The European Union's CARDS Programme for Croatia

BIZimpact

Improving Information to the Croatian Business Community
EuropeAid/121473/C/SV/HR

THE SME AND CRAFTS SECTOR IN CROATIA: KEY RESULTS OF A LARGE SCALE SAMPLE SURVEY

July 2009

This Project is funded by
the European Union

Project implemented by a consortium led by
POHL CONSULTING AND ASSOCIATES

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1 INTRODUCTION

It is widely acknowledged that the small and medium-sized enterprise (SME) sector is important to all economies in terms of factors such as employment, innovation, growth potential, etc., not least those of transition economies such as Croatia's. Nevertheless, the reality is that very little is known about the nature of the SME sector in Croatia. The statistics available are either limited and/or outdated, which makes policy analysis and development a somewhat difficult and hazardous exercise.

Therefore, when the EC-funded "Information to the Croatian Business Community" (BIZimpact) project carried out a large scale survey of the SME and crafts sector in Croatia, this presented an opportunity to extract and highlight information on the current nature of the SME sector in the country, including a set of policy recommendations. It is hoped that academics and policy makers will find this information of relevance and that this Working Paper will be useful in formulating more comprehensive SME policies, programmes and projects.

We are grateful to the BIZimpact project, implemented by a Consortium led by Pohl Consulting & Associates, for making the raw survey data available for this report. For further information, including a downloadable version of the survey in English and Croatian, readers are referred to www.bizimpact.hr. We are also grateful to Alexander von Brühl-Pohl for carrying out the preliminary statistical analysis of the survey data.

2 METHODOLOGY

The aim of this Working Paper is to highlight the nature of the SME sector in Croatia. The analysis is based on the Business Information Needs Survey (the survey), the largest recent SME survey carried out in Croatia. The telephone survey was conducted by the PULS market research firm during February - April 2008 and consisted of 65 questions. The focus of the Survey was specifically on the challenges associated with Croatian SMEs' and Crafts' preparations for accession to the European Union (EU). So although the specific focus of the survey was not on elucidating the nature of the SME sector, it nevertheless provided rich source of information which could be analysed for dissemination.

Prior to delving into the structure of the sample used in the survey, it is necessary to discuss the two commonly used but somewhat different definitions of SMEs in Croatia. The first one is based on the Accounting Act and the other on the Small Business Encouragement Act.

According to Small Business Encouragement Act[1], an SME is defined as business entity that does not exceed the following three specified criteria:

- Employ an average of a year less than 250 workers;
- Achieve an overall annual turnover to 216 million kuna, or have total assets if they pay profit tax, or have long-term assets if they pay income tax, up to a value of 108 million kuna;
- Are independent in their business activities, meaning that other business entities or private persons do not own more than 25% of the respective business.

According to the Accounting Act[2], an SME is a business entity that does not exceed two of three specified criteria:

- Employ an average of a year less than 250 workers;
- Achieve an overall annual turnover to 260 million kuna;
- Have total assets if they pay profit tax, or have long-term assets if they pay income tax, up to a value of 130 million kuna.

1 Small Business Encouragement Act (NN 2002/29), Act on Amendments and Supplements of the Small Business Encouragement Act (NN 2007/63).

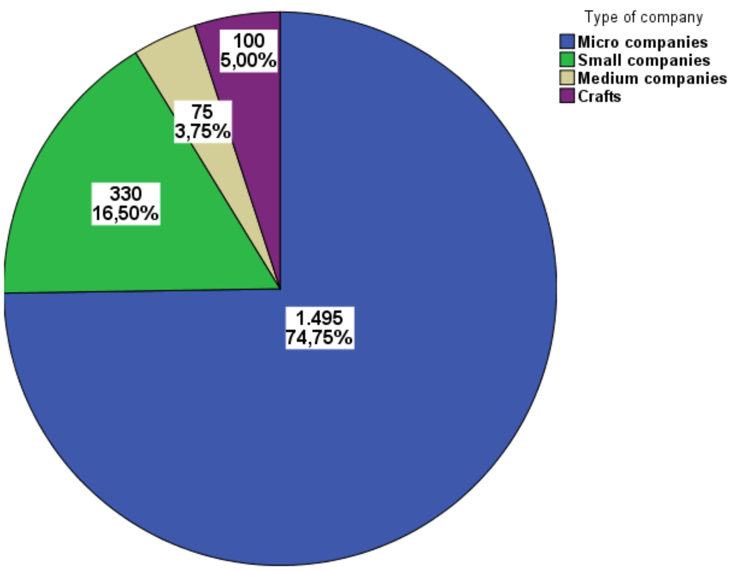
2 Accounting Act (NN 2007/109).

In addition to these two definitions others, such as commercial banks, may use their own definition of SMEs. Therefore, it is evident that there is no unique definition in Croatia, but what both definitions have in common is a limit of 250 employees.
Consequently, the target population of the survey that we are using for this analysis comprised both SMEs (with up to 250 employees) and larger crafts (more than five employees). The source of the sample for the SMEs was the Financial Agency's (FINA) database of entrepreneurs in the year 2007. The FINA database represents the most reliable framework for designing samples of Croatian companies. In addition to being more comprehensive and accurate, it also contains data on each company which can be used as the basis for stratification of the sample. According to the FINA database, in 2007 there were 57,599 companies in Croatia with 1 – 250 employees.

Since the FINA database encompasses only the crafts that are legally obliged to prepare annual statistical reports, the Poslovna Hrvatska database was used since it contains data on all registered crafts in Croatia. According to its records, in 2007 there were 2,712 active crafts with more than five employees. This represented the sampling frame for the target population of crafts.

Therefore, the population for the survey was 60,311 business entities, 57,599 being SMEs and 2,712 being larger crafts (with more than five employees). The sample comprised 2,000 SMEs and crafts, drawn from the above population. Graph 1 illustrates the nature of the sample. Three main variables were used in sample stratification: size of the enterprise (micro, small, medium and craft), region (Zagreb, northern Croatia, Dalmatia, Slavonia, Lika and Banovina and Hrvatsko Primorje and Istria) and sector (agriculture and related, manufacturing and production, services and trade).

Graph 1: Size of the sample



Source: BINS Survey (2008)

3 ANALYSIS

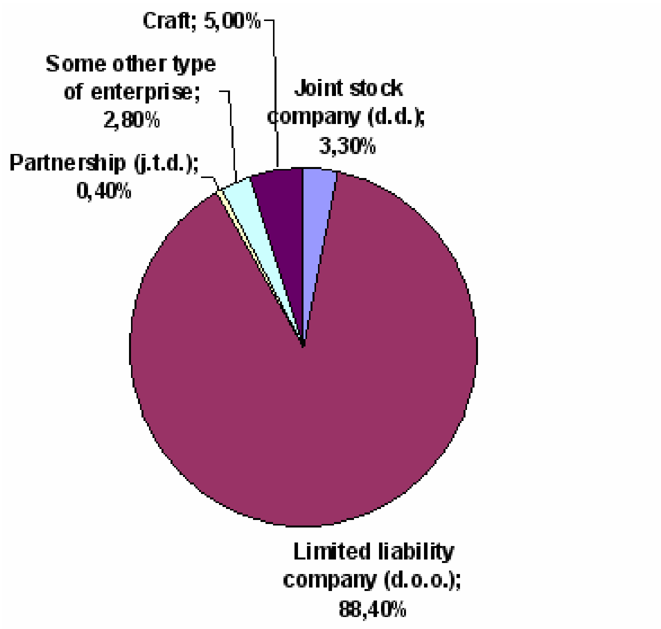
The analysis of the nature of the SME sector in Croatia is approached in this Working Paper from three different but related angles. Firstly, we set out information about Croatian small businesses focusing on types of enterprises, economic sectors, regional dimension, annual turnover, principal markets and membership in different business associations or organisations. Secondly, information is presented about entrepreneurs themselves, such as their age, gender and education. Finally, more specific features and opinions are highlighted and assessed.

3.1 Croatian SMEs and crafts

3.1.1 *Types of enterprises*

When examining into the types of enterprises it is evident that the most common type of enterprise in Croatia is the Limited Liability Company (d.o.o.) with 88.4%, followed by the Joint Stock Company (d.d.) with 3.3%. The other legal forms are marginal, as illustrated in Graph 2. The predominance of limited liability type of companies in the sample is not surprising since this is the most common type of company in the country after crafts[3]. The reason for this is that these two types of company are the easiest to set-up and compared to other types are relatively speaking less financially demanding to form. For example, to set-up a craft, an entrepreneurs would need 500 kuna; 20.000 kuna to set-up a Limited Liability Company; but ca. 200.000 kuna to set-up a Joint Stock Company[4].

Graph 2: Types of enterprises



Source: BINS Survey (2008)

Note: Limited partnership is left out in the graph since the share of Limited partnership (k.d) type of company in the analysed sample is 0%. The share of crafts was initially set to 5% of the sample.

There are also major differences regarding the liability of the owner. Within the Limited Liability Company, it is the company rather than the owner that liabilities with all assets, whereas in case of the partnership or limited partnership one or more of the owners is responsible for the liabilities of the company with all their assets.

We can conclude that financial expenses and the amount of liability are the main reason why Limited Liability Company is predominant type of company in Croatia, after crafts.

A comparison of the types of companies with the size of the enterprise shows that all enterprises in the sample, regardless of their size, favoured the Limited Liability Company legal form (Table 1). It is also noticeable that the share of joint stock type of company increases with size (2% of micro enterprises compared with 18.7% of medium enterprises). This is not unexpected since this is a financially demanding legal type and the larger the enterprise, the more financial muscle it will have to form a Joint Stock Company.

3 According to “Crafts in numbers 2008” of the Croatian Chamber of Crafts in 2007 there were 103.450 crafts.
4 Croatian Chamber of Economy (HGK) Business information centre.

Table 1: Types of companies by size

		Size of company				
		Micro	Small	Medium	Crafts	Total
What type of company is your enterprise:	Joint stock company (d.d.)	2,0%	6,7%	18,7%	0,0%	3,3%
	Limited liability company (d.o.o.)	95,0%	87,9%	76,0%	0,0%	88,4%
	Partnership (j.t.d.)	0,5%	0,3%	0,0%	0,0%	0,4%
	Limited partnership (k.d.)	0,0%	0,3%	0,0%	0,0%	0,0%
	Some other type of enterprise	2,5%	4,8%	5,3%	0,0%	2,8%
	Craft	0,0%	0,0%	0,0%	100,0%	5,0%
	Don't know / no answer	0,1%	0,0%	0,0%	0,0%	0,0%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.1.2 *Economic sectors*

For the purposes of the survey four main economic sectors of activity were defined: agriculture, manufacturing, trade and services. In the sample used for the survey only 4% of analysed companies were from agriculture sector, therefore, it is necessary to emphasise that this sector is underestimated in the survey and will be excluded from further analysis. As for the other sectors, Table 2 shows that most of the analysed companies fall in the trade (35.1%) and services (33%) sectors. Slightly fewer companies operate in manufacturing sector (28.1%). Such a distribution is not unexpected, especially in view of the tendency within transition economies for large number of new enterprises enter in into the trade area. This is reinforced by the general tendency of growth in the services sector in most economies.

