

# Entrepreneurial Activity - Indicator of Regional Development in Croatia

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**Abstract**—Given that entrepreneurship is a very significant factor of regional development, it is necessary to approach systematically the development with measures of regional politics. According to international classification The Nomenclature of Territorial Units for Statistics (NUTS II), there are three regions in Croatia. The indicators of entrepreneurial activities on the national level of Croatia are analyzed in the paper, taking into consideration the results of referent research. The level of regional development is shown based on the analysis of entrepreneurs' operations. The results of the analysis show a very unfavorable situation in entrepreneurial activities on the national level of Croatia. The origin of this situation is to be found in the surroundings with an expressed inequality of regional development, which is caused by the non-existence of a strategically directed regional policy. In this paper recommendations which could contribute to the reduction of regional inequality in Croatia, have been made.

**Keywords**—indicators of entrepreneurial activity, regional development, regional inequity.

## I. INTRODUCTION

THE development of entrepreneurship has been directed towards the strengthening of the entire economical system of a country. The development of entrepreneurial activity must be implemented in a unique system a country can use to accomplish the goals of regional policy. Regional policy should follow the economic needs, which means that the results of regional policy should not have their origin in certain political orientations. Regional policy should be used to reduce the centralization of business activities in a centre or a region. This would influence the increase of business activities in other regions, that is, the increase of the level of using available resources in those regions [1].

Over the past twenty years of its existence, Croatia has been implementing corresponding measures to encourage the development of less developed areas. Less developed areas include: areas that were covered by the war, areas where natural characteristics of living and working conditions are difficult and Croatian Islands.

Given that those measures have been segmented, positive results have not been achieved through their implementation. Furthermore, there is still a significant centralization of the government and fiscal capacities in Croatia.

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The signs of entrepreneurial activities on the national level of Croatia are analyzed in this paper. To confirm the results, the signs of entrepreneurs' operations on regional level are analyzed and confirmed. Based on regional development level, certain recommendations to improve of national and regional development can be given.

## II. ENTREPRENEURSHIP IN CROATIA

Having gained its independence in the early 1990s, Croatia had to make major breakthroughs in the development of entrepreneurial activity.

Croatian economy, as a part of the former state, was burdened with negative rates of economic growth, and private, or entrepreneurial initiative denied by the state. There was also an underutilization of production capital and a low level of productivity [2].

In the majority of the referred enterprises were not expressed an entrepreneurial spirit and initiative. Weak entrepreneurial environment required the focus of the entire Croatian economy towards the sustainable economic development based on the model of the developed Western-European countries.

Croatia approached the development of entrepreneurial activity through:

- the establishment of sociopolitical environment (through legislation and institutions) which are suitable for the development and functioning of entrepreneurship,
- the transition of the companies from public to private sectors, that is, privatization,
- the introduction of the principle of doing business, which is based on the market,
- the establishment of the structure of control and management, which contributes to efficiency, etc.

Today, twenty years after gaining independence, there is a question of whether, and to which extent, it has succeeded in its intentions. Only some of the indicators of entrepreneurial activity in Croatian economy are shown in Table I.

From the aforementioned indicator of entrepreneurs according to ownership, it is visible that the transition, or privatization, has been successful in Croatia [3]. The total number of 97.9% of entrepreneurs, who are profit tax payers<sup>1</sup>, is in the private sector. Entrepreneurs (99.4%) according to size belong to small and medium entrepreneurs [3]. From 1990 to 1995 the number of active companies increased 5.5 times, and only in the sector of small and medium companies,

<sup>1</sup> All entrepreneurs, except of the banks and insurance companies.

while the number of big companies decreased [4]. The representation of companies in Croatia according to the size is almost identical to the one in the European Union, where small and medium companies make 99.8% of the total number of companies [5]. Such a situation can be a very significant factor for sustainability of Croatian companies in the network of small entrepreneurship of the European Union.

