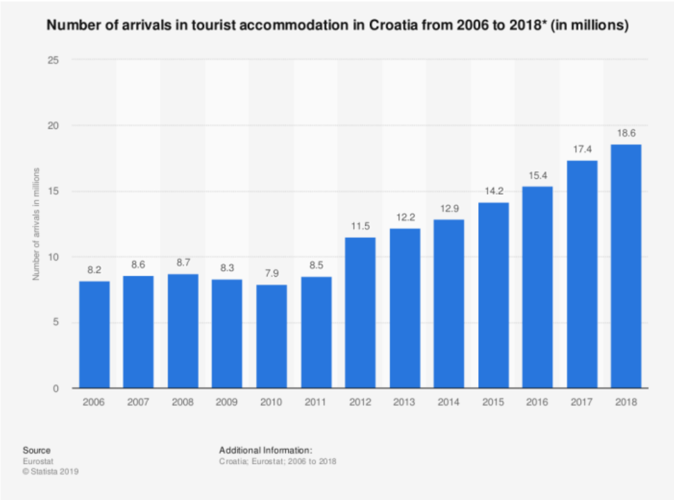
SOURCE: Croatia.eu, *Tourism*, *https://croatia.eu/article.php?id=34&lang=2*

In fact, the more demanding home market customers are, the greater the pressure on companies to innovate and improve. Even though according to this graph, Croatia's home market demand is not starving for more products in the tourism segment, its progress and innovation are a result of foreign market demand, so we can conclude that here it is the foreign market that dictates movements more in comparison with domestic ones.

These demand conditions create a competitive advantage for a nation over time. The earlier mentioned factors like market size, market growth rate and market sophistication are all neccessities to achieve an appropriately competitive advantage. Early home market saturation is another factor which can cause firms to innovate that may be present in Croatia's situation with tourism due to long period of unimaginative touristic activity. Only in the past 10 years has Croatia begun to support smaller firms with not such large influence on the market.

During the three years from 2007 to 2010, annual amount of foreign visitors in Croatia has been fluctuating from 9 to 9.5 million people. The prevailing group of visitors comes during the "high season" from June to August 2010 was rather successful year for Croatia from the point of view of tourist arrivals. July 2010 might have been the best July ever for Croatian tourism,with its impressive total of 2.7 million visitors. This was the year when the arrivals started to rise with a high rate.

Exhibit 5. Number of arrivals in tourist accomodation in Croatia from 2006 to 2018



SOURCE: Statista, *Accomodation*, https://www.statista.com/statistics/413226/number-of-arrivals-spent-in-short-stay-accommodation-in-croatia/

Croatia has very tight, long-standing relationship with its Western European neighbours. For more than a millennium (7th to 18th century) some coastal parts of Croatia belonged to the Republic of Venice. The coastal part of Croatia has also used to be under the influence of Austro-Hungarian Empire for a long period of time. During the period of Yugoslavia, Croatia was considered to be one of the most economically developed and western oriented member state along with Slovenia. Therefore,it seems that it is the mix of cultural similarities together withthelong-standing common history and beautiful nature that, nowadays, attract Europeans

The size of tourism market is quite large if you take into account the size of the country itself which is accelerated by the growth rate as well.

3.4 RELATED AND SUPPORTING INDUSTRIES

The success of related industries obviously affects the succes of the enelyzed industry itself. If you take a look at Agrokor, which was a well operating company, with its bankrupcy, the smaller distributors and wholesalers could not produce as much products as they did nor could they provide for so many people. So, with unwell performing activity of one company, another one related to it is very likely to fail as well. Internationally competitive suppliers, such as Hungarian and German ones, in these situations can be helpful to the companies using those suppliers. This is because it gives cost-effective access to inputs. Alongside this, it gives early access to new products and encourages the rapid sharing of information.

As many other Croatian industries, the tourism industry has not yet fully recovered from the consequences of the War of Independence from Serbia (1991-1995). The industry is characterized by poor supply of accommodation. There are few new developments and majority of units located in outdated, soviet facilities.

All in all, we can conclude that indeed, the level of competition among the touristical facilities in Croatia is significantly lower than in other countries with developed tourism.

Here I have analyzed the example of tourism in the frames of Porter's Diamond Framework because it is one of Croatias highlights in representing the current political-economic situation.

As discovered during the research the Croatian government has chosen a sustainable and well-balanced approach to the development of tourism and hotel industry in particular. All the necessary environment-protection legislation is in place, as well as a well-functioning system for controlling its implementation. However, the government has not yet been able to adopt the crucial policies. The research uncovered the existence of inefficient, bureaucratic procedures in obtaining construction permits for the development of new facilities that would improve touristical situation such as hotels. Also there is a lack of cooperation from the government in promotion of the country, as well as heavy taxation and excessive presence of the government in ownership of hotels and other tourist objects (e.g. marinas). Absence of new developments puts the existing hotels in a dominating position, which fosters inefficient management practices and resistance to any change (tourists keep coming anyway). On the other hand, another major challenge for touristical industry derives from a short season and the inability of current industry participants to extend it.

On 30th June 2011 the EU-Croatia entrance negotiations were successfully closed. Thecountry has been scheduled to become a lawful member of the EU by July 2013. (European Union, 2018) The fact that the country has finally resolved all major political and administrative issues and is more than halfway through the process of becoming anEU member state, proves that the governmental system will significantly improve its efficiency in near future. Moreover, the news about the EU accession is expected to fuel the interest of foreign investors and increase the amount of available capital (just like in 2005, when negotiations started). The interest of foreign investors and decrease of bureaucracy will inevitably lead to the development of tourism and At this point,EU accession can become a major tailwind for the development of tourism in Croatia.