Cross-tabulating economic sectors with size of company shows that it is primarily micro enterprises that operate in the trade sector (37.5%) followed by services sector (35.8%). This is to be expected since these sectors tend to be less labour and capital intensive compared to manufacturing sector. As for the small and medium enterprises, many operate in the manufacturing sector (41.8% and 48% respectively), but craft sector is also strongly represented in the manufacturing sector (40%). While more small enterprises and crafts operate in trade rather than the services sector (respectively 27.3% Vs 25.5% and 37% Vs 21%), this is the reverse for medium enterprises (28% operate in the services sector and 18.7% in the trade sector).

Table 2: Economic sector by size of company

		Size of company				
		Micro	Small	Medium	Crafts	Total
Sector	Agriculture	3,4%	5,5%	5,3%	2,0%	3,8%
	Manufacturing	23,3%	41,8%	48,0%	40,0%	28,1%
	Trade	37,5%	27,3%	18,7%	37,0%	35,1%
	Services	35,8%	25,5%	28,0%	21,0%	33,0%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.1.3 *Location*

For the purposes of the BINS survey six regions were defined: Zagreb region, Northern Croatia, Slavonia, Lika and Banovina, Hrvatsko Primorje and Istria, and Dalmatia.

The majority of companies are located in the region of Zagreb (36%), with comparatively few (6.4%) being in the Lika and Banovina region. If we leave out Zagreb region, where the majority of companies of all sizes are concentrated, it is noticeable that there are slightly more micro companies in the Hrvatsko Primorje and Istria area than in the other regions. Table 3 shows that there is also a significant concentration of small and medium companies in the Northern Croatia region. This is not unexpected since this is one of the most developed regions in Croatia, after Zagreb.

Table 3: Location and size of the company

		Size of company				
		Micro	Small	Medium	Crafts	Total
Region - enterprises	Zagreb region	38,4%	31,8%	29,3%	22,0%	36,2%
	Northern Croatia	13,0%	17,9%	26,7%	21,0%	14,8%
	Slavonia	9,9%	13,0%	10,7%	13,0%	10,6%
	Lika and Banovina	6,0%	6,7%	12,0%	8,0%	6,4%
	Hrvatsko Primorje and Istria	18,5%	13,9%	6,7%	19,0%	17,4%
	Dalmatia	14,2%	16,7%	14,7%	17,0%	14,8%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

A comparison of location and economic sector reveals some interesting issues (Table 4). Not surprisingly, agriculture plays an important role in the Lika and Banovina as well as Slavonia regions, which are known for their agricultural production potential. The services sector plays an important role in Hrvatsko Primorje and Istria (40.6%) and Dalmatia (40.7%) regions. This too is to be expected due to the tourist orientation of this part of Croatia.

Table 4: Industry sectors by location

		Region - enterprises						
		Zagreb region	Northern Croatia	Slavonia	Lika and Banovina	Hrvatsko Primorje and Istria	Dalmatia	Total
Sector	Agriculture	2,1%	3,7%	6,1%	6,2%	4,3%	4,4%	3,8%
	Manufacturing	29,2%	32,9%	28,3%	35,2%	21,6%	25,1%	28,1%
	Trade	38,2%	34,2%	39,6%	28,9%	33,4%	29,8%	35,1%
	Services	30,6%	29,2%	25,9%	29,7%	40,6%	40,7%	33,0%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.1.4 *Annual turnover*

In the survey, the companies sampled were invited to state their annual turnover in different groups ranging from “up to 1 million kn” to “more than 20 million kn”. As illustrated in the Table 5, the vast majority of companies stated that their annual turnover in 2007 fell into the less than 5 million kn (72%) category. However, there are noticeable differences between different size companies. In general, as we move from the micro to medium companies their annual turnover tends to rise. So, while 45.6% of the micro enterprises indicated a turnover of less than 1 million kn, 56% of medium companies had an annual turnover of more than 20 million kn. Only a small proportion of small companies and crafts had an annual turnover less than 1 million kn (7.6% and 4% respectively). The majority of analysed crafts had annual turnover less than 10 million kn, with 62% stating that it is between 1 - 5 million kn and 21% in the 5 - 10 million kn range.

The larger the company, that is the larger the number of employees, larger will be its turnover. But naturally, the level of annual turnover does not depend solely on the number of people employed but also on the products or services that company offers on the market, its competitiveness, the size and the nature of the market that company is active in.

Table 5: Annual turnover by size of company

		Size of company				
		Micro	Small	Medium	Crafts	Total
We are now interested in the following: What was your company's total annual turnover in 2006, in Kunas?	Up to 1 mil kn	45,6%	7,6%	8,0%	4,0%	35,8%
	1 mil - 5 mil kn	36,5%	37,3%	9,3%	62,0%	36,9%
	5 mil - 10 mil kn	7,5%	24,5%	10,7%	21,0%	11,1%
	10 mil - 20 mil kn	1,5%	14,5%	14,7%	2,0%	4,2%
	More than 20 mil kn	0,8%	12,1%	56,0%	5,0%	5,0%
	Don't know / No answer	8,1%	3,9%	1,3%	6,0%	7,0%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.1.5 *Main market*

In the survey entrepreneurs were asked to describe their main market, choosing between local, national and international markets. The majority (59%) indicated that their main market in 2006 was local, as illustrated in Table 6.

Table 6: Main market by size of the company

		Size of company				
		Micro	Small	Medium	Crafts	Total
What was your company's main market in 2006, by share of its annual turnover?	Local	62,6%	48,2%	40,0%	56,0%	59,0%
	National	29,4%	42,1%	36,0%	27,0%	31,6%
	International	7,3%	8,5%	24,0%	16,0%	8,6%
	Don't know / no answer	0,7%	1,2%	0,0%	1,0%	0,8%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Table 6 shows that the share of companies operating mostly on the local market decreases with the size of the company. The flip side of this picture is that the share of companies that operate on international markets tends to increases with size. In other words 62.6% of micro companies analysed operate mostly on the local market, and only 7.3% on the international market, while 40% of medium enterprises operates on local markets and 24% of medium companies operate on the international market. Small companies, as well as crafts, also tend to operate either locally (48.2% and 56% respectively) or nationally (42.1% and 27% respectively), rather than internationally (8.5% and 16% respectively). Interestingly, the data show that crafts are actually far more present in international markets than small companies.

Table 7 reveals interesting data regarding the principal market of the companies and their annual turnover. According to this analysis companies with turnover of less than 1 million kn, as well as those with annual turnover between 1 and 5 million kn operate mostly on local market. Table 5 shows that those companies tend to be smaller in size (micro and small) so this is understandable. As turnover rises, companies are increasingly active at the local and international levels: internationalisation or globalisation and annual turnover appear to be positively correlated.

Table 7: Annual turnover & Main market

		What was your company's total annual turnover in 2006, in Kunas?						
		Up to 1 mil kn	1 mil - 5 mil kn	5 mil - 10 mil kn	10 mil - 20 mil kn	More than 20 mil kn	Don't know / No answer	Total
What was your company's main market in 2006, by share of its annual turnover?	Local	74,3%	55,7%	50,0%	42,2%	31,3%	42,6%	59,0%
	National	19,7%	35,0%	40,1%	48,2%	49,5%	39,7%	31,6%
	International	5,3%	9,2%	9,9%	9,6%	18,2%	12,1%	8,6%
	Don't know / no answer	0,7%	0,1%	0,0%	0,0%	1,0%	5,7%	0,8%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.1.6 *Trade*

According to the survey, most of companies (59%) are neither importers nor exporters (Table 8) but rather source their products and services from the domestic market. Only 16% indicated themselves to be importers; 8% to be exporters and 17.4% to be both importers and exporters.

An analysis of the size of the company and the exporting and importing activities shows that 7% micro enterprises are engaged in exporting activities but if we add to this 15.5% of those which are both importers and exporters, some 22.5% of micro enterprises are present in foreign markets. This is a rather larger proportion than might have been anticipated. A similar situation can be found with the crafts: 9% are exporters, but if we add those that are both importing and exporting, a significant proportion of crafts (24%) with 5 or more employees are present in foreign markets. Share of small companies that are exporting is 9% which is similar to situation of micro enterprises and crafts, but 22% of them are importer and exporter. If we look at the medium size companies we see that 13.3% of them is exporting, 10.7% importing and 34.7% is importing and exporting.

Table 8: Importing and exporting activities by size of company

		Size of company				
		Micro	Small	Medium	Crafts	Total
Is your company an importer, exporter, both or neither?	Importer	16,3%	15,5%	10,7%	14,0%	15,8%
	Exporter	7,0%	9,1%	13,3%	9,0%	7,6%
	Both, importer and exporter	15,5%	22,7%	34,7%	15,0%	17,4%
	Neither an importer nor an exporter	61,3%	52,7%	41,3%	62,0%	59,2%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

As illustrated in the Table 8 the percentage of exporters increases with the size of the company while percentage of importers decreases. If we assume that performing export activities requires additional effort and resources from a company that smaller companies do not have at their disposal it is understandable why exporting activities would increase with the size of the company.

Table 9 also highlights interesting features. Companies focusing on the local market tend to be neither importers nor exporters (74.9%); a small subset (14.4%) imports and an even smaller percentage exports (2.5%). The companies which are active in the international markets are mostly exporters (43.3%). A significant percentage of companies focusing on the international market are neither importers nor exporters (21.1%), presumably because they are providing services to those markets.

Table 9: Main market and importing and exporting activities

		Local	National	International	Don't know / no answer	Total
Is your company an importer, exporter, both or neither?	Importer	14,4%	21,3%	5,8%	6,7%	15,8%
	Exporter	2,5%	7,6%	43,3%	6,7%	7,6%
	Both, importer and exporter	8,2%	31,4%	29,8%	6,7%	17,4%
	Neither an importer nor an exporter	74,9%	39,7%	21,1%	80,0%	59,2%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

An analysis of the location and engagement in importing and exporting activities (see Table 10) highlights, once again, the predominance of Zagreb region where most of all importing (41.5%) and exporting (33.3%) companies are situated, as well as those who are both (46.6%) or neither (32%). As far as the other Croatian regions are concerned, the only one that is noticeable, in this respect, is the Hrvatsko Primorje and Istria region. 17.4% of the importers and 23.5% of the exporters come from this region.