TABLE I  
INDICATORS OF ENTREPRENEURIAL ACTIVITY IN CROATIAN  
ECONOMY

Number	Indicator	Value
1	The number of entrepreneurs in the private sector, % of total number of entrepreneurs in 2010.	97,9
2	The number of small and medium entrepreneurs, % of total number of entrepreneurs in 2010.	99,4
3	Index of entrepreneurial activity (TEA <sup>a</sup> ), 2010.	5,5
4	Motivation	1,5
5	Factors problematic for doing business (the highest-the lowest ranked)	Inefficient government bureaucracy, Tax rates Tax regulations, Corruption, Access to financing, Restrictive labor regulations, Crime and theft, Poor work ethic in national labor force, Policy instability, Inadequately educated workforce, Inflation , Foreign currency regulations, Inadequate supply of infrastructure , Government instability/coups, Poor public health
6	Index of global competitiveness of Croatia, 2009.	77/139
7	Index of business sophistication of Croatia, 2009.	92/139
8	Amount of unexecuted bases of payment, in billion Kn	36,7

<sup>a</sup>Total Early-Stage Entrepreneurial Activity (TEA) includes individuals in the process of starting a business and those running new businesses less than 3,5 years old.

However, when we look at the following six criteria in Table I, it is obvious that the situation is highly worrying. The index of entrepreneurial activity points at the lack of the development of entrepreneurial spirit and entrepreneurial environment in Croatia. Motivation index of 1.5, which shows the relation between the people entering entrepreneurial activity due to opportunity and the ones forced by (usually unfavorable) situation into entrepreneurial activity, is very low. In the countries of the European Union it is 3,3 [6]. Among the factors which contribute the most to the failure of business making in Croatia, inefficient state bureaucracy stands out [7]. There is a big gap between the implementation of regulations,

and its carrying out. To start a business in Croatia, it is necessary to wait long 40 days, while in the countries of the European Union only 17 days are necessary [8]. High tax rates and non-fiscal taxes burden entrepreneurs' business-making. Due to high paying obligations, entrepreneurs are filling the budget, and the situation should be vice-versa. By taking incentives, the state should make it easier for entrepreneurs to make business. Entrepreneurs, mostly small and medium companies, are affected by the competition from grey market because of their market orientation. The share of grey market in Croatian GDP is 30.1% [9]. By avoiding paying taxes the share of grey market increases, and there is also a great insolvency in business making. The amount of unexecuted payment bases in Croatia in 2011 is high 36.7 billion Kn. Almost 85% of unexecuted obligations goes to entrepreneurs blocked longer than 360 days. Therefore, the lack of capital for small and medium companies becomes more expensive, and without sufficient means there cannot be the development of business making. That is how the aforementioned negative factors of entrepreneurial activity generate an extremely bad position of Croatia according to the Index of global competitiveness and business sophistication [7]. Croatia's bad position is not caused only by recession, but also by domestic problems. Strategic goals of development are not clearly defined in Croatia, there is no employer-employee cooperation, serious reforms are not being carried out, etc. Banks with a large capital accumulation direct their funds mostly to the sector of population and state because there are fewer risks in those transactions.

Due to the existing negative atmosphere in a part of entrepreneurship on the global level of Croatia, it is significant to analyze entrepreneurial activity on the micro level, that is, on the level of companies based on regional affiliation.

### III. REGIONAL DEVELOPMENT OF CROATIA

Based on administrative-territorial structure, Croatia is divided into 20 counties and the City of Zagreb, which has the status of county and city, and into 126 towns and 429 municipalities. According to Eurostat criteria, spatial units for statistics on regional level represent counties grouped into non-administrative units, which are: Northwest, Central and East (Pannonian), and Adriatic Croatia.

