

Small Business in Croatia 2009



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ABSTRACT

This summary report represents the results of an effort to portray the business environment in Croatia from the view of Croatian small businesses. UMIS-SMEA, a national business organisation and ESBA, the European Small Business Alliance, a pan-European association, teamed up to examine the problems and barriers small firms experience in Croatia.

The data presented was drawn from an online survey conducted over a five-week period in March/ April 2009 with 254 respondents, a number of Focus Groups interviewing 19 business owners from various industries, media and public bodies over a 2-day period, and visits to three selected companies in Zagreb and Krizevici.

KEW WORDS: *entrepreneurship, Croatia, small business, education, business environment, barriers*

Introduction

This report represents the results of an effort to portray the business environment in Croatia from the view of Croatian small businesses. UMIS-SMEA, a national business organisation and ESBA, the European Small Business Alliance, a pan-European association, teamed up to examine the problems and barriers small firms experience in Croatia.

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media and public bodies over a 2-day period, and visits to three selected companies in Zagreb and Krizevici.

The recommendations made in this report derive from proposals made by survey respondents, interview contributions and the extensive expertise of the interview panel consisting of Tina Sommer, President of ESBA, Fredric Soudain, Brussels Representative of ESBA and Norman Mackel, ESBA Treasurer. All three panel members are business owners in their own right, working in various industries, countries and company sizes. Katarina Jagic and her team in UMIS-SMEA provided local background knowledge, administration, translations and contacts.

The full report is divided into three parts beginning with the analysis of the profile of businesses drawn from the survey, a description of problems and barriers in various areas of the current business environment including constructive recommendations and case studies and concludes with summary remarks. This paper is an extract of some key findings.

Profile of Businesses

A number of online questions were asked to establish the profile of small businesses in Croatia. 66% of respondents have a well-established business for more than 10 years. Only 3% however were considering starting a company and less than 1% have taken the step into self-employment. This pattern is quite different from the typical small business sector in the rest of Europe. Most entrepreneurs own one business, but almost a quarter has expanded into more than one business. The vast majority chose a limited company as their legal status. Not a single franchise operation responded to the survey invitation.

Table 1: What is the legal form of your business?

Answer	0%	100%	Number of Response(s)	Response Ratio
Limited Company - Društvo s ograničenom odgovornošću			180	70.8 %
Sole Trader - Obrt			8	3.1 %
Franchise - Franaiza			0	0.0 %
Partnership - Partnerstvo			8	3.1 %
Family business - Obiteljski posao			13	5.1 %
Charity - Humanitarna djelatnost			1	<1 %
Totals			254	100%

The regional distribution is as expected with 42% of businesses based in the capital and its region. The four top industry sectors were Wholesale Trade, Manufacturing, IT related activities and Retail. 76% of respondents provide services and 24% are involved in product creation. Over half of respondents work from offices. Working from home are 27%. Both figures clearly reflect the emphasis on service provision.

196 firms provided details of their staff numbers totaling 900 comprising of full-time, part-time and seasonal workers. The average employment rate is 4.5 to 5.5 staff per company mirroring the EU majority of micro businesses. Family members play a substantial part in Croatian firms with 60% reporting involvement of relatives, predominantly spouses and children.

Table 2: How many people do you employ?

No of Full Time Employees			No of Part Time Employees		No of Temporary Staff	
Responses/ No of companies	Average per company	Total no of full time employees	Average per company	Total no of part time employees	Average per company	Total no of temporary staff employed
133	4.5	597				
26			4.5	116		
37					5.5	187

The vast majority of business owners are between 35 and 54 years old (65%). Only 11% of the total number of respondents are young entrepreneurs (under 34). Educational qualifications are high amongst businesses with 52% reporting degree level or above. Given the requirement of Internet access for an online questionnaire this figure may not be representative of the business population as a whole. However, it may also reflect the failure of the earlier years of education, to develop an understanding of the value of the business opportunities available.

Two thirds of business owners were employed prior to starting in business. 14% already had involvement in the same business. Only less than 10% saw self-employment as an alternative to unemployment. Similar small numbers considered business as a career opportunity after university.

Very few company owners work less than 40 hours per week. The vast majority input between 40 and 60 hours with a quarter working more

than 60 hours. Their efforts are rewarded in terms of improved finances (62%) and better quality of life (56%).