Table 10: Location and importing and exporting activities

		Is your company an importer, exporter, both or neither?				
		Importer	Exporter	Both, importer and exporter	Neither an importer nor an exporter	Total
Region - enterprises	Zagreb region	41,5%	33,3%	46,6%	32,0%	36,2%
	Northern Croatia	12,0%	14,4%	18,1%	14,5%	14,8%
	Slavonia	10,4%	5,9%	8,9%	11,7%	10,6%
	Lika and Banovina	6,0%	7,2%	5,5%	6,7%	6,4%
	Hrvatsko Primorje and Istria	17,4%	23,5%	9,2%	18,9%	17,4%
	Dalmatia	12,7%	15,7%	11,8%	16,1%	14,8%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.1.7 *Membership of organisations such as business associations*

As a part of the survey, entrepreneurs were asked if they are members of business associations or organisations such as the Croatian Chamber of Economy (HGK), Croatian Association of Trades and Crafts (HOK) or Croatian Employers` Association (HUP). According to the analysis, a large proportion of enterprises and crafts (20% of them) are not aware of whether or not their company is a member of any of the above mentioned institutions. This is rather surprising because membership of HGK is obligatory for all Croatian companies, as is membership of HOK for all Croatian crafts. A very large proportion of those surveyed (owners and senior managers of companies and crafts) are clearly not fully aware of the nature of these institutions or that they pay a monthly membership fee. Clearly, the implication is that they are also not aware of the benefits of membership, such as information provision, training, support, etc. HUP, being a voluntary association, falls outside of this analysis.

An analysis of the size of the company and membership in different institutions shows that most of the companies of all sizes are a member of HGK and most craft are members of HOK. This is not surprising since they are automatically members. Interestingly, however, almost 30% of crafts actually believe themselves to be members of HGK and also, a small proportion of micro and small companies actually believe themselves to be members of HOK.

Table 11: Membership in different business associations or organisations and size of the company

		Size of company				
		Micro	Small	Medium	Crafts	Total
Is your company a member of any of the following business associations or organisations?	Croatian Chamber of Economy (HGK)	67,3%	68,2%	74,7%	28,0%	65,8%
	Croatian Chamber of Trades and Crafts (HOK)	3,0%	2,7%	2,7%	65,0%	6,0%
	Croatian Employers' Association (HUP)	3,9%	8,8%	5,3%	1,0%	4,6%
	Croatian Exporters' Association	0,5%	1,2%	0,0%	0,0%	0,6%
	Some other	2,9%	3,9%	6,7%	1,0%	3,1%
	DK/NA	22,5%	15,2%	10,7%	5,0%	20,0%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)
Note: It should be noted that an enterprise or craft can be a member of more than one association or organisation; this may not have been fully taken into account and is reflected in the results above.

If a large proportion of firms and crafts are not aware of the fact that they are automatically members of the above institutions and a further proportion believe themselves to be members of organisations that they do not actually belong to, the above results should provide some food for thought, as far as both HGK and HOK are concerned, as well as the Ministry of Economy, Labour and Entrepreneurship.

3.2 Croatian SME and craft owners & directors

3.2.1 *Gender of entrepreneurs*

Looking at the gender issue, the large majority of Croatian business owner/managers are male (72% compared to 28% female). This corresponds well with the Global Entrepreneurship Monitor (GEM) research finding indicating that men are much more entrepreneurially active than women in Croatia (in 2006, the TEA[5] for women was 4,8 compared with 12,3 for men).[6] According to the GEM, Croatia is at the rear of GEM countries according to the gap between involvement of women and men in entrepreneurial activity (37th place out of 42 countries). There appears to be significant scope for enhanced entrepreneurial capacity by improving access entrepreneurial opportunities for women (and men).

Regarding the size of the enterprises and gender of entrepreneurs, Table 12 illustrates slight differences in the case of micro companies with 31.8% female business owners and 68.2% male business owners. In general, the Table illustrates a correlation between the size of the company and the gender of entrepreneurs: the bigger the company, the more likely it is that they are owned and/or managed by men.

Table 12: Gender and size of the enterprise

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Gender	M	68,2%	81,2%	88,0%	84,0%	71,9%
	F	31,8%	18,8%	12,0%	16,0%	28,1%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Since Croatian men are currently more actively engaged in entrepreneurial activities than women, Table 13 reinforces the point that as turnover increases, the share female entrepreneurs decreases.

Table 13: Gender and total annual turnover

		Total annual turnover in 2006, in Kunas						
		Up to 1 mil kn	1 mil - 5 mil kn	5 mil - 10 mil kn	10 mil - 20 mil kn	More than 20 mil kn	Don't know / No answer	Total
Gender	M	64,7%	73,6%	82,4%	77,1%	91,9%	66,0%	71,9%
	F	35,3%	26,4%	17,6%	22,9%	8,1%	34,0%	28,1%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.2.2 *Education of entrepreneurs*

When analysing the education level of entrepreneurs, it would normally be expected that the educational level of its owner increase with the size of the enterprise. Larger companies are generally more complex to manage and may, therefore, require more skills and knowledge of their owners and managers. Table 14 illustrates that most SME and crafts directors/owners have attained tertiary levels of education: almost 60% have graduated from a college or university. The Table also indicates that 40% of them have high school education and that this is particularly the case for crafts, where 66% of owners have attained high school education and 32% attained tertiary education.

As expected, the directors/owners of medium-sized companies tend to be the best educated: 77% indicated that they have attained tertiary education. There is a clear relationship between the size of company and the education level of the entrepreneur. The GEM Croatia research in 2006 found that in Croatia and other GEM countries, business ventures are more often started by people who are better educated than by those who are

5 The Total Entrepreneurial Activity (TEA) Index shows the percentage of adult population (18 to 64) that is actively engaged in launching a business venture or are in the management / ownership of the company not older than 42 months. www.gemhrvatska.org

6 What makes Croatia an entrepreneurial country? Results of GEM Croatia (2006)

less educated. In Croatia, the secondary or medium level of education is very important in the Croatian economy, whereas university education (undergraduate and graduate) dominates to a higher degree in other GEM Countries[7].

Table 14: Education level of entrepreneurs

		Size of company				
		Micro	Small	Medium	Crafts	Total
Education	Elementary school	0,3%	0,0%	0,0%	2,0%	0,4%
	Secondary school	40,9%	34,2%	22,7%	66,0%	40,4%
	College / University	58,6%	65,5%	77,3%	32,0%	59,1%
	DK/NA	0,1%	0,3%	0,0%	0,0%	0,2%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Regarding the gender issue, significant differences were not found between male and female entrepreneurs in terms of their education level; the majority of both groups are graduates, although the balance is slightly more in favour of males (Table 15).

Table 15: Gender and education level of entrepreneurs

		Gender		
		M	F	Total
Education	Elementary school	0,3%	0,4%	0,4%
	High school	39,8%	41,8%	40,4%
	College / University	59,6%	57,8%	59,1%
	DK/NA	0,2%	0,0%	0,2%
	Total	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

An analysis of the education level of entrepreneurs in relation to industry sector in which they operate shows that the entrepreneurs in the trade sector exhibit a significantly lower rate of tertiary education (52%), while entrepreneurs in agriculture and service sector tend to have a higher rate of university graduates than entrepreneurs in other sectors (69.3% and 65.7% respectively). Such a high rate of university graduates in agriculture sector is somewhat surprising, but the reason for this lies in the sample structure where agriculture is significantly underestimated (only 4% of the enterprises from the sample are active in the mentioned sector).

Table 16: Education level of entrepreneurs and industry sector

		Sector				
		Agriculture	Manufacturing	Trade	Services	Total
Education	Elementary school	0,0%	0,2%	0,3%	0,6%	0,4%
	High school	30,7%	40,9%	47,6%	33,4%	40,4%
	College / University	69,3%	58,7%	52,1%	65,7%	59,1%
	DK/NA	0,0%	0,2%	0,0%	0,3%	0,2%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.2.3 *Age of entrepreneurs*

According to the survey, the majority (67%) of business owners is aged between 40 – 59 years (Table 17). The analysis shows that craft owners are usually younger than owners of micro, small or medium enterprises. A possible explanation for this may be that registration of a craft is easier and less expensive than registration of limited company, which renders it more accessible to young people. Also, Table 14 demonstrates that 66% of craft owners have only attained secondary/high school education, so it is more likely that a young person

7 Ibid

with vocational education can establish a craft. Generally, SME owners and managers are older when they get going in entrepreneurial activities. A very small proportion (0.7%) of Croatian entrepreneurs fall into the under 25 years of age category. This suggests that there is plenty of scope to stimulate a culture of entrepreneurship in Croatia, in particular targeting the age groups up to 39.

Table 17: Age of entrepreneurs and the size of the company

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Age group	Under 25	0,9%	0,3%	0,0%	0,0%	0,7%
	25-39	19,9%	15,8%	13,3%	24,0%	19,2%
	40-59	65,1%	74,2%	73,3%	71,0%	67,2%
	60+	14,1%	9,7%	13,3%	5,0%	12,9%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.3 Specific features of SMEs

3.3.1 *Attitudes towards EU*

One would expect to that the better educated entrepreneurs are, the positive their attitude to the likely effects of EU membership on Croatia. Table 18 shows that to some extent this holds true: entrepreneurs with elementary and secondary school education are more pessimistic than entrepreneurs with college/university level education that Croatia will have somewhat or far more disadvantages if it becomes an EU member (28.6%: elementary; 30%: secondary; compared with 25.4%: tertiary). But on the other hand, they also tend to be more positive about the effects of EU membership. 71.5% of entrepreneurs with elementary school education and 45.3% with secondary education believe that Croatia will have somewhat or far more advantages if it becomes an EU member compared to 53.2% of entrepreneurs with college/university level education.