In my opinion this is one of the best indicators of Croatia's economy and its advantage domestically and abroad which is why I have so thouroughly focused on it.

When looking at neighbouring countries, mostly ex-Yugoslavian ones , Croatia does stand out in certain areas such as cost handling, standard of living, demand conditions, workforce, especially skilled one.

4. CONCLUSION

Most of the resources that a firm needs to implement to gain sustainable competitive advantage must be acquired, at some point in history, from its external business environment (Barney 2002). It is how these resources are utilised within the firm that ultimately determines its competitive advantage. Resources obtained from the environment are for most of the parts tradable in factor markets, unless a firm has market power over these resources. To differentiate between country- and firm-specific sources of competitive advantage, a distinction has to be drawn between internal and external strategic factor markets (Dierickx & Cool 1989). The external market deals with country-specific resources of competitive advantage, while the internal market deals with firm specific resources.

In view of this discussion of the differences between competitive and comparative advantage, one can explain why Porter's Diamond Framework of national competitive advantage has led to so much confusion with respect to the international competitiveness of countries. For example, the methodology that Porter used to identify industries in his study is based on a crude measure of revealed comparative advantage. Thus, he identifies industries in which the countries under consideration specialise, either because of their comparative advantages or because of internal or external economies of scale. The fact that these industries exhibit strong diamonds relative to competitor countries is because these industries were identified in the first place through of their comparative advantages. While the traditional and new trade theories explain the sectoral composition of trade, they do not explain country-specific advantages that determine the international competitiveness of firms. Ultimately Porter's thesis does not hold as a new theory to replace the theory of comparative advantage as implied by textbooks on international business (Peng 2009). At most, it is a useful framework that provides management with a tool to identify country sources of competitive advantage that firms can leverage to enhance their internationally competitive positions. It can therefore not be used as a framework to devise trade policy with a view to enhancing the international competitiveness of a country. Over a decade ago, the main risk with respect to the belief that countries compete is the misunderstanding that countries, like companies, are somehow in competition with one another. From a management perspective, a valuable contribution of Porter's Diamond Framework is that it is useful in analysing locations as a source of international competitive advantage for firms.

All in all, Croatia's position in Europe and European Union as well, is still in building. Croatia is a country of a very rough past, tough times, but very rich in resources both natural and human. It started to outsource and move towards foreign communications, but the 2008 crisis managed to slow it down. With large number of unemployed, but skilled people it is suffering from emmigration to more developed and competitively more attractive locations. Some countries provide them with better standard for less effort.

Its popularity in touristical terms is growing and in that way bringing Croatia to an advantageous position next to Greece and Spain.

When compared to other ex-Yugoslavian countries, Croatia stands out in terms of factor conditions because it operates with large number of skilled young people, but we could work on improving standards of living because the emmigration problem could damage the future of Croatia's economy. Demand conditions are working in our favor as well because the market has been growing since 2013 continuously. What Croatia still lacks is more organization in terms of its structure of economy and government, but this is a long term proces sin which EU might be able to help

The factors of chance and governmnet which are not directly included in the Porter's Diamond, contribute to shaping of Croatia's economy, but currently not in favor due to unstable political situation- crisis in the currently ruling party HDZ and financial situation which is better than 2008, but still in large problems.

All in all, Croatia is a good operating country with some moderate performances, but if its rich resources are used more carefully, it will definitely prosper.

Strategy, structure and rivalry is still a component Croatia has a lot to work for. Countries like Japan and Germany are a good example for this automobile industry with intense rivalry between players. Because of their own fierce domestic competition, they have become able to more easily compete in foreign markets as well.

Created factor conditions such as a skilled labor force, good infrastructure and a scientific knowlegde base together with human resources, pool the greatest advantage Croatia offers. I believe it has to focus on pushing towards better exploition of these in order to position itself in the EU as even more successful. Competitive advantage results from the presence of world-class institutions that first create specialized factors and then continually work to upgrade them. Nations thus succeed in industries where they are particularly good at factor creation. Croatia is not as imaginative as some other countries, but is becoming more innovative in areas where it is easier to compete e.g. tourism.

In order to gain a comeptitive advantage, our local customers need to be more precise and clearer about their buying needs, because in that way Croatia will be able to innovate and upgrade not only tourism industry, but others as well. Since we are still a young cuntry, we did not have enough time to establish good, supporting and strong related industries that assist our domestic companies to become globally competitive. With Silicon Valley being a great being a great example of such, it is clear we are still at the beginning of the path.

The role of the government in Porter's Diamond Model is described as both 'a catalyst and challenger'(Porter 1980). Porter doesn't believe in a free market where the government leaves everything in the economy up to 'the invisible hand'. However, Porter doesn't see the government as an essential helper and supporter of industries either. Governments cannot create competitive industries; only companies can do that. Rather, governments should encourage and push companies to raise their aspirations and move to even higher levels of competitiveness. Since we as a country have a rough past and tough relastions with some of our neighbours, government should be the one to push us towards better evolution, but constant reforms and changes do not contribute to stability of our nation.

Last factor or cso called chance (somewhere luck) is obviously something that affects nation's development more firmly in these times of terrorism and disasters. Croatia has not had an experience like this, but since it is a part of EU as well as positioned in the emigration transitionig area, we certainly must be on the look out.

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