Table 3: How many hours do you work typically in a week?

Answer	0%	100%	Number of Response(s)	Response Ratio
Up to 30 hrs - Do 30 sati			2	<1 %
31 to 40 hrs - 31 do 40 sati			5	1.9 %
41 to 50 hrs - 41 do 50 sati			40	15.7 %
51 to 60 hrs - 51 do 60 sati			48	18.8 %
over 60 hrs - preko 60 sati			33	12.9 %
No Response(s)			126	49.6 %
Totals			254	100%

Business Environment

The main purpose of this report is to evaluate the business climate from a small business angle. The report is subdivided into 12 business topics, which have been collated into six groups in this summary.

Croatia in Comparison to Other Countries

The WorldBank Report 'Doing Business 2009 – Country Profile for Croatia' gives a good indication where Croatia stands compared to 180 other countries in terms of its business environment. Croatia ranks 106 out of 181 countries in terms of business climate. In general it falls behind other South Eastern European countries such as Albania (86), Macedonia (71), Montenegro (90) and Serbia (94).

Overview

The overview sets the scene of the general perception of the business climate as expressed by the online survey respondents. The more detailed topic analysis includes the comments of the focus groups.

43% of survey respondents considered the business climate in Croatia as difficult in contrast to 31% who judged their environment as average. Clearly there was unison in the question of whether entrepreneurship was understood and supported, with 92.5% stating a resounding no.

Table 4: What do you think of the business climate in Croatia to start and run a business?

Answer	0%	100%	Number of Response(s)	Response Ratio
Very good - Jako dobro			1	<1 %
Good - Dobro			10	3.9 %
Average - Prosjecno			46	18.1 %
Difficult - Tesko			64	25.1 %
Very Difficult - Veoma tesko			26	10.2 %
No Response(s)			107	42.1 %
Totals			254	100%

The evaluation of education and training produced a draw between 42.2% considering both provisions as insufficient and 42.9% as average. Again employing people is a problem for 44.4%, but not for 55.6%. Regulations are seen by 60% as a barrier, but not by the remaining 40%.

Table 5: How do you evaluate education and training for entrepreneurs in Croatia?

Answer	0%	100%	Number of Response(s)	Response Ratio
Very good - Jako dobro			0	0.0 %
Good - Dobro			10	3.9 %
Average - Prosjecno			62	24.4 %
Insufficient - Nedovoljno			63	24.8 %
Totally insufficient - Potpuno nedovoljno			12	4.7 %
No Response(s)			107	42.1 %
Totals			254	100%

Access to finance is a problem to three quarters of businesses clearly compounded by the financial crisis, which 75% of respondents blame for

Business Support was important to the respondents with 380 hits to this multiple-choice question. 28% see central government as best placed to provide business support, followed by 20.5% in favour of local government support. Banks came in third place as a preferred support source and the European Commission attracted 10% of respondents.

Starting and running a business seem to have similar problems. Start-ups are struggling relatively more with regulations, taxation and finding suitable business support as opposed to existing business whose concerns were more concentrated on access to finance, the impact of the financial crisis and corruption. Neither group paid much attention to training.

Entrepreneurship, Education and Training

These three topics were identified as the most pressing issues facing the Croatian businesses.

Entrepreneurship is multi faceted and can occur in many different contexts, but the concern here is with its business application. Primarily, it is a mindset, which provides the individual with the motivation and capability to produce new value or economic success based upon change.

Croatia's recent history of a war and a socialist system is contributing to obvious difficulties in establishing an understanding of entrepreneurship. Mistrust of public institutions and the feeling of being left without support became highly visible during the focus group discussions. In addition, central and local government policies differ substantially contributing to restrictions on entrepreneurship.

The fact that membership of the Chambers of Commerce is compulsory, is seen as a barrier and a license to trade. Freedom to choose, which services best suit each business, should prevail.

Whilst entrepreneurship in the individual can be encouraged, it is the most difficult characteristic to consciously and methodically develop. The need for training was not widely recognised by survey respondents despite the clear lack of business skills reported by business consultants and agencies. Availability, cost and quality of training are blamed by some for the lack of interest.