Table 18: Education level of entrepreneurs and attitudes towards EU membership

		Education				
		Elementary school	High school	College / University	DK/NA	Total
Taking everything into consideration, do you expect Croatia to have more advantages or disadvantages if it becomes a member of the European Union?	Far more advantages than disadvantages	28,6%	24,3%	28,8%	33,3%	27,0%
	Somewhat more advantages than disadvantages	42,9%	21,0%	24,4%	33,3%	23,1%
	Roughly an equal number of advantages and disadvantages	0,0%	19,3%	17,9%	0,0%	18,4%
	Somewhat more disadvantages than advantages	0,0%	14,9%	11,0%	0,0%	12,5%
	Far more disadvantages than advantages	28,6%	14,9%	14,4%	33,3%	14,6%
	Don't know	0,0%	5,7%	3,5%	0,0%	4,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

An analysis of the age of entrepreneurs and their attitude towards the EU accession (Table 19) shows that pessimism about EU accession actually declines with age. Older entrepreneurs (60+) were much more optimistic about EU membership than younger ones: only 21.3% of 60+ year olds expects that Croatia will have somewhat or far more disadvantages if it becomes an EU member, compared to 57.2% of the under 25 years old. 63.3% of them also think that Croatia will have far more or somewhat more advantages than disadvantages if it becomes an EU member compared with only 21.4% of those under 25 years of age. The reason for the degree of pessimism about EU accession amongst younger entrepreneurs could be a comparatively lower level of knowledge about the EU and the benefits of accession.

Still it should be noted (Table 19) that 42.9% of respondents in that particular age group are not extremely against membership. It should also be kept in mind that this group can go both ways, for and against the accession, as the day of the day of the accession approaches. This is especially true of the group, which is undecided (14.3%).

Table 19: Attitudes towards EU membership depending on age of directors

		Age group				
		Under 25	25-39	40-59	60+	Total
Taking everything into consideration, do you expect Croatia to have more advantages or disadvantages if it becomes a member of the European Union?	Far more advantages than disadvantages	14,3%	19,8%	25,9%	44,2%	27,0%
	Somewhat more advantages than disadvantages	7,1%	21,4%	24,6%	19,0%	23,1%
	Roughly an equal number of advantages and disadvantages	14,3%	23,2%	18,3%	12,0%	18,4%
	Somewhat more disadvantages than advantages	42,9%	17,4%	11,4%	9,3%	12,5%
	Far more disadvantages than advantages	14,3%	14,3%	15,3%	12,0%	14,6%
	Don't know	7,1%	3,9%	4,6%	3,5%	4,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Gender variations exist in respect to attitudes to EU membership. Female entrepreneurs tend to be more pessimistic about Croatia's accession to the EU: only 18% think that Croatia will have far more advantages compared with 30% of male owners/directors. Female entrepreneurs may face greater barriers in establishing businesses and making them successful. This may be one of the reasons for the higher levels of scepticism among female entrepreneurs.

Table 20: Gender & Attitudes towards EU membership

		Gender		
		M	F	Total
Taking everything into consideration, do you expect Croatia to have more advantages or disadvantages if it becomes a member of the European Union?	Far more advantages than disadvantages	30,4%	18,3%	27,0%
	Somewhat more advantages than disadvantages	23,2%	23,0%	23,1%
	Roughly an equal number of advantages and disadvantages	16,3%	23,8%	18,4%
	Somewhat more disadvantages than advantages	11,2%	15,8%	12,5%
	Far more disadvantages than advantages	14,8%	14,2%	14,6%
	Don't know	4,2%	4,8%	4,4%
	Total	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Opinions about EU membership are quite homogenous along the various economic sectors, with 50% of all companies believing that joining the EU will bring at least some advantages for Croatia (Table 21).

Table 21: Industry sector & Attitudes towards EU membership

		Sector				
		Agriculture	Manufacturing	Trade	Services	Total
Taking everything into consideration, do you expect Croatia to have more advantages or disadvantages if it becomes a member of the European Union?	Far more advantages than disadvantages	26,7%	27,0%	24,9%	29,2%	27,0%
	Somewhat more advantages than disadvantages	25,3%	21,9%	24,9%	21,9%	23,1%
	Roughly an equal number of advantages and disadvantages	20,0%	18,5%	19,2%	17,2%	18,4%
	Somewhat more disadvantages than advantages	12,0%	13,7%	12,1%	12,0%	12,5%
	Far more disadvantages than advantages	12,0%	13,5%	14,2%	16,3%	14,6%
	Don't know	4,0%	5,3%	4,6%	3,3%	4,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Coming to the main markets (Table 22), there was a degree of variation in the entrepreneurs' responses. Not surprisingly, internationally oriented companies see far more advantage (35%) than or nationally oriented companies (26%) and locally oriented ones (26%).

Table 22: Main market & Attitudes towards EU membership

		What was your company's main market in 2006, by share of its annual turnover?				
		Local	National	International	Don't know / no answer	Total
Taking everything into consideration, do you expect Croatia to have more advantages or disadvantages if it becomes a member of the European Union?	Far more advantages than disadvantages	26,0%	26,5%	35,1%	33,3%	27,0%
	Somewhat more advantages than disadvantages	23,2%	23,7%	21,1%	13,3%	23,1%
	Roughly an equal number of advantages and disadvantages	17,8%	20,2%	15,8%	20,0%	18,4%
	Somewhat more disadvantages than advantages	13,0%	10,1%	17,0%	20,0%	12,5%
	Far more disadvantages than advantages	16,0%	13,7%	9,4%	6,7%	14,6%
	Don't know	4,0%	5,7%	1,8%	6,7%	4,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

It is likely that the internationally oriented companies will both survive and prosper from accession to the EU. They are already largely prepared for acting internationally. On the other hand, upon accession, competition is likely to grow stronger, which will impact on a certain portion of domestic companies which may not survive. Companies will be operating on much broader single market and there will be winners and losers.

Regarding the issue of rural and urban enterprises, while there are no obvious differences in perceived advantages and disadvantage of Croatia joining the EU, urban enterprises are slightly more optimistic about accession (51% regard it positively Vs 44%). In general, urban companies think that they will profit more from Croatia's membership of the EU that rural ones.

Table 23: Urban /rural & Attitudes towards EU membership

		Urban / rural		
		Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more	Total
Taking everything into consideration, do you expect Croatia to have more advantages or disadvantages if it becomes a member of the European Union?	Far more advantages than disadvantages	22,4%	28,0%	27,0%
	Somewhat more advantages than disadvantages	22,1%	23,3%	23,1%
	Roughly an equal number of advantages and disadvantages	20,7%	17,9%	18,4%
	Somewhat more disadvantages than advantages	14,3%	12,1%	12,5%
	Far more disadvantages than advantages	16,0%	14,4%	14,6%
	Don't know	4,5%	4,3%	4,4%
	Total	100,0%	100,0%	100,0%

On the other hand, significant differences exist in the degree of enterprises' preparedness for EU accession. A larger proportion of urban enterprises (32%) consider themselves to be fully prepared than rural companies (22%). If this is indeed, the case, this is likely, in due course, to translate itself into competitive disadvantages for urban enterprises.

Table 24: Urban/rural & Preparedness for EU accession

		Urban / rural	
		Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more
Is your company currently prepared for all possible new circumstances in business operation after the accession to the EU?	Fully prepared for Croatia's accession to the EU	22%	32%
	Somewhat prepared for Croatia's accession to the EU	60%	53%
	Not at all prepared for Croatia's accession to the EU	16%	13%
	Don't know	2%	2%

When discussing size of enterprise, medium sized companies tended to be more favourable to EU membership than micro companies or crafts (64% see more advantage for Croatia in contrast to 46% crafts). Medium sized companies also think that after Croatia's accession to the EU, significant changes will occur for their business operation (57%) while micro and small companies do not to the same extent (46 and 49%).

Table 25: Attitudes towards an EU membership by size

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Taking everything into consideration, do you expect Croatia to have more advantages or disadvantages if it becomes a member of the European Union?	Far more advantages than disadvantages	26,2%	30,9%	30,7%	23,0%	27,0%
	Somewhat more advantages than disadvantages	21,9%	26,1%	33,3%	23,0%	23,1%
	Roughly an equal number of advantages and disadvantages	19,0%	17,3%	14,7%	16,0%	18,4%
	Somewhat more disadvantages than advantages	12,8%	9,1%	10,7%	20,0%	12,5%
	Far more disadvantages than advantages	15,5%	12,7%	9,3%	12,0%	14,6%
	Don't know	4,5%	3,9%	1,3%	6,0%	4,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Regarding the issue of preparedness, the majority of companies think that they are somewhat prepared (55%). Nevertheless, slightly more micro companies that believe that they are not at all prepared (15% Vs 7% of medium companies).

Table 26: Preparedness for accession to the EU by size

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Is your company currently prepared for all possible new circumstances in business operation after the accession to the EU?	Fully prepared for Croatia's accession to the EU	30,6%	30,6%	28,0%	21,0%	30,0%
	Somewhat prepared for Croatia's accession to the EU	52,7%	59,4%	65,3%	62,0%	54,8%
	Not at all prepared for Croatia's accession to the EU	14,6%	7,9%	6,7%	14,0%	13,2%
	Don't know	2,1%	2,1%	0,0%	3,0%	2,0%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

To sum up, 43% of respondents think that Croatia will enter the Union by 2012. In general, 50% of entrepreneurs are optimistic, thinking that accession will bring more advantages than disadvantages. 18% think that it will bring approximately equal number of advantages and disadvantages and 25% think that it will bring more disadvantages than advantages. The most pessimistic are micro, local and rural companies, we well as women and young entrepreneurs.

As to the likely positive impacts of the accession, most entrepreneurs state the following:

- Easier imports from the EU;
- Better functioning of law and legislative system;
- Better access to funds and loans; and
- Access to EU funds.

Most entrepreneurs perceive the following possible negative impacts of accession:

- Higher expenditure on environmental protection;
- Loss of quality and skilled work force;
- Unfavourable production quotas for Croatia;
- Increased competition due to EU companies entering the Croatian market.

Regarding the changes that entrepreneurs expect to happen to their business after the accession, 51% state that nothing major will change; at the same time, a similar percentage (47%) expect major changes to their business. Finally, when it comes to preparedness for EU accession, 31% consider themselves fully prepared, 54% consider themselves somewhat prepared and 13% consider themselves not at all prepared. In general enterprises in the agricultural sector and micro companies feel less prepared for accession.

3.3.2 *ICT usage by SMEs*

When it comes to the use of Information and Communication Technology (ICT), as expected, Tables 27 shows that it is the 25-39 years old most often use e-mail and Internet for business purposes. Still, a respectable percentage of entrepreneurs in the 60+ age group also use both media often for business purposes.

