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DEVELOPMENT POSSIBILITIES AND CONSTRAINTS OF CROATIAN MANAGEMENT IN THE EUROPEAN SYSTEM OF CORPORATE GOVERNANCE*

ABSTRACT

In the recent conditions of dynamic technological and scientific development, management has developed an entrepreneurial technology of production and intellectual capital management – the fundamental source of competitiveness. By taking over the entrepreneurial role, previously belonging to the owners of the material capital, contemporary management, in addition to developing its social function, has become the initiator of the development of science, institutions and systems of value. The development of the competitiveness of Croatian economy in the institutional, social and cultural environments of the EU has brought about the need to institutionalize the dominant role of management in the supervisory systems of corporate governance. The development and protection of creative entrepreneurial management within the European system of corporate governance demands an institutional regulation of the position of intellectual capital, the management's role and social responsibility depending on their role in the production of the company's and overall society's added value.

Keywords: social environment, social responsibility, corporate governance, participation, learning organization, logistics management

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1. INTRODUCTION

The recent dynamic technological and scientific development accelerates the dynamics of the changes of all segments of economic and social systems, and imposes the necessity to change the approach in defining place, role and development potential of

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management as a technology of entrepreneurial governance of organizational systems. The current level of technological and scientific development affects the production of added value, making it less based on material resources - land, work and capital, and more on effective use of immaterial potential of success - information, communication, knowledge and entrepreneurial governance.

Competitiveness based on comparative advantages is being replaced by competitiveness based on competitive advantages. In today's economy of creative knowledge, it is more important to know how to manage resources than to possess them. Management as a technology of entrepreneurial governance of intellectual capital becomes a fundamental and limited resource of a modern economy, creating a competitive advantage on the globalized market. As a profession of organizing and directing specialized knowledge individuals, management creates intellectual capital and becomes the social function initiating the development of science, technology, institutions and value systems, e.g. all the factors of its current development, thus steering overall social development. The focus of contemporary management is directed outside the company, which outgrows its economic mission and becomes a socio-economic subsystem of society, whose actions have repercussions on all aspects of a social development. Management as a developed social function in recent globalized environment requires a critical assessment of its effects on global and local social development as well as regulation of its development potentials and social responsibility.

In this context lies the subject matter of this research: The economic development of the Republic of Croatia, based on following development paths of the European theory and practice of management, is becoming a more evident problem on Croatia's path of efficiently joining the European integration processes, since managerial profession in Croatia is not fully developed. Notable development restrictions of the European system of management and corporate governance are particularly evident in the transitional countries seeking to follow them uncritically in a significantly different environment.

The purpose and the objective of this paper are to consistently analyze the above-mentioned problems and to offer a conceptual framework for their solution, since they imply and multiply numerous harmful consequences for Croatian and European economy.

The fundamental hypothesis is set in accordance with the problem and the mission of this: by using scientific knowledge about the current trends of development of management and economy, it is possible to suggest an effective development model of management and corporate governance appropriate for Croatia on its accession to the European Union.

2. CONVENTIONAL APPROACHES TO MANAGEMENT AND CORPORATE GOVERNANCE

The initial study of management dates to the beginning of the last century and was founded on developed philosophical and theoretical basis originating from the 19th century. The emergence of the theories on management is characterized by the fact that their most prominent authors came from managerial practice, i.e. they were experimental researchers who tried to develop knowledge of business management in order to improve the existing practices and to focus further development of management and thus the company. Stable environment, typical for the first half of last century focused the management's attention on its functions and organizational structure, i.e. on the issue of how to solve the internal aspects of management and companies. In these conditions, the entrepreneurial role was related to the owner's material capital, while the role of management was an effective realization of externally set targets of entrepreneurial ventures.