There are many ways to instil interest in entrepreneurship i.e. awareness rising in schools, universities and the general public as a whole through events, open days, presentations and visits to flourishing companies and the introduction of role models and champions via the media.

Banks could improve their damaged image by providing support to entrepreneurs. Social Enterprise being undervalued in Croatia could provide an alternative to un-employment as well as encourage community based collaboration.

A number of case studies show how good examples already exist within Croatia that only need to be publicised for replication in other areas and regions.

Education and training featured high in the priorities identified by focus groups. The massive problems range from lack of understanding of rights and responsibilities of workers though to recognising that self-

employment can form an alternative career path. Existing courses are perceived as too theoretical and not practical enough to make a marked difference. Essential business skills are not provided nor do institutions teach the skills needed for the employment market. Apprenticeships are considered to be lacking in value without systematic tests. For example, qualifications of bookkeepers and accountants seem to be too close to differentiate.

Table 6: Training problems for start up companies

Answer	0%	100%	Number of Response(s)	Response Ratio
No training available - Nije mi potreban			11	4.3 %
Don't know what training is available - Ne znam koji je trening dostupan			18	7.0 %
Training too costly - Previsoki troskovi treninga			18	7.0 %
Training too time consuming - Oduzima mi previse vremena			19	7.4 %
Totals			254	100%

Table 7: Training problems for existing companies

Answer	0%	100%	Number of Response(s)	Response Ratio
No training available - Nije mi potreban			21	8.2 %
Don't know what training is available - Ne znam koji je trening dostupan			44	17.3 %
Training too costly - Previsoki troskovi treninga			47	18.5 %
Training too time consuming - Oduzima mi previse vremena			30	11.8 %
Totals			254	100%

Most of all the lack of courses to train the trainers is limiting entrepreneurial education everywhere. Changes made to the education system after 1991 are perceived as 'useless' and business skills are seen as 'not on the agenda' for many institutions.

Although the responses and complaints are damning, there are good examples. Attempts are being made to improve the situation provided funds are available to implement the changes.

The recommendations from the interview panel and focus groups include the teaching of an understanding of rights and responsibilities as

well as the principles terminology and processes of a free market culture, projects in schools and universities to simulate or create real business activities, the drawing on expertise of mentors and business owners, teachers and trainers need to be educated to train others and lastly banks should be encouraged to contribute to the dissemination of financial information.

Regulation and Business Support

Bureaucracy is a key word for Croatian businesses. Be it lengthy procedures, complex forms or lack of transparency, when it comes to following rules, both new and existing businesses are struggling. Given the industries represented in the focus groups, construction industry and pharmaceutical regulations were highlighted as bad examples. The lack of synergy between the requirements of central and local government adds to the general frustration. Having a name seems to make all the difference and doors open easily.

Table 8: Regulation barriers for existing companies

Answer	0%	100%	Number of Response(s)	Response Ratio
Amount of legislation - Kolicina zakonskih propisa			71	27.9 %
Complexity of legislation - Kompleksnost zakonskih propisa			68	26.7 %
Rate of change of legislation - Stopa promjene zakonskih propisa			48	18.8 %
Interpretation of legislation - Interpretacija zakonskih propisa			79	31.1 %
Inspection regime - Inspekcijski propisi			37	14.5 %
Enforcement regime - Provedba zakona			64	25.1 %
Cost of compliance with legislation - Troškovi usklađivanja sa zakonom			36	14.1 %
Totals			254	100%

The persistent need to provide proof i.e. police records, health and marriage certificates is time consuming and costly. Many procedures require notaries adding to cost and seemingly not serving any purpose.

The World Bank report 'Doing Businesses' confirms the feelings of the small business community and ranks Croatia at 163 out of 180 countries.

Remedies are plentiful, if only policy makers would listen. ‘Think Small First’ is the basic principle that needs to be followed in law making, as does simplification of existing rules. Common commencement dates of new regulations can significantly ease the burden on small firms. Impact assessments combined with a SME test should be obligatory as should be clear and understandable language. Consultation with stakeholders is now common in all EU Member States and contributes to better lawmaking and implementation. The first aim of inspections should be to educate and not to punish. Lastly and most importantly, especially in Croatia, the law must apply to everyone equally.