Table 27: Age & Email/Internet usage

		E-mail usage					Internet usage				
		Under 25	25-39	40-59	60+	Total	Under 25	25-39	40-59	60+	Total
Does your company use e-mail/Internet for business purposes?	Never	21,4%	6,8%	10,3%	8,5%	9,5%	14,3%	8,1%	10,3%	13,2%	10,3%
	Rarely	7,1%	3,9%	6,6%	9,7%	6,5%	7,1%	4,2%	7,8%	7,4%	7,0%
	Sometimes	21,4%	11,7%	18,9%	16,3%	17,2%	21,4%	14,6%	22,5%	28,3%	21,8%
	Often	50,0%	77,6%	63,8%	65,1%	66,6%	57,1%	73,2%	58,9%	50,8%	60,6%
	Don't know	0,0%	0,0%	0,3%	0,4%	0,2%	0,0%	0,0%	0,4%	0,4%	0,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Moreover, there seems to be few noticeable gender differences in the use of ICT such as emails and Internet, where the majority uses these media "often" (Table 28). The same applies to using the Internet for obtaining business information, where the majority of both males and females indicate that they use it often (Table 28).

Table 28: Gender & Email/Internet usage

		E-mail usage			Internet usage		
		M	F	Total	M	F	Total
Does your company use e-mail/Internet for business purposes?	Never	8,2%	12,8%	9,9%	11,4%	10,3%	10,3%
	Rarely	6,4%	6,8%	7,4%	6,2%	7,0%	7,0%
	Sometimes	17,2%	17,1%	21,0%	23,7%	21,8%	21,8%
	Often	67,9%	63,0%	61,4%	58,4%	60,6%	60,6%
	Don't know	0,2%	0,4%	0,3%	0,4%	0,4%	0,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

There are some significant differences connected with urban and rural enterprises. Unlike urban enterprises, rural ones are more likely to have never used the Internet to obtain business information (16% Vs 9%); and 64% of urban enterprises used the Internet often compared with only 46% of rural ones. The same gap is noticeable in relation to e-mail usage, where 41% of rural enterprises indicated that they never or only use it sometimes, compared with 70% of the urban ones which use it often. A significant difference also exists in relation to the use of corporate websites: the majority (56%) of urban companies had one in contrast with 44% of the rural ones. There may be various reasons for this, including more limited broadband access and lack of skills or awareness of the importance of ICT to all businesses, but is a notable weakness in the Croatian rural business environment.

Table 29: Urban/rural & Email usage

		E-mail usage			Internet usage		
		Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more	Total	Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more	Total
Does your company use e-mail for business purposes?	Never	17,6%	7,7%	15,7%	9,1%	10,3%	10,3%
	Rarely	8,4%	6,1%	10,9%	6,2%	7,0%	7,0%
	Sometimes	23,0%	15,9%	26,9%	20,6%	21,8%	21,8%
	Often	50,1%	70,1%	46,2%	63,7%	60,6%	60,6%
	Don't know	0,8%	0,1%	0,3%	0,4%	0,4%	0,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Table 30: Urban/rural & Website usage

		Urban / rural		
		Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more	Total
Does your company have its own website?	Yes	44,0%	55,6%	53,5%
	No	56,0%	44,2%	46,3%
	Don't know	0,0%	0,2%	0,2%
	Total	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

According to the data, there is a difference in use of Emails and Internet when comparing the size of company. Medium companies tended to use Email and Internet communication more intensively for obtaining business information (81% medium companies said they would use Emails "often" compared to 64% micro companies). All in all, there is the tendency to use Email and Internet at least sometimes or often for all companies (82-84%).

The establishment of a company website is also related to the size of the company. While 77% of medium companies indicated that they have a website, the majority of micro companies did not (51%). Small companies and crafts are somewhere in the middle.

Table 31: Email usage & Size of company

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Does your company use e-mail for business purposes?	Never	10,9%	3,0%	5,3%	13,0%	9,5%
	Rarely	7,1%	4,2%	2,7%	8,0%	6,5%
	Sometimes	17,8%	13,3%	10,7%	26,0%	17,2%
	Often	64,0%	78,8%	81,3%	53,0%	66,6%
	Don't know	0,2%	0,6%	0,0%	0,0%	0,2%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Table 32: Internet usage & Size of company

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Do you use the Internet for obtaining business information?	Never	11,0%	5,8%	6,7%	18,0%	10,3%
	Rarely	7,4%	6,7%	2,7%	7,0%	7,0%
	Sometimes	22,9%	19,1%	5,3%	26,0%	21,8%
	Often	58,3%	68,5%	85,3%	49,0%	60,6%
	Don't know	0,5%	0,0%	0,0%	0,0%	0,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Table 33: Website usage & Size of company

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Does your company have its own website?	Yes	48,5%	70,6%	77,3%	54,0%	53,5%
	No	51,2%	29,4%	22,7%	46,0%	46,3%
	Don't know	0,3%	0,0%	0,0%	0,0%	0,2%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

3.3.3 *Sources of information for SMEs*

A topic of discussion in relation to the provision of Business Development Services (BDS), whether commercially provided or not, relates to the degree to which rural areas may be underdeveloped partly because they are undercatered for. The analysis shows that, in fact, entrepreneurs hardly ever use such services. Between 80% - 90% stated that they never kept themselves informed of legislative, regulatory and similar developments through such institutions as the Regional Development Agencies, Economic Development Offices of local authorities, Business Centres or private business consultants. Urban and rural companies differed in only one respect, namely in relation to use of County Economic Development Departments (there are 21 counties in Croatia). Rural companies tended at least to use them sometimes (23%), compared with urban companies, 82% of which never use such sources. Unlike many countries of South East Europe, there is no lack of BDS provision in Croatia, however, currently neither rural nor urban enterprises use them intensively.

Table 34: Urban/rural & Contact to sources of information

		Urban / rural	
		Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more
County Economic Development Department	Never	74%	82%
	Sometimes	23%	15%
	Often	2%	2%
	DK/NA	1%	0%
Regional Development Agency	Never	90%	90%
	Sometimes	9%	9%
	Often	0%	1%
	DK/NA	1%	0%
City / town Economic Development Office	Never	81%	81%
	Sometimes	16%	15%
	Often	2%	4%
	DK/NA	1%	0%
Business / Enterprise Centre	Never	89%	90%
	Sometimes	10%	8%
	Often	1%	1%
	DK/NA	0%	1%
Enterprise Zone / Industrial Park / Business Incubator	Never	91%	91%
	Sometimes	8%	7%
	Often	1%	2%
	DK/NA	0%	0%
Private business consultant / adviser	Never	87%	85%
	Sometimes	9%	11%
	Often	4%	4%
	DK/NA	1%	1%
Other	Never	21%	20%
	Sometimes	79%	80%
	Often	0%	0%

Source: BINS Survey (2008)

When it comes to the use of different business information providers, most companies indicated that they have never got in touch with them. However, medium sized companies tended to use certain sources at least sometimes such as: county economic development departments (39%), private business consultants (19%), city/town economic development offices (19%) and the regional development agencies. No other type of company (in terms of size) contacted them as often. This is a little surprising since these institutions are typically established primarily to support start-ups and small enterprises. The County Economic Development Departments tend to be mostly used by medium companies while small companies tended to use information provided by the Business and Enterprise Centres a little bit more intensively.

Table 35: Contact to sources of information in the past year by size

		Size of company			
		Micro companies	Small companies	Medium companies	Crafts
County Economic Development Department	Never	83,0%	70,3%	57,3%	80,0%
	Sometimes	15,1%	24,5%	38,7%	18,0%
	Often	1,6%	4,5%	2,7%	1,0%
	DK/NA	0,3%	0,6%	1,3%	1,0%
Regional Development Agency	Never	91,2%	80,6%	80,0%	88,0%
	Sometimes	7,6%	15,8%	18,7%	10,0%
	Often	0,9%	3,0%	1,3%	1,0%
	DK/NA	0,3%	0,6%	0,0%	1,0%
City / town Economic Development Office	Never	83,1%	70,9%	66,7%	81,0%
	Sometimes	13,9%	21,8%	18,7%	15,0%
	Often	2,6%	6,7%	14,7%	2,0%
	DK/NA	0,3%	0,6%	0,0%	2,0%
Business / Enterprise Centre	Never	90,3%	83,3%	90,7%	94,0%
	Sometimes	8,3%	12,4%	5,3%	5,0%
	Often	1,1%	3,3%	4,0%	0,0%
	DK/NA	0,3%	0,9%	0,0%	1,0%
Enterprise Zone / Industrial Park / Business Incubator	Never	93,1%	80,9%	84,0%	86,0%
	Sometimes	5,8%	14,5%	9,3%	10,0%
	Often	1,0%	3,9%	6,7%	3,0%
	DK/NA	0,1%	0,6%	0,0%	1,0%
Private business consultant / adviser	Never	86,0%	81,2%	76,0%	88,0%
	Sometimes	10,2%	11,2%	18,7%	9,0%
	Often	3,2%	7,3%	5,3%	2,0%
	DK/NA	0,5%	0,3%	0,0%	1,0%
Other	Never	20,0%	20,4%	29,3%	14,0%
	Sometimes	80,0%	79,3%	70,7%	86,0%
	Often	0,0%	0,3%	0,0%	0,0%
	DK/NA	0,0%	0,0%	0,0%	0,0%

Source: BINS Survey (2008)

The analysis shows that SMEs and crafts use accountants or book-keepers most often for gathering information or advice on changes to laws and regulations, with 63.2% of entrepreneurs indicating that they use these sources “sometimes” or “often” (Table 36). The reason for such an extensive use of this type of source of information appears to be that entrepreneurs prefer to obtain the information they need from trustworthy and reliable sources. Since they communicate frequently with their accountants or book-keepers, these also the sources of information that they tend to rely heavily upon. Not only do SMEs and crafts use accountants or book-keepers extensively used for gathering information or advice on changes to laws and regulation, their usefulness was confirmed by all companies (70% said “very useful” and “useful”), as illustrated in Table 38.

Lawyers were also used as sources of information (24% said sometimes or often), albeit less often than accountants or book-keeper. Medium sized companies used them for information occasionally (53% said never in contrast to 79% micro companies). The majority of all companies think that the information obtained was “very useful” or at least “useful” (58%). It is interesting to note that the micro companies found the information obtained to be even more useful than bigger companies (31% Vs to 17%). The reason for using lawyers as a source of information is similar to the one stated for accountants and bookkeepers, namely that entrepreneurs have developed a relationship based on trust with them and, therefore, find them a reliable source of information.