Discontinuous dynamic changes of all segments of increasingly heterogeneous environment of the company, which became more noticeable in the middle of the last century, placed knowledge of systematic technology of entrepreneurial venture management into the focus of economic performance. Knowledge becomes the basis of overall economic and social development. Management takes over the dominant role in entrepreneurial management structures previously belonging to the owners of material capital. The managerial capitalism, with the increasing social function of management, comes into focus. Approaches to the development of management evolve in accordance with the development of the company and its economic, scientific, technological, institutional and socio-cultural environment. The focus of contemporary management shifts towards the environment of the company. The traditional approach to management as a universal process, whose procedures and methods are valid for any company in any situation, evolves to a contingency approach, which acknowledges the specific features of a situation and promotes the role of entrepreneurial management. The risks of entrepreneurial activities become higher, and the role of investors, i.e. the owners of material capital, thus increases (Zekić, 2007, p.67). Corporations with limited liability and developed managerial structure further expanded entrepreneurial development of economy in the new, more hazardous business conditions in which intangible resources of success represent the fundamental factors of competitiveness.

Different systems of corporate governance differently affect the development of entrepreneurship and managerial technology of entrepreneurial governance and treat differently social responsibility of management and the establishment of different systems of control.

The open (Anglo-Saxon) system of corporate governance relies on a proprietary approach that accentuates a company as an economic system whose sole task is to meet the interests of owners. This is a clear market system in which the institutional investors (pension funds, insurance companies, ...) and capital markets play the typical role, resulting in fragmentation of the ownership structure and the dominant role of management in entrepreneurial management structure.

In U.S. and UK most shares are kept by the mediating institutions and agents of financial institutions (over 50%), while only a small number of shares is held by the general public (Ooghe, De Langhe, 2002). Fragmentation of ownership structure can be

seen in the fact that the 5 biggest owners seldom hold more than 5% of shares in American companies (Roe, 1992). Short-term orientation, risk and limited social accountability of the management is woven into the essence of development of the Anglo-Saxon system of corporate governance.

Closed (European) system of corporate governance promotes the social function of the company as a socio - economic system whose task is to achieve the goals of its stakeholders (Tipurić, 2006). It is characterized by a relatively high ownership concentration with the predominant role of a smaller number of owners in the corporate governance and the limited role of management. In this system of corporate governance, merchant banks that are often creditors and shareholders, play an important role. Contrary to open system companies, the companies of the closed system of corporate governance have a significant share of bank loans in total liabilities (Stephen i Backhaus, 2003). As a result, banks and other financial institutions often supervise management activities. In this way, the impact of stock markets on managerial behavior is reduced.

The mechanisms of corporate governance were formed accordingly to the above mentioned. In the open system, The Board of Directors is composed of external and internal executive directors and combines supervisory and managerial functions, whereas the closed system of corporate governance develops a two level model - The Supervisory Board and the Management Board. (URL: www.sap.com/about/governance/index.epx).

The implications of this concept of management are that the Anglo-Saxon system based on equity financing results in a relatively low level of credit borrowing and a relatively large liquidity of companies, which additionally supported by the dominant role of management in the control structure of the company leads to significant activity on capital markets and acquisition of profitable entrepreneurial ventures from innovative entrepreneurs. Due to the above-mentioned reasons, European companies have a relatively high share in liabilities than in shareholders' equity and an important role of banks in corporate governance, which, along with the limited role of management makes them less competitive in the global entrepreneurial race. Moreover, European management has a role and the power to systematically develop profitable business ventures, while the American management has a developed environment enhancing both the development and acquisition of developed entrepreneurial ventures.

The European theory and practice of management should develop mechanisms for socio-cultural and institutional protection from takeovers in order to create conditions for a fair competitive race on the globalized market (Polany, 1999, 23). Contemporary tendencies and trends of scientific, technological, economic, socio-cultural and institutional development show the potential of strengthening the competitiveness of the European system of management.