Northwest Croatia includes six Counties, which takes 15% of Croatian territory and belongs to it 37.3% of Croatian population. Central and East (Pannonian) includes eight Counties, which takes 41% of Croatian territory and belongs to it 30.5% of Croatian population. Adriatic Croatia includes seven Counties, which takes 44% of Croatian territory and belongs to it 32.2% of Croatian population.

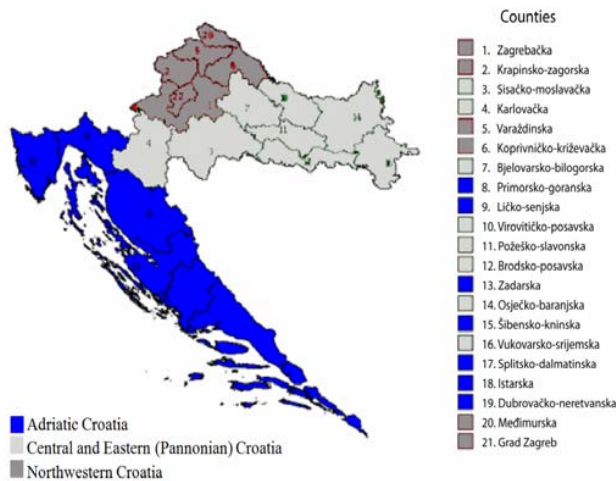


Fig. 1 Croatian regions according to the level of NUTS II

Croatia, alongside many problems indicating uneven development (the imbalance of socio-economic development, undeveloped business infrastructure, insufficient and unfavorable financial capacities for financing business activities), has not, in the past 20 years, undertaken any significant strategic activities to bring those differences to the lowest possible level. Only in 2009 was the Law on Regional Development [10], which creates foundations for regional development and improvement of less developed parts of the country, enacted. In the period before that, Croatian policy was directed towards less developed areas in the country. However, the application of a complete regional policy, which would give positive results on the entire territory, was not being done. Positive results on regional level are desirable because they would enable the increase of competitiveness and the possibility for every region to meet the demands and pressures of the unique market of the European Union [11]. This all leads to the conclusion that regional policy must be observed as a strong engine which needs to start the development of domestic economy and stimulate general social progress [1].

#### IV. INDICATORS OF ENTREPRENEURS' ACTIVITIES ON REGIONAL LEVEL

Given that entrepreneurship is an important factor of regional development, the following part of this paper shows the most significant indicators of entrepreneurial activity on the level of entrepreneurs within regions in Croatia.

Indicators were analyzed regarding the number of entrepreneurs, number of their employees, and profit and loss after taxation. Indicators of entrepreneurs' activities are presented in Table II.

From the aforementioned data of the Finance Agency [3], it is obvious that Northwest Croatia has a dominant position in all the indicators. Almost one half of all the entrepreneurs and a little over one half of all the employed in Croatia are in Northwest Croatia. The City of Zagreb has a dominant role in Northwest Croatia. Zagrebačka and Varaždinska Country follow. Another very significant indicator is the one pointing

at the fact that in the observed three-year period the share in the profit after taxation is bigger than the loss after taxation only in Northwest Croatia. The indicators of the number of entrepreneurs, the number of employed and the profit after taxation have not significantly changed under the influence of the crisis. This is also an indicator of the existence of certain advantages of the region (especially because of the influence of the city of Zagreb). The advantages are primarily: good geo-strategic connection, good educational structure of the population, strong financial capacity, the development of entrepreneurial infrastructure, etc. [11].

Central and East (Pannonian) Croatia has significantly the smallest share in all the indicators. Such a situation is a reflection of an increasing number of entrepreneurs who are active in agriculture and forestry, and such activities are sensitive of and dependent on the perspective of the same activities in competitive surroundings. The reflection of the ever worse situation in entrepreneurship is visible especially in the time of the crisis. In the period of 2009-2008 there was an increase of the share the region had in the loss by a staggering 59%. An extremely weak position of this region in comparison to other two regions lies in the unsatisfying entrepreneurial infrastructure, narrow economic focus (mostly agriculture), insufficient use of developmental encouraging measures, etc. [11].