Table 36: Other sources of information - Accountants

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Accountant / Book-keeper	Never	40,8%	33,1%	34,7%	29,0%	38,7%
	Sometimes	24,0%	25,2%	22,7%	31,0%	24,5%
	Often	33,1%	39,0%	42,7%	39,0%	34,7%
	DK/NA	2,1%	2,8%	0,0%	1,0%	2,1%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Table 37: Other sources of information - Lawyers

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Lawyer	Never	78,8%	66,0%	53,3%	79,0%	75,7%
	Sometimes	15,2%	20,9%	30,7%	15,0%	16,7%
	Often	5,6%	12,3%	16,0%	6,0%	7,1%
	DK/NA	0,4%	0,9%	0,0%	0,0%	0,5%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Table 38: Usefulness of other sources of information

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Accountant / Book-keeper	Not at all	2,4%	3,3%	0,0%	4,3%	2,6%
	2	5,9%	4,8%	2,0%	1,4%	5,3%
	3	21,4%	17,7%	22,4%	22,9%	20,9%
	4	34,1%	42,1%	28,6%	38,6%	35,6%
	Very useful	35,1%	31,1%	44,9%	32,9%	34,6%
	DK/NA	1,1%	1,0%	2,0%	0,0%	1,0%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Table 39: Usefulness of other sources of information

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Lawyer	Not at all	6,8%	8,3%	0,0%	0,0%	6,4%
	2	7,2%	12,0%	8,6%	14,3%	8,7%
	3	26,1%	22,2%	31,4%	28,6%	25,7%
	4	28,0%	31,5%	34,3%	38,1%	29,7%
	Very useful	31,3%	25,9%	17,1%	19,0%	28,5%
	DK/NA	0,7%	0,0%	8,6%	0,0%	1,1%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Companies were asked to rank their sources of information for their business resulting in the information on Table 40.

Table 40: Rank of information source usage according to usefulness by size of the company

Rank	Micro company	Small company	Medium company	Crafts
1	Information via website	Information via website	Advice/training in the form of seminars	Brochures distributed by responsible state institutions
2	Brochures distributed by responsible state institutions	Advice/training in the form of seminars	Information via website	Advice/training in the form of seminars
3	Brochures distributed by business associations	Brochures distributed by responsible state institutions	Information through professional publications	Brochures distributed by business associations
4	Advice/training in the form of seminars	Information through professional publications	Brochures distributed by responsible state institutions	Information via website
5	Information through professional publications	Brochures distributed by business associations	Brochures distributed by business associations	Information through professional publications
6	Informing though a telephone info centre	Informing though a telephone info centre	Informing though a telephone info centre	Informing though a telephone info centre

Source: BINS Survey (2008)

Table 40 shows that use of informing provided though websites is very common while telephone information centres were not seen as useful. Brochures from agencies or ministries were somewhere in-between. No obvious differences could be observed according to the size of companies. Companies ranked the consultation of a professional newspaper and magazine in first place, followed by television and daily papers.

3.3.4 *Participation in public procurement tenders*

The value of public procurement, in one form or another, amounts to ca. Kuna 43 billion per annum or 15% of GDP in 2007[8]. This amounts to a significant market opportunities for all enterprises, especially at a time of global recession combined with a credit crunch which is affecting all enterprises, small and large. Analyzing the various economic sectors according to their degree of participation in public procurement, allows some conclusions to be drawn. According to the Table 41, the services sector takes the least part in public procurement activities (73% said never) whereas manufacturing is the most active (48% said 1 to more than 10 times). The majority of the companies in the agriculture and trade sectors have never taken part in a public procurement tender (61%).

Table 41: Industry sector & taking part in a public procurement

		Sector				
		Agriculture	Manufacturing	Trade	Services	Total
Taken part in a public procurement tender in Croatia?	Never	61,3%	51,1%	61,1%	72,8%	62,2%
	1-2 times	16,0%	13,3%	10,8%	10,3%	11,6%
	3-5 times	8,0%	17,6%	14,4%	7,6%	12,8%
	6-10 times	0,0%	8,0%	6,4%	4,2%	5,9%
	More than 10 times	14,7%	9,6%	6,8%	3,9%	7,0%
	Don't know	0,0%	0,4%	0,4%	1,2%	0,6%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

A very high percentage of firms that have taken part in public procurement have also been successful (Table 42), with only 33% stating that they have not won a public procurement. This high success rate makes it all more surprising that there are so many companies that do not participate in any tendering opportunities. It is the firms in the agriculture and trade sectors that win most frequently, with 20.7% and 19.9% stating that they

8 See http://www.vlada.hr/english/premijer/aktualnosti/novosti/2008/svibanj/predsjednik_vlade_na_konferenciji_sustav_javne_nabave (8.8.2008)

have won a public procurement tender 3-5 times; and 10.3% and 9.1% of them stating that they have won a public tender 6-10 times.

Table 42: Industry sector & winning a public procurement tender

		Sector				
		Agriculture	Manufacturing	Trade	Services	Total
Won a public procurement tender in Croatia?**	Never	27,6%	34,7%	30,8%	36,5%	33,4%
	1-2 times	24,1%	31,4%	33,3%	30,3%	31,6%
	3-5 times	20,7%	18,1%	19,9%	15,7%	18,3%
	6-10 times	10,3%	7,6%	9,1%	7,9%	8,3%
	More than 10 times	6,9%	6,1%	5,4%	6,2%	5,9%
	Don't know	10,3%	2,2%	1,4%	3,4%	2,5%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)
** 38% of those who have taken part in a public procurement

More urban companies applied (39% Vs 28% of rural companies) and also won a public procurement tender (37% of rural firms have never won a tender Vs 33%). This means that, for whatever reasons, probably lack of information, rural enterprises may not be making the most of the pubic procurement business opportunities potentially available to them.

Table 43: Urban/rural & taking part in a public procurement

		Urban / rural		
		Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more	Total
Taken part in a public procurement tender in Croatia?	Never	71,7%	60,1%	62,2%
	1-2 times	10,1%	11,9%	11,6%
	3-5 times	10,1%	13,4%	12,8%
	6-10 times	3,4%	6,5%	5,9%
	More than 10 times	3,9%	7,6%	7,0%
	Don't know	0,8%	0,6%	0,6%
	Total	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Table 44 shows that there are no significant differences in winning a public procurement tender in regards to the urban or rural character of the companies. The majority of the both have won a public procurement tender.

Table 44: Urban/rural & winning a public procurement tender

		Urban / rural		
		Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more	Total
Won a public procurement tender in Croatia?**	Never	37,3%	32,8%	33,4%
	1-2 times	30,4%	31,8%	31,6%
	3-5 times	21,6%	17,8%	18,3%
	6-10 times	5,9%	8,7%	8,3%
	More than 10 times	2,0%	6,5%	5,9%
	Don't know	2,9%	2,4%	2,5%
	Total	100,0%	100,0%	100,0%

Source: BINS Survey (2008)
** 38% of those who have taken part in a public procurement

When it comes to the size of the companies and participation in public procurement tenders, small and medium companies take part in a public tender more often than micro companies or crafts (49 - 50% said never in contrast with 65%). In particular, medium sized companies tended to take public procurement very serious and 17% took part more than 10 times. This may be a reflection of the fact that the competitive tendering process requires know-how, know-who, investment and capacity to result in a successful outcome. As such, it is more likely to be of interest to larger firms.

Table 45: Taken part in a public procurement tender in Croatia by size

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Taken part in a public procurement tender in Croatia?	Never	65,5%	48,8%	50,7%	65,0%	62,2%
	1-2 times	12,0%	9,7%	12,0%	10,0%	11,6%
	3-5 times	11,8%	17,6%	13,3%	11,0%	12,8%
	6-10 times	5,2%	8,5%	6,7%	7,0%	5,9%
	More than 10 times	4,8%	14,5%	17,3%	6,0%	7,0%
	Don't know	0,6%	0,9%	0,0%	1,0%	0,6%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Nevertheless, those that do take part in a public procurement tender, the success rate is high. Only 33% of all companies in the survey stated that they have never won a public procurement tender. Medium companies were extremely successful in wining several times a procurement tender: 24% had been successful more than 10 times.

Table 46: Won a public procurement tender in Croatia by size

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Won a public procurement tender in Croatia? (38% of those who have taken part in a public procurement)	Never	37,0%	24,1%	21,6%	38,2%	33,4%
	1-2 times	33,7%	26,5%	29,7%	26,5%	31,6%
	3-5 times	15,6%	27,6%	16,2%	14,7%	18,3%
	6-10 times	7,1%	11,2%	8,1%	11,8%	8,3%
	More than 10 times	4,0%	7,6%	24,3%	5,9%	5,9%
	Don't know	2,5%	2,9%	0,0%	2,9%	2,5%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Therefore, companies that are active in manufacturing, that are located in urban areas and that are medium sized are the most successful in public procurement. On the other hand, companies that are in the services sector, located in rural areas and micro firms and crafts could participate more effectively. This is not so surprising: throughout the analysis of this paper, these types of enterprises have been shown to have fewer capacities, less access to information and lower awareness of many issues, including public procurement opportunities.

3.3.5 *State aid*

Most countries recognise the need to support enterprise development through some form of state aid, such as grants, soft loans, co-financing, loan guarantees, etc. Croatia is not different in this respect and the SME Encouragement Act (2007) allows for a range of state aids distributed through a variety of channels such as Ministries (e.g. MINGORP), SME Agency (HAMAG), Croatian Development Bank (HBOR). Cross-tabulating enterprise location with tendency to apply for state aid delivers interesting results.

Table 47 shows that most companies, independent of location, have never applied for any form of state aid (84%), however, of the 16.8% that have applied, half (50%) actually received state aid (Table 48). There are also interesting geographical variations: companies located in Northern Croatia have applied significantly more often for state aid (22% indicated “1-2 times”).

Table 47: Location & applying for State aid

		Region - enterprises						
		Zagreb region	Northern Croatia	Slavonia	Lika and Banovina	Hrvatsko Primorje and Istria	Dalmatia	Total
Applied for some form of state aid from the Croatian Government or a public agency?	Never	88,1%	72,5%	76,9%	79,7%	90,8%	81,7%	83,6%
	1-2 times	8,9%	21,7%	16,0%	14,8%	8,4%	13,2%	12,4%
	3-5 times	2,1%	4,7%	6,1%	4,7%	0,6%	3,1%	3,0%
	6-10 times	0,1%	0,3%	0,0%	0,0%	0,0%	1,4%	,3%
	More than 10 times	0,4%	0,3%	0,0%	0,8%	0,0%	0,0%	0,2%
	Don't know	0,4%	0,3%	0,9%	0,0%	0,3%	0,7%	0,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

The regions that are most successful in receiving state aid include the Zagreb region, Slavonia, Dalmatia and Northern Croatia. There could be numerous reasons as to why the number of applications as well as success rates of obtaining state aid for enterprises from Lika and Banovina, and Hrvatsko Primorje and Istria are low, including the fact that the entrepreneurs located in those regions are insufficiently aware of the state aid opportunities as well as the application procedures, which can be detailed and complex, especially those connected with EC funding. Therefore, the relevant institutions in those regions could seek to make such information more generally available to their local enterprises, including delivering the necessary capacity building. It is clear that as a result of the pre-accession funding and, in due course, structural funds (upon accession to the EU), these skills will become even more essential in future.