Contemporary approaches to the development of management put into focus the external factors of adaptability (needs, wishes and preferences of customers), i.e. effectiveness and dynamic internal factors of flexibility – the efficiency of operations, particularly human resources. Achieving dynamic harmony of the company as a socio -

economic system of the society with its influential environment in economic, ethical and environmental field of action, becomes the basis of managerial and entrepreneurial ecumenism of success and an area for developing new theories of management. Man and sustainable economic development become the focus of development of management as a social function.

Dematerialization of the production of value and the globalized activity of companies driven by the increasingly developed institutional forms of social capital put in the center of entrepreneurial activity the multicultural entrepreneurial management which proactively directs the intellectual potential of its employees towards producing added value for all stakeholders. An innovative, cooperative, and socially responsible company is the developing trend and it provides the chance for the development of the competitiveness of European management, i.e. the economy.

3. RECENT TRENDS, POTENTIALS AND LIMITATIONS OF THE GROWTH OF THE COMPETITIVENESS OF THE EUROPEAN MANAGEMENT SYSTEM

The changes of fundamental factors of entrepreneurial success of a modern company lead to the expansion of its field of activity, i.e. the globalization of the business (Beck, 2004 and Gray, 2002). As a result, the contemporary management is faced with the need for constant introduction of new environments and development of specific knowledge about governance in different environments. The complexity of the issues, which the contemporary management is facing, is increased by the fact that the environment is becoming increasingly unpredictable. It eliminates the possibility of successful management of a company by simply tracking the changes in the environment. Classic competitive entrepreneurship is increasingly losing the advantage to cooperative enterprises (Zekić, 2007, 21). Management embraces the responsibility for the proactive strategic business behavior, which as a prerequisite demands the participation of employees in the management of enterprises as socio – economic systems of society.

The development of management in theory and practice will be more concerned with dealing with problems associated with multiculturalism, proactive process management and participatory governance. These are also the areas of potentially higher competitiveness of the European system of management.

3.1. Multi-cultural feature of management

Globalization of business is the current development trend of modern enterprises. Its activity is present on the international scene, marked by geocentric focus. The key positions in such companies are held by managers of different nationalities, and the orientation to the global market forces them to adjust to specific local conditions. The members of the management teams come from the environment characterized by different education systems, different systems of values, different beliefs, languages, etc. In addition to the development of their teamwork skills, they must acquire knowledge on different economic, legal and political systems, especially about the

socio-cultural circumstances of the countries in which they operate. In addition to the development of traditional management skills, the priority of current management is to develop social and diplomatic skills, in order to successfully run a company on a globalized market.

Historical and other circumstances have caused the American and later on Japanese system of management to develop a unitary and referent framework of a single theory and practice of management. American system of management is based on the principles of individualism and market competition as well as the belief that free entrepreneurship and the tendency to satisfy their own interests are morally justified (Bennett, 2004, 281.) In turn, Japanese management system rests on the understanding that the resources of people as integral beings and not just factors of production, are the foundation of successful participative management. Corporate philosophy and corporate values control the management actions.

Based on these principles, the American theoreticians and practitioners promote a contemporary approach to the development of management - Business Process Reengineering, whereas the Japanese - Total Quality Management.

Cultural diversity prevented the emergence of unitary principles, which would be universally applicable to the management of European companies. The development of the European Union should contribute to creating an overall convergence of European thought in the field of management and thus lead to a common philosophy of the European system of management.

Is already possible to identify certain common elements of the European managerial practice:

- distributing limited liability and separating ownership from management
- putting forward functional specialization of management, such as technical, financial, commercial, and only then, developing general management
- spreading the tendency towards the decentralization of organizations
- participation of workers in decision-making
- low risk tolerance

The management of European companies is still trying to uncritically adopt and use elements of both approaches, which so far hasn't lead to satisfactory results in terms of competitiveness. Simply put, an appropriate system of management is deeply integrated in certain socio-cultural environment and cannot be easily transferred nor adopted. European theoreticians and practitioners of management should start developing their own system of management, which would be rooted in the European culture. The learning organization is a good basis for the development of a European system of management, which meets the requirements for achieving a competitive advantage over American and Japanese management in the predictable conditions of global environment.

