Editor's Note

I would like to draw your attention to the eighth volume of the *Croatian Economic Survey*. This annual publication comprises a selection of articles that have previously been published in *Privredna kretanja i ekonomska politika (Economic Trends and Economic Policy)* journal. Although throughout the year the journal publishes articles in Croatian as well as in English, most of them are in Croatian. The main purpose of publishing an English selection of the previously published articles is to bring them to the attention of a broader, international audience. The 2005 issues of *Privredna kretanja i ekonomska politika* were unusually rich in the articles in English. It might indicate that the Croatian authors are seeking a broader audience on an even more regular basis. Hopefully, this will enable a discussion of the Croatian economic problems that the publication deals with predominately by an international pool of scholars and experts, thus increasing the probability that the best practice available might be employed so as to reach appropriate solutions.

As an already established tradition, five articles have been selected for this volume of the *Croatian Economic Survey*. The selection covers a wide range of topics, which are more oriented towards the internal conditions of the Croatian market this time. The papers are not presented in the chronological order in which they were originally published, but rather in a way that might enable a reader to read an interesting story related to the problems of the Croatian economy often discussed in public. Specifically, the Croatian economy is usually perceived as lacking in competitiveness. One of the key methods of improving its competitive position is by strengthening the relationship between scientists and the business sector, which should lead to a higher rate of innovation growth. Through increased innovation new products are introduced, for which new marketing strategies should be designed. In order to ensure that this process increases competitiveness, a favourable educational structure of employees and a comparable tax system are required. The following articles discuss these issues extensively.

The first paper of this volume addresses the issue of the collaboration between industry and science in the Croatian economy. The author, *Sonja Radas*, in the article entitled "Collaboration between Industry and Science: Motivation Factors, Collaboration Intensity and Collaboration Outcome" considers one of the most important aspects of the innovation system. Innovation capability is important for understanding why and how strongly companies collaborate with scientists, and how they rate such collaboration. The paper explores how motives for collaboration and company approach to innovation and technology influence collaboration with scientists. In order to understand this collaboration better, the author explores why enterprises co-operate with scientific institutions, how intensely they co-operate, how they rate their collaboration and what its outcomes can be. The basis for the analysis are the results of a field study conducted in the spring of 2002 on a sample of 230 companies, of which 190 agreed to take part in the survey. All the companies were engaged in the activities that require investment in research and development, including those in the field of high technologies. Data analysis has shown that companies with a more intensive collaboration are those with stronger orientation to technology and innovation, including the existence of a long-term development vision, availability of new technologies, awareness of the importance of innovation and new technologies, and availability of sufficient funds for investment in research and development. The results also prove that the companies that embrace collaboration in order to solve concrete problems also have a more intensive collaboration and rank it more highly. The author also finds that the existence of employees who understand scientists well and can act as a bridge between the company and scientists has proven to be an important precondition for collaboration.

The second paper, prepared by *Sonja Radas* and *Ljiljana Božić*, discusses a problem related to the topic already introduced in the previous article. Specifically, the article entitled “The Effects of Innovation Activities in SMEs in the Republic of Croatia” discusses a relatively poor innovation activity in the Croatian economy. The ultimate goal of innovation activities is to improve business results. The authors explore which factors are crucial for positive innovation effects. Some of the factors observed are standard, such as the ownership structure and the proportion of highly educated employees, while others supposedly reflect the capabilities and orientation of a firm, that is, market orientation and the implementation of strategic management and marketing changes. The authors also include the market in which an enterprise operates in the analysis, as it can have an impact on innovation and innovation effects. The observed innovation effects were an increase in the share price, product quality improvement, reduction of material costs per unit of product, as well as the improvement of ecological, safety and health aspects and compliance with legal regulations and standards. As the SMEs account for a substantial share of every country's economy, the authors conclude that it is of great importance to examine the impact of their performance. The fact that the performance of SMEs strongly relies on their innovativeness proves that the analysis of innovation activities and their effects are highly important.

Edo Rajh, in his article “The Effects of Marketing Mix Elements on Brand Equity”, offers a new perspective on the explanation of the firm’s marketing strategy choice. The paper defines a structural model of the effects of marketing mix elements on brand equity in line with the existing theoretical findings. Research hypotheses in the paper are defined according to the identified structural model. In order to test the defined structural model and research hypotheses empirically, the author applies the model on the sample of undergraduate students of the Faculty of Economics and Business in Zagreb. The estimated structural coefficients and indirect effect coefficients indicate the direction and intensity of the effects of each analyzed element of the marketing mix on brand equity. The obtained research results point very clearly to the importance of a strategic approach to brand management, with creation of brand equity. The author points out that if the focus of brand management is placed exclusively on sales, the marketing activities that are likely to increase sales in the short run (e.g. price reduction activities) might easily be chosen, but may lead to a deterioration in the brand equity in the long run. The research results confirm the need for a careful selection of individual marketing mix elements in order to avoid deterioration of the achieved brand equity. The author also analyses the implications of research results for the theory and practice of brand management and concludes that investigating with what intensity individual marketing mix elements impact brand equity might serve as guidance to managers on the Croatian market as to how they can build and maintain the brand equity of Croatian brand names.

In all of these papers the need for a higher labour force education level was implicit. The next paper, “Participation Rates and Investment in Education in Croatia” prepared by *Zdenko Babić*, deals with this issue explicitly. Sustainable development of each national economy depends mainly on the quality of human capital, which is determined by the quality of its educational system, investments in education and participation rates. Lagging behind in the development of the educational system and insufficient investments in the creation of human capital could become major obstacles for achieving long-term sustainable development in the Republic of Croatia. This paper gives a comparative overview of participation rates and investments in education in Croatia, some developed OECD as well as EU countries and selected transition countries. The data presented in the paper leads us to the conclusion that Croatia is lagging considerably behind the developed EU countries and the reference transition countries in the participation rates in pre-primary education. The situation is particularly precarious in lifelong learning, while in secondary education vocational education is the most problematic area because the enrolment policy and occupation catalogue are insufficiently harmonized with the needs of the labour market. In tertiary education, the key problem is the high level of system inefficiency, which is characterized by a long duration of studies and a large number of drop-out students. Hence, in addition to increasing the number of enrolled students, the author concludes that the main focus of attention should be placed on setting up a more efficient organizational model for managing the system, aimed at considerably increasing the number of students who complete their studies and reducing the average duration of studies.

Finally, the last paper "The Tax Treatment of Capital Income: European Union and Countries in Transition" prepared by *Sandra Švaljek*, offers a comparative analysis of the specific segment of the tax system. This paper deals with the tax treatment of specific categories of income from capital – income from the interest payable on savings deposits and bonds, dividends and capital gains in old Europe, some countries in transition and in the Republic of Croatia. The aim of the paper is to provide an insight into the type of taxation of these categories of capital income (e.g. taxation by applying a separate kind of tax on capital income or inclusion of capital income in the total taxable income), the level of the statutory tax rates and key features of the capital income taxation, so as to enable a comparison of the tax treatment of capital income in Croatia and in neighbouring countries. The author finds that Croatia stands out as a country with a particularly lenient capital income tax policy; the income from interest on savings deposits is fully tax exempt and so are dividends and bond yields, with only a few types of assets being subject to capital gains taxation. However, when compared with other transition countries, the author concludes that such a tax treatment of capital gains is not unusual.

It is my hope that this introduction will be a successful enough invitation to read the articles in this volume.

Guest Editor:

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April 2006