Indicators of the entrepreneurs' activities in Adriatic Croatia show that this region falls behind Northwest Croatia, but it contributes to the number of Croatian entrepreneurs with almost 40%, and with 28% in the number of the employed. In the period of 2009-2007 there was a decrease in the share of the profit of Adriatic region entrepreneurs in the profit of all the entrepreneurs of Croatia by 10%, while at the same time there was a decrease in the share of the loss by almost 20%. In all the indicators of the region, Splitsko-dalmatinska County is dominant, and Primorsko-goranska and Istarska Counties follow.

TABLE II  
INDICATORS OF ENTREPRENEURS' ACTIVITIES<sup>a</sup>

Year	Share in the number of total entrepreneurs	Share in the number of total employed	Share in total profit after taxation	Share in total loss after taxation
<b>Northwest Croatia</b>				
2007.	47,3	55,8	65,1	47,1
2008.	47,0	55,4	66,6	50,7
2009.	46,6	55,6	66,9	51,9
<b>Central and East Pannonian Croatia</b>				
2007.	14,7	15,5	9,4	13,3
2008.	13,5	17,1	9,4	10,4
2009.	13,8	16,9	10,3	16,5
<b>Adriatic Croatia</b>				
2007.	38,7	27,6	25,5	39,9
2008.	39,3	27,3	23,7	39,0
2009.	39,6	25,5	22,9	31,6

<sup>a</sup> Authors' calculations are based on Annual Financial Reports whose submitting is an obligation for the entrepreneurs who are profit tax payers.

In almost all the counties, which are a part of the regions based on the NUTS II level, county centers have a dominant

role. The dominant role of county centers is a result of the longtime centralization of business activities in the centers. This led to a decrease in the use of available resources in other areas. Such a situation is a reflection of inadequately enacted regional policy. This is supported by the data from Eurostat, according to which the regional GDP is extremely low: in Northwest Croatia it is only 78%, in Adriatic Croatia 61%, and in Pannonian Croatia only 46% of GDP of EU 27 [12]. This macroeconomic indicator also indicates that in Croatia exists quite large disparity in the level of regional economic development.

#### V. CONCLUSION AND RECOMMENDATIONS

The implementation of regional policy did not start on time in Croatia. The measures undertaken to improve less developed areas have not resulted in positive effects. Therefore, today, the developed Croatian cities such as Zagreb, Split, Rijeka and others are faced with a series of severe problems. The problems reflect themselves in increasing migration of urban population in large cities, unemployment, and an exceptionally high rate of corruption and crime.

Croatia has a problem with a very low level of people's motivation for new entrepreneurial initiatives. The entire Croatian economy is missing strategic reforms that would in the medium term impact on improving the macroeconomic situation.

Accession to the European Union imposes some new favorable developmental opportunities for Croatia. Each of the regions in Croatia has certain advantages which should be used in order to achieve better levels of competitiveness.

The implementation of comparative analysis of indicators of Croatian entrepreneurs on regional level has shown that there are great differences in regional development. Such a situation has, with other key factors of regional development, influenced on long-term tendency of negative indicators of entrepreneurial activity on the global level of Croatia.

Due to the existence of such a situation, certain recommendations for the improvement of the condition on regional level can be given. It can be expected that they should in the future influence the national level as well.

- to implement the measures based on enacted laws and strategic documents directed to the systematic implementation of regional policy,
- to form new and improve the functioning of existing institutions in charge of the implementation of regional development policy
- to decentralize the authorities and means from national to lower power units,
- to develop business infrastructure and entrepreneurial climate
- to solve problems of narrow economic focus on certain activities,
- to encourage competitive regional values,
- to motivate domicile entrepreneurs to undertake according activities,

- to influence on the improvement of the quality of life in less developed areas so that young, educated people would not leave such areas, etc.

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