3.2. Proactivity of process management

The business environment of a modern company will be characterized by the unpredictable business events, faster changes in the environment that surpass the usual capability of adjustment, an unpredictable future full of surprises. This confronts the management with the need to transform its classical competitive behavior directed at past experiences towards a strategic business behavior which is in its core aimed at innovations, discontinuity and higher risk (Bobek, 1991, 29, and Adizes, 2005, 54). The management of the company in the modern unstable environment must be based on knowledge of entrepreneurial technology management. Furthermore, it must be proactive and adaptable to new situations.

The orientation towards continuous changes and strategy based on innovations, as a response to the challenges of turbulent environment becomes the fundamental feature of modern management, which perceives "chaos" as a source of business and development opportunities, rather than a threat. Information and knowledge are the instruments of modern management, whereas and the willingness and authority to take entrepreneurial risk, the precondition of its activity. The development of cooperative and systematic organizational learning is a successful way of proactive activity. The company's ability of permanent organizational adjustment to autonomously changed objectives according to changing business conditions, brings entrepreneurship into focus of management and seeks its dominant position in the system of corporate governance with clearly stipulated corporate and social responsibility. In accordance, the European system of corporate governance should develop an entrepreneurial management technology and adequate control mechanisms.

The potentials of the modern entrepreneurial success and the development of competitiveness of modern economy in terms of production are nearly exhausted. Computerized, automated and robotized production processes already provide the flexibility of production of goods and services according to market demands. Space and time transformation of information, knowledge, energy and resources meeting the customers' needs and the company's objectives, is the basis of contemporary competitiveness (Zekić, 2000, 140). The logistic concept of management creates a competitive advantage in the current dynamic conditions of the globalized environment.

Process management of information, financial and material flows of the company as well as intercorporate cooperation oriented towards achieving a higher adaptability to the changes in the environment, above all, to the needs, wishes and preferences of customers, result in a dynamic and optimal business activity and economic development in contemporary environment.

The holistic orientation and target-oriented action aimed at the dynamics and trends that integrate and direct all process activities towards satisfying user needs at the right time, in the right place at the right price and costs, is the modern trend of the development of management that gives the company the competitive advantage in an environment of fixed and unpredictable changes. Logistic processes are intellectual in character and can never be automated nor robotized. The paradox is that with the development of technology strengthens the role of workers in the business processes in which they are now being included as managers. A complete change of management

paradigm is needed. The learning organization (Senge, 2003, 23), as an approach, or in better terms a management philosophy, springs from the belief that thorough and lasting changes require a new - systematic way of thinking, continuous personal improvement, change of mental models, development of a common vision and team learning and team work. The learning organization, as a philosophy and the logistic concept as a management technology, are a suitable framework for the development of models of the European system of management based on intellectual capital and the participation of employees in the process management of companies and the dominant role of microeconomics in economic development.

3.3. Management participation

An unstable and unpredictable environment that accelerates scientific and technological development causes radical changes in the business and organizational conditions of companies and entrepreneurial management, putting into focus the importance of human resources, i.e. knowledge and creativity as key factors for success of as a company seen as a socio-economic subsystem of the society.

Knowledge workers are the dynamic substance of the organization. They do not produce “the goods” directly. They produce, above all, ideas, concepts, ..., knowledge. Their effects must be mutually interrelated in order to bring result. Since they are the ones realizing the process, they should be focused towards contributing to a common product, result, and a common goal. In other words, they have to operate and understand their co-workers and be responsible for the overall result. This mutual contribution leads to communication on the same level and therefore enables teamwork. Team organization develops productive relations, which are entered by people of different knowledge and skills in order to fulfill joint tasks. Knowledge workers voluntarily work together more in the line with the logic of the situation and the requirements of the process, than according to the formal hierarchical structure. The focus on contribution drives self-development of each individual, and thus the development of the overall organization of the company based on knowledge, the development of the economy based on knowledge and as a consequence, knowledge society (Drucker, 2005, 185).