Table 48: Location & receiving State aid

		Region - enterprises						
		Zagreb region	Northern Croatia	Slavonia	Lika and Banovina	Hrvatsko Primorje and Istria	Dalmatia	Total
Received some form of state aid from the Croatian Government or a public agency*	Never	42,7%	50,0%	44,9%	53,8%	57,6%	48,1%	48,1%
	1-2 times	40,4%	40,5%	42,9%	34,6%	39,4%	42,6%	40,6%
	3-5 times	13,5%	8,3%	8,2%	11,5%	3,0%	7,4%	9,3%
	6-10 times	0,0%	0,0%	0,0%	0,0%	0,0%	1,9%	0,3%
	More than 10 times	2,2%	1,2%	4,1%	0,0%	0,0%	0,0%	1,5%
	Don't know	1,1%	0,0%	0,0%	0,0%	0,0%	0,0%	0,3%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

* 16,8% of those who have applied for state aid.
Source: BINS Survey (2008)

Regarding the economic sectors, it is primarily companies in the agriculture and manufacturing sectors that have applied for state aid (~ 23 to 36% say they have applied 1+ times); they are also the ones that receive it most often (Table 49).

Table 49: Industry sector & applying for state aid

		Sector				
		Agriculture	Manufacturing	Trade	Services	Total
Applied for some form of state aid from the Croatian Government or a public agency?	Never	64,0%	77,0%	89,7%	84,9%	83,6%
	1-2 times	22,7%	17,4%	8,1%	11,6%	12,4%
	3-5 times	9,3%	4,6%	1,6%	2,3%	3,0%
	6-10 times	1,3%	0,4%	0,1%	0,3%	0,3%
	More than 10 times	2,7%	0,2%	0,0%	0,3%	0,2%
	Don't know	0,0%	0,4%	0,4%	0,6%	0,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

This contrast with the services sector (fewest companies applying and receiving state aid) and the disproportionate success rate in the agriculture sector, where 70% actually receive state aid after applying. Moreover, 11% of firms in the agriculture sector state that they have received aid for more than 10 times, far exceeding the success rate of any other sector (Table 50).

Table 50: Industry sector & receiving state aid

		Sector				
		Agriculture	Manufacturing	Trade	Services	Total
Received some form of state aid from the Croatian Government or a public agency*	Never	29,6%	35,7%	58,4%	60,8%	48,1%
	1-2 times	40,7%	51,2%	35,1%	31,4%	40,6%
	3-5 times	14,8%	11,6%	6,5%	6,9%	9,3%
	6-10 times	3,7%	0,0%	0,0%	0,0%	0,3%
	More than 10 times	11,1%	0,8%	0,0%	1,0%	1,5%
	Don't know	0,0%	0,8%	0,0%	0,0%	0,3%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)
* 16,8% of those who have applied for state aid

Table 51 shows that rural companies apply more often for some form of state aid from the Croatian Government or a public agency: 77% said "never" in contrast to 85% urban companies.

Table 51: Urban/rural & applying for state aid

		Urban / rural		
		Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more	Total
Applied for some form of state aid from the Croatian Government or a public agency?	Never	76,8%	85,1%	83,6%
	1-2 times	18,8%	11,1%	12,4%
	3-5 times	3,1%	2,9%	3,0%
	6-10 times	0,6%	0,2%	0,3%
	More than 10 times	0,0%	0,3%	0,2%
	Don't know	0,8%	0,4%	0,4%
	Total	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

However, in terms of receiving state aid, no difference between rural and urban companies can be noticed.

Table 52: Urban/rural & receiving state aid

		Urban / rural		
		Settlement with 2,000 inhabitants or less	Settlement with 2,000 inhabitants or more	Total
Received some form of state aid from the Croatian Government or a public agency*	Never	47,6%	48,2%	48,1%
	1-2 times	41,7%	40,2%	40,6%
	3-5 times	8,3%	9,6%	9,3%
	6-10 times	0,0%	0,4%	0,3%
	More than 10 times	1,2%	1,6%	1,5%
	Don't know	1,2%	0,0%	0,3%
	Total	100,0%	100,0%	100,0%

Source: BINS Survey (2008)
* 16,8% of those who have applied for state aid

Surprisingly large share of micro companies have never applied for some form of state aid (88%) in contrast to medium companies where 65% indicated they have never applied. The chances to receive state aid are also higher for small and medium companies. While only 1.7% of micro companies stated that they have applied for state aid 3-5 times, 7.3% of small and 10.7% of medium have applied more than 3-5 times (Table 53).

Table 53: Applied for some form of state aid by size

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Applied for some form of state aid from the Croatian Government or a public agency?	Never	88,0%	71,5%	65,3%	72,0%	83,6%
	1-2 times	9,5%	20,0%	21,3%	25,0%	12,4%
	3-5 times	1,7%	7,3%	10,7%	1,0%	3,0%
	6-10 times	0,3%	0,3%	1,3%	0,0%	0,3%
	More than 10 times	0,3%	0,0%	1,3%	0,0%	0,2%
	Don't know	0,3%	0,9%	0,0%	2,0%	0,4%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Of those that have applied, more than half have actually received state aid. Medium sized companies were the most successful in receiving state aid (only 11.5% have never received it). Small companies were less successful (35.2% have never received state aid), but not as unsuccessful as micro companies and crafts (59.4% of micro companies and 46.2% of crafts have never received state aid). This suggests the need for awareness rising for crafts and micro/small businesses.

Table 54: Received some form of state aid by size

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Received some form of state aid from the Croatian Government or a public agency*	Never	59,4%	35,2%	11,5%	46,2%	48,1%
	1-2 times	32,3%	46,2%	69,2%	53,8%	40,6%
	3-5 times	6,8%	15,4%	15,4%	0,0%	9,3%
	6-10 times	0,5%	0,0%	0,0%	0,0%	0,3%
	More than 10 times	1,0%	2,2%	3,8%	0,0%	1,5%
	Don't know	0,0%	1,1%	0,0%	0,0%	0,3%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)
* 16,8% of those who have applied for state aid

A surprisingly large proportion of enterprises (84%) have never applied for any form of state aid. Considering the fact that the Ministry of Economy, Labour and Entrepreneurship alone supports entrepreneurship with more than 300 million Kunas annually and the degree of promotion via television and presentations done on local level, it might be anticipated that the participation rate would be higher. The reason for the current situation may include ineffectiveness of promotion and poor penetration of the target group, unwillingness to participate, difficulty of the application procedure (e.g. too time consuming and complex), or simply many firms do not perceive a need for it. This situation, combined with the current success rate (52%) is potentially worrying. The scope for grant applications, especially those financed by EU, is set of increase dramatically in future. The procedures are certain to become more demanding and complex than is the case at present. Unless these issues are addressed, the absorption capacity for EU grants could be lower than would be desirable.

3.3.6 *Registration of patents and trademarks*

The issue of Intellectual Property Rights is of importance to a competitive, innovative and profitable economy. The Table below illustrates the point that patents are still very rarely used by SMEs: 96% stated they had never registered a patent in Croatia. The situation with crafts, perhaps unsurprisingly, is slightly lower the average (92% said they had never one).

Table 55: Registration of a patent by size

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Registered a patent in Croatia?	Never	96,9%	95,8%	97,3%	92,0%	96,4%
	1-2 times	2,2%	3,0%	2,7%	2,0%	2,4%
	3-5 times	0,5%	0,9%	0,0%	0,0%	0,6%
	6-10 times	0,3%	0,0%	0,0%	1,0%	0,2%
	More than 10 times	0,1%	0,0%	0,0%	2,0%	0,2%
	Don't know	0,1%	0,3%	0,0%	3,0%	0,2%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

A similar situation arises with respect to the usage of trademarks. 89% of the enterprises and crafts had never applied for one. The medium sized companies fare slightly better in registering trademarks (85% said never), however, the baseline is low.

Table 56: Registration of a trademark by size

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Registered a trademark in Croatia?	Never	89,5%	88,5%	85,3%	89,0%	89,2%
	1-2 times	7,8%	8,5%	9,3%	8,0%	8,0%
	3-5 times	0,7%	1,2%	2,7%	0,0%	0,8%
	6-10 times	0,1%	0,0%	0,0%	0,0%	0,0%
	More than 10 times	0,1%	0,0%	1,3%	0,0%	0,1%
	Don't know	1,9%	1,8%	1,3%	3,0%	1,9%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

No statistical difference exists in the relation to patent and trademark registration when analyzing companies with different types of markets (local, national and international). The majority had never registered a patent (96%) or trademark (89%) in Croatia. International companies tended to have slightly more registrations (1-2 % more).

Table 57: Main market & patent registration

		Now we would like to find out about your company's business operation. What was your company's main market in 2006, by share of its annual turnover?				
		Local	National	International	Don't know / no answer	Total
Registered a patent in Croatia?	Never	97,2%	95,3%	95,9%	93,3%	96,4%
	1-2 times	1,8%	3,3%	2,9%	0,0%	2,4%
	3-5 times	0,4%	0,6%	1,2%	0,0%	0,6%
	6-10 times	0,1%	0,6%	0,0%	0,0%	0,2%
	More than 10 times	0,3%	0,0%	0,0%	0,0%	0,2%
	Don't know	0,3%	0,2%	0,0%	6,7%	0,2%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Table 58: Main market & trademark registration

		Now we would like to find out about your company's business operation. What was your company's main market in 2006, by share of its annual turnover?				
		Local	National	International	Don't know / no answer	Total
Registered a trademark in Croatia?	Never	91,9%	84,8%	88,3%	66,7%	89,2%
	1-2 times	5,8%	11,5%	8,8%	13,3%	8,0%
	3-5 times	0,7%	0,9%	1,8%	0,0%	0,8%
	6-10 times	0,0%	0,2%	0,0%	0,0%	0,0%
	More than 10 times	0,2%	0,0%	0,0%	0,0%	0,1%
	Don't know	1,4%	2,5%	1,2%	20,0%	1,9%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Understanding and use of Intellectual Property Rights, as illustrated by the situation in respect to patents and trademarks, is underdevelopment among Croatian SMEs. There appears to be scope for significant policy activity in raising awareness and stimulating of the development of appropriate capacities and knowledge connected with competitiveness and innovation in the context of IPR.