Business support was criticised by both start-ups and existing businesses. Finding the right support was a challenge for a third of respondents. Quality of support was next on the list with cost of advice more of a problem for existing businesses. The plethora of business support on offer seems to be confusing and overwhelming. Information seems to be aplenty, however the link to practical application is missing.

Table 9: Getting Help for start-up companies

Answer	0%	100%	Number of Response(s)	Response Ratio
Can't get business support - Ne mogu dobiti poslovnu potporu			19	7.4 %
Don't know what support is available - Ne znam koja je potpora dostupna			24	9.4 %
Quality of advice is not good - Nedovoljna kvaliteta savjeta			32	12.5 %
Cost of advice is too high - Previsoki troškovi savjeta			14	5.5 %
Totals			254	100%

Table 10: Getting Help for existing companies

Answer	0%	100%	Number of Response(s)	Response Ratio
Can't get business support - Ne mogu dobiti poslovnu potporu			29	11.4 %
Don't know what support is available - Ne znam koja je potpora dostupna			49	19.2 %
Quality of advice is not good - Nedovoljna kvaliteta savjeta			48	18.8 %
Cost of advice is too high - Previsoki troškovi savjeta			46	18.1 %
Totals			254	100%

From the business support agencies point of view, a lot of misunderstandings stem from the lack of basic knowledge of what is possible and what is not. Financial assistance is often thought of as a last resort and unrealistic expectations add to the frustrations on both sides. Business plans are seen as an unpleasant requirement rather than an essential roadmap to manage the business. Business decisions are made on 'gut feel' rather than analysis.

Business support should be clear, defined, easy to find and affordable. The preferred option for many businesses in the EU are one stop shops, either online or physical, where all relevant information can be found and advisors are at hand to fill the gaps. A dedicated business advisor over extended periods of time can make a huge difference to the performance of a small firm. Credibility of business advisors is best established through personal business experience.

Access to Finance, Public Procurement and Taxation

In terms of access to finance Croatian businesses face the same problems as anywhere else in Europe. A lack of start-up capital, limited collateral in small firms, high cost of loans and overdrafts, as well as difficulties in accessing guarantee schemes and grants. Combined with a lack of financial advisors and general lack of support by banks small firms find themselves disadvantaged. The lack of liquidity and working capital as a result of late payments especially by public bodies contribute significantly to the slow growth and struggle of small companies.

The financial crisis does not seem to be a major factor in accessing finance at present. The reduction in demand was reported as much more of a problem.

To improve access to finance a number of measures can be taken. Subsidies and grants must be allocated in a transparent, timely and just fashion. Government and banks should promote credit guarantee schemes, simplify applications and set time limits for approval. Late payment should be reigned in by publishing creditor days of large companies and limiting public bodies to terms of 30 days. Financial advisors should be available, affordable and accountable. Micro finance with simple procedures should be offered to encourage start-ups.

Given the rumour that public procurement is a closed shop and only accessible to 200 families in Croatia, 50% of the survey respondents

reported participation in public contracts. Despite this positive indicator, complaints were made about late payment, excessive paperwork and slow process time.

To verify participation figures, statistics should be published on how much of public purchasing goes through small firms in Croatia. The public procurement process must be transparent with publication of tenders. Applications need to be simple and cost free and centralised systems should be utilised to eliminate repeated duplication of data when multiple applications are submitted. Less experienced companies should receive help to tender and large companies could be required to use local small firms to complete contracts.

Taxation rates in Croatia are well within the lower range in worldwide comparison. Problems are reported with low VAT thresholds and slow VAT refunds on export goods. New companies struggle with the bureaucratic process and getting specialist advice.

A higher VAT threshold could provide more cost effective services to consumers, stimulate the economy and create more enterprise. Long waits for VAT refunds on export goods and services only hamper export and can cause financial difficulties resulting in less activity or even business closure.

Trading Abroad

Export and imports have improved since 2008 according to the World Bank Report. In depth discussions with the focus groups however revealed more detailed barriers to trading abroad.

There is a general lack of knowledge how to expand abroad, find suitable trading partners and promote goods and services. Exported goods are not seen as sufficiently value added to achieve better returns. The implication of required market access standards and rules, especially for the US, were seen by some companies as a major hurdle.