Nowadays, in order to optimize business results of the company, it is necessary to manage knowledge, thus making the companies themselves the producers of knowledge. Knowledge appears as an input and an output of their activities. In situations of uncertainty that accelerate the discontinuous changes in the increasingly heterogeneous environment, knowledge becomes the only permanent source of company's success in the competitive struggle on the market, with continuous innovation of the activities aimed at fully satisfying the diversified needs of the increasingly demanding consumers. The contemporary management is becoming increasingly dependent on its experts. Instead of being solely a decision-making body, management directs and coordinates the processes of decision-making by gathering real people around real problems, encouraging open discussion and providing insight into all relevant information. It ensures that all interpersonal processes result in quality decisions.

Formalized participation of employees in managing the company is a *conditio sine qua non* of contemporary management's efficiency, the development of innovative entrepreneurship, the development of economy and overall society (Drucker, 2007, 28, and Liataud, 2006, 237). Participative management motivates workers to use their intellectual potential more effectively and in accordance with the company's objectives. Contemporary management will start increasingly combining internal and external participation in managing the company as a link in the chain of creating added value for customers. In the future, participative entrepreneurial management with developed communication skills and abilities of cooperative, team management, will become more efficient than classical competitive oriented entrepreneurial management. The tradition of participatory management of the European managerial levels is a potential competitive advantage over Anglo-Saxon system of management.

4. LIMITATIONS AND POSSIBILITIES FOR THE DEVELOPMENT OF THE EUROPEAN CORPORATE GOVERNANCE SYSTEM

Developmental impulses coming from scientific, technological, economic, institutional and socio-cultural, i.e. overall social environment of the company, partly directed by the management, are forming the conditions needed for the development of an adequate system of management that is more/less appropriate for entrepreneurial exploitation of potential efficiency, i.e. the development of the economy's competitiveness. The achieved level of overall social development with the crucial impact of science and technology on economic dynamics, promotes knowledge, i.e. intellectual capital of employees as a core potential of the dynamic optimization of business activity of a modern company. Achieving dynamic harmony between the company and its environment in the economic, ethical and ecological area of activity is becoming a foundation for sustainable economic and overall social development based on knowledge.

Knowledge is rarely valuable when "raw". It must be encouraged and target integrated to become capital (Edvinson, 2003, 76). Organizing and directing individual knowledge, contained in the brains of humans and machines, at the system of creating added value for users, which results in targeted added value of companies, and all the key stakeholders, falls into the field of responsibility of contemporary management (see: Spender and Grant, 1996). By developing an entrepreneurial technology of governance, management effectively organizes individual knowledge and develops intellectual capital of the economy, at the same time developing its social function. The modern managerial economics, i.e. economic competitiveness, is based on effective management of resources, rather than on their possession (URL: http://europa.eu.int/comm/internal_market/company/independence/index_en.htm).

The European system of corporate governance is characterized by a relatively large concentration of ownership and hence the domination of the owner in the corporate entrepreneurial management (URL: www.ecgi.org/codes/documents/comparativestudyeuitten.pdf and www.oecd.org/dataoecd/32/18/31557724.pdf). Along with all the development features, this system hinders the entrepreneurial development of management, making it uncompetitive in comparison with the Anglo-

Saxon system of corporate governance where management plays the dominant role. The development of institutional forms of social capital (pension funds, insurance companies) with public supervision, and especially the creation of institutional preconditions for the development of «ownership funds of companies' intellectual capital" is the prerequisite of the development of the competitiveness of European entrepreneurial management, which would at the same time protect innovative entrepreneurship from the prevailing practice of takeovers. Simply put, and institutionally enforceable - the owners of financial capital should be able to hold only preferred shares with priority rights on dividend and no voting rights, whereas the employees (owners of intellectual capital) should have the right to acquire ordinary shares with voting rights and secondary rights on dividend. This model establishes a consistent distribution of incomes (to the owners of financial capital - entrepreneurial interests, to the entrepreneurs – entrepreneurial profits), along with the protection of developmental entrepreneurship from the speculative type.