3.3.7 *Inspections*

The role of state inspections has been well documented in many transition economies (see World Bank Doing Business Annual Surveys). Entrepreneurs often complain of the time-consuming and costly nature of the inspections, as well as the often arbitrary nature of the process. Table 59 shows that there is a positive relationship between the annual turnover and the number of inspections carried out by the various responsible state bodies. Companies with a turnover of less than 1 million kn are rarely visited for state inspections (67% said never), whereas companies with more than 20 million kn are visited often (only 33% said never). Almost a quarter (23.2%) are visited 3-5 times and a further 10.1% are visited 6+ times per annum. This costs time and money and is potentially a significant barrier to business.

Table 59: Annual turnover & Inspection

		We are now interested in the following: What was your company's total annual turnover in 2006, in Kunas?						
		Up to 1 mil kn	1 mil - 5 mil kn	5 mil - 10 mil kn	10 mil - 20 mil kn	More than 20 mil kn	Don't know / No answer	Total
Been visited by an inspector from the State Inspectorate?	Never	67,2%	50,9%	41,4%	45,8%	33,3%	62,4%	55,4%
	1-2 times	22,6%	32,2%	31,5%	25,3%	30,3%	23,4%	27,7%
	3-5 times	5,3%	11,7%	17,1%	18,1%	24,2%	7,1%	10,6%
	6-10 times	2,2%	1,8%	3,2%	7,2%	3,0%	1,4%	2,4%
	More than 10 times	2,1%	2,2%	5,4%	3,6%	7,1%	4,3%	3,0%
	Don't know	0,6%	1,2%	1,4%	0,0%	2,0%	1,4%	1,0%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Similarly, Table 60 shows that the different types of enterprise are not inspected equally. Medium companies are visited by state inspectorates most often (only 24% said never), followed by small companies and crafts. The vast majority of micro companies (62% said never) are not inspected at all.

Table 60: Visits from the State Inspectorate by size

		Size of company				
		Micro companies	Small companies	Medium companies	Crafts	Total
Been visited by an inspector from the State Inspectorate?	Never	62,4%	36,7%	24,0%	37,0%	55,4%
	1-2 times	25,2%	34,8%	34,7%	36,0%	27,7%
	3-5 times	7,4%	20,6%	26,7%	12,0%	10,6%
	6-10 times	2,1%	2,1%	2,7%	7,0%	2,4%
	More than 10 times	1,9%	4,8%	10,7%	6,0%	3,0%
	Don't know	0,9%	0,9%	1,3%	2,0%	1,0%
	Total	100,0%	100,0%	100,0%	100,0%	100,0%

Source: BINS Survey (2008)

Clearly, state inspections are focused on bigger companies with higher annual turnovers. A positive explanation would be that this reflects a number of possible reasons, such as the lack of capacity of inspectorates, the necessity to concentrate on the largest companies with biggest turnover and profits, the desire to avoid burdening smaller enterprises, etc.

4 CONCLUSIONS

The analysis above has highlighted a number of issues and trends in respect to the small business sector in Croatia, based on information collected by a survey carried out in 2008 involving 2,000 SMEs and Crafts. A number of policy relevant conclusions are highlight below.

Concentration of business in and around the capital city: The majority of companies, of all sizes, can be found in and around Zagreb and the wider region (Table 3). Whilst this is not surprising, since it is the pre-eminent centre of economic activity in Croatia, entrepreneurial activity in other regions could be stimulated further. One way to achieve this would be to foster a more favourable business environment and encourage people, especially young people and women, to become entrepreneurs. This requires fuller engagement by numerous actors at the local level, such as local/county/regional authorities and their development centres and agencies, as well as further education institution, supported by government policy and funds.

Main markets: As illustrated in Table 6, the bigger the company the more active it is in international markets. This is to be expected, however, 8.6% of companies indicate that are primarily active in international markets. These are primarily medium sized firms (24%), but this also applies to the small firms (7.3% of micro and 8.5% of small) and 16% of the larger crafts. This represents a substantial international orientation and calls for assessment of the adequacy of current measures designed to stimulate export. This is particularly important in the light of recent economic and credit developments which have witnessed the collapse in exports by almost all European countries.

Trade: Table 8 revealed that most companies sell their products only on the domestic market (59.2%), while exclusive importers make 7.6% and exclusive exporters make up 15.8%. There is a need for policy makers to help SMEs and crafts to benefit from the opportunities offered by the Single Market, as recommended by both the EU Charter and the Small Business Act for Europe including reforms in electronic commerce, telecommunications, utilities, public procurement and cross-border payment systems. The effective application of EU and national competition rules would ensure that small businesses have every chance to enter new markets and compete on fair terms. It is inevitable that competition will intensify over time, especially upon accession to the EU, so this policy agenda needs to be prioritised.

Membership of business associations: The analysis of Table 11 revealed that a significant proportion of companies, some 20%, is not aware whether or not are they members of any business association, which is surprising since HGK and HOK membership is obligatory in Croatia. This implies that a large proportion of companies and crafts may not be sufficiently aware of the services being offered by the above institutions, even though they pay monthly membership fees. These finding have a bearing on the current debate in many parts of the Western Balkans about the merits of compulsory Vs voluntary membership of business associations. Without assessing the merits or otherwise of compulsory membership, it is important those institutions to consider making their services more visible to their members through more effective communication methods and mechanisms.

Gender of entrepreneurs: As seen in the Table 12, the large majority of Croatian business owners/managers are male. Although Croatia has put in place some measures designed stimulating female entrepreneurship, the analysis suggests that there is still significant scope for enhancement of such entrepreneurial activity to the benefit of the overall economy.

Age: As illustrated in Table 17, most Croatian entrepreneurs (67.2%) fall within the 40 to 59 age group, but only very small proportion fall into the under 25 category. This suggests the existence of significant scope for policy-makers to stimulate a larger proportion of younger people to recognise the advantages and potential of becoming entrepreneurs. One way to do that is, as discussed below, to make entrepreneurship a feature of the educational curriculum at all education levels.

Entrepreneurial education: The education level of the average entrepreneur is satisfactory, as illustrated in Table 14, but in the knowledge economy, where the quality of human capital is the key determinant of competitiveness, it could be further improved. The development of a culture of entrepreneurship could be further stimulated in Croatia, not least among pupils and students, and opportunities could be created for them to follow their entrepreneurial instinct. This would be in line with the recommendations of the EU Charter (Education and training for entrepreneurship), which seeks to create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded, including promoting the upgrading of skills in SMEs and all forms of innovation. At present young people are provided with, at best, a limited entrepreneurial awareness, sense and skills at primary school, secondary school and university.

Views on accession: The most pessimistic about EU accession are the entrepreneurs with elementary and secondary school education, young, women, micro enterprises and those operating in rural areas (Tables 18 – 26). Although the final date of the Accession to the EU is not known, it is possible to influence these attitudes by targeting relevant information on potential benefits and problems.

Utilising the potential of the Internet: As evident in Table 27, the majority of Croatian entrepreneurs use e-mail and Internet quite often (ca. 60%). Usage of ICT technology should be improved further, especially among micro and rural companies. There could be better promotion of benefits of using emails and Internet, like simplest, faster and cheaper communication and transactions. Government can lead by example and increase electronic communication and transactions between public authorities and business sector. Public authorities should be urged to increase their electronic communication with the small business sector in order to save time and money. Thus, companies can receive advice, make applications, file tax returns or obtain simple information online faster and more cheaply.

Sources of information: Entrepreneurs in Croatia are not utilising the full range of sources (e.g. business centres, incubators, county/local government offices, BDS providers, RDAs, etc.) that can provide them information and services on how to start and improve their business activities. When they do use them, they do not find them to be particularly useful (Table 34). By contrast, entrepreneurs make very good use of accountants/bookkeepers and lawyers, and rate their support highly. It appears that Croatian entrepreneurs prefer to contact trusted and known persons for information, including laws and regulations. Micro and small businesses are more appreciative of the information they get through web sites then medium-sized ones. The latter prefer seminars / training and consider web sites, business magazines, newspapers, etc. to be usually too fragmented, general and/or complicated. Again, the EU Charter / Small Business Act for Europe stresses the need for information to be made more responsive to SMEs' needs, something which applies to Ministries, counties, local authorities and the numerous other institutions responsible for supporting start-ups and small enterprises and crafts.

Public procurement: Tables 41-46 revealed that a large proportion of SMEs and crafts have never taken part in a public procurement tender yet the value of public procurement amounted to Kuna 43 billion per annum or 15% of GDP in 2007. This potentially important large market appears to be, for one reason or another, largely closed to SMEs and crafts. Public authorities could break contracts into smaller lots so that SMEs and crafts can apply and consider other methods of making such opportunities more accessible whilst still complying with the relevant Directives and Laws. As indicated in Table 45, small and medium companies do take part in a public tender more frequently than micro companies or crafts, which are probably limited due to their financial and other capacities. This is worthy of consideration by policy makers, especially at a time of global recession combined with a credit crunch which is affecting all enterprises. Tables 43 and 44 showed that more urban companies applied and also won public procurement tender. Rural enterprises could be encouraged to participate in the public procurement by the local business infrastructure in the form of information, guidance and other support.

State aid: The analysis (Tables 47-54) shows that 84% of the companies had never applied for any form of state aid. However, of the 17% of those that have done so, more than 50% had received state aid, a high success rate. The results also showed that entrepreneurs in Zagreb and other northern regions are more successful in obtaining state aid, partly because it is easier for entrepreneurs who live in these regions to get quality information and support. Moreover, it is the medium-sized enterprises that have proved to be most successful in the realisation of applications for some form of state aid. Such companies typically have more capacities, such as employees, than small and micro enterprises, which allows easier monitoring and obtaining possible state aid.

Although public authorities do put effort into advertise the various grant schemes and other subsidized programmes on television and locally business infrastructure, the effectiveness of this approach needs to be assessed. In addition to the issue of effective awareness raising of opportunities, the success rate of applicants to state aid could be enhanced through tools such as free telephone numbers, guidelines and training on successful application. This is crucial to raising capacities at the local level, something which is critical to increasing the absorption capacity of government and EU funds.

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