To resolve some of these issues an export promotion board could be established that deals with export marketing and training, help with finding suitable partners and branding of Croatian goods and services. Assistance to achieve European and International Standards should be made available to open up markets. Lastly, the European Commission should consider reinstating their Europartenariat programme to facilitate networking within the internal market.

Crime and Corruption

Figures on crime were reported by a third of survey respondents. By far the most pressing issue is fraud, which was experienced by 58% of participants. Vandalism and theft was recorded in second and third place with much lower figures (12% and 9% respectively).

To gain a clearer picture crime on business should be recorded separately. Clear up rates should be recorded and made public for monitoring over time. Online reporting for minor crime should be made available.

Corruption is reported as a significant issue in Croatia. The Index of Economic Freedom 2009 put Croatia on a ranking of 64 out of 179 countries. Although the Croatian government has initiated a process to overhaul areas particularly affected, the general perception by businesses is that corruption reaches all walks of life. The cost to the economy and society as a whole can be massive. Where there is a political will there is a way to stamp out corruption. No society should suffer as a whole to benefit a few.

Starting and Closing a business

The World Bank Report clearly shows that starting a business has become significantly more difficult in 2009 compared to 2008. Survey respondents experienced particular problems with bureaucratic and time-consuming company formation requirements. Other barriers mentioned were late payments and corruption.

The focus groups mentioned the low VAT threshold as an obstacle and in general tax payments required at a time when income is still unpredictable and low.

Training for new entrepreneurs in business skills is essential to avoid unpleasant surprises. A mentoring scheme combined with dedicated business zones providing a cost effective infrastructure can increase the survival rate of new firms. Good examples already exist in Croatia and should be replicated. Availability of start up capital and micro finance can increase the number of new firms dramatically and should be used to ensure a new stock of potential employers.

Closing a business is a lengthy process in Croatia and can take between 3 and 6 month if it is done on a voluntary basis. Bankruptcy

procedures can take over 3 years according to the World Bank Report. Given the fact that most small business owners are personally liable and their family and home can be under threat, insolvency laws should be geared towards giving the opportunity to start again. The cost of bankruptcy of 15% of the estate is far too high.

Table 11: Problems with company formation for start-up companies

Answer	0%	100%	Number of Response(s)	Response Ratio
High Registration cost - Visoki troškovi registracije			12	4.7 %
Too time consuming - Preveliko oduzimanje vremena			26	10.2 %
Complexity - Kompleksnost			16	6.2 %
Bureaucracy - Birokracija			45	17.7 %
Totals			254	100%

Table 12: Other barriers for start-up companies

Answer	0%	100%	Number of Response(s)	Response Ratio
Afraid to fail - Strah od neuspjeha			8	3.1 %
Lack of confidence - Nedostatak povjerenja			15	5.9 %
Not sure to succeed - Nesigurnost uspjeha			17	6.6 %
Too risky - Drugo			11	4.3 %
Other			8	3.1 %
Totals			254	100%

Conclusions

This summary report has given a snapshot of how small businesses in Croatia see their current environment. Although the picture is not good in comparison to other European countries, it is showing tentative signs of improvement.

It has become very apparent that Enterprise Policy and Education and Training are the dominant issues. By tackling these two areas first, many opportunities will open up for the small business sector.

Monitoring reforms in Croatia, the World Bank report only mentions two areas where efforts have been made i.e. construction permits and trading across borders. As a reformer, Croatia still has a long way to go.

Bureaucracy features high in all areas, as does the lack of transparency. A functioning, reliable and trustworthy judicial system is

essential to instil confidence in would-be entrepreneurs and existing businesses.

There seems to be a severe lack of consultation. Input from the small business community is not only helpful in finding solutions, but also important to build bridges and trust. Listening to the concerns of business owners is becoming the norm in EU Member States. Co-operation to find solutions and 'Think Small First' are the best way to improve the economy and create jobs.

Successful businesses will provide the tax revenue that pays for services. Small business is the backbone of every economy in the world. Croatia is no exception. Corruption and crime will only harm the economy as a whole and have no place in an aspiring EU country.

Last but no least, it is down to the businesses and citizens of Croatia to make their voices heard. They need to stand up for their needs and contribute to a better environment. It is difficult to be heard as an individual; it is easy to show determination as a group. Responsibility lies with everyone involved.

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