In addition to the above mentioned, strategic business behavior, which becomes a prerequisite of entrepreneurial success, imposes the need to position scientists and experts with developed conceptual i.e. strategic skills and knowledge on strategic management, on the supervisory boards at the current level of scientific, technological and overall social development. From mere the essence of corporate governance (Tipurić, 2006, 2) as a system of supervising mechanisms according to which all suppliers of crucial inputs should ensure return on their investments within in the company, without threatening its long-term survival and prosperity, arises the social responsibility of corporate management structure which requires adequate institutional regulation.

Developmental limitations of European management are particularly evident in transitional countries, such as Croatia, who are trying to accelerate their own economic development by merely following the development paths of management and corporate governance of more developed economies. In the current dynamic, globalized, development conditions, this is practically impossible. Transitional problems and the environment most bluntly reveal the shortcomings of the European system of management and its development opportunities that are based on the developed intellectual resources, the tradition of operating in different socio-cultural, institutional and other environments, and the participation of workers in processes of decision-making, as well as understanding the company as socio-economic system whose goal is not only meeting the interests of the owners, but of all the key stakeholders. These are the foundations on which the value system and conceptual framework of European development, as well as the Croatian system of management, should be based. Theoretical framework is comprised in the learning organization, while the operational applications are comprised in the development of the logistic concept of management.

5. CONCLUSION

The development of the Croatian management and system of corporate governance is of crucial importance for the effective use of development resources of Croatian economy's integration into the economic system of the European Union. This

development should be founded on the contemporary factors of competitiveness, rather than on so far practice of following the paths of development of management and corporate governance practices of developed economies.

Contemporary economic development is no longer based on the owner(s) management of material resources but on developing managerial technology of entrepreneurial governance of intellectual capital of the company as a socio-economic system of the society. The development of the competitiveness of the European system of corporate governance requires institutionalization of the dominant role of management in governing structures, and a systematic positioning of scientists and experts with developed skills in proactive strategic management into supervisory systems of corporate governance. Moreover, the institutional regulation of the position of intellectual capital in the system of corporate governance becomes a necessity. All this would contribute to the development of competitiveness of the European system of management, i.e. economy, and it would ensure corporate and social supervision of its activities, and at the same time effectively protect it from the prevailing practice of taking over innovative entrepreneurship from the Anglo-Saxon system of management.

Scientific and institutional development of corporate participative management through a systematic development of strategic alliances and participation of workers in the decision making founded on the learning organization as a philosophy and the logistic concept of management as a technology of entrepreneurial governance is the path of strengthening the competitiveness of Croatian economy within the framework of the development of the European management system based on the European cultural tradition.

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CONCLUSION

The development of the Croatian management and system of corporate governance is of crucial importance for the effective use of development resources of Croatian economy's integration into the economic system of the European Union. This development should be founded on the contemporary factors of competitiveness, rather than on so far practice of following the paths of development of management and corporate governance practices of developed economies.

Contemporary economic development is no longer based on the owner(s) management of material resources but on developing managerial technology of entrepreneurial

governance of intellectual capital of the company as a socio-economic system of the society. The development of the competitiveness of the European system of corporate governance requires institutionalization of the dominant role of management in governing structures, and a systematic positioning of scientists and experts with developed skills in proactive strategic management into supervisory systems of corporate governance. Moreover, the institutional regulation of the position of intellectual capital in the system of corporate governance becomes a necessity. All this would contribute to the development of competitiveness of the European system of management, i.e. economy, and it would ensure corporate and social supervision of its activities, and at the same time effectively protect it from the prevailing practice of taking over innovative entrepreneurship from the Anglo-Saxon system of management.

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