

INTERNATIONAL PERSPECTIVE OF ENTREPRENEURSHIP IN THE REPUBLIC OF CROATIA

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Summary

In the adjustment process of Croatian economy to the European Union and its standards, the role of entrepreneurship is significant, because it is the entrepreneurship that has set in motion the Croatian own recourses from human to financial. The paper deals with the trends of the Croatian entrepreneurship and its comparative position regarding other European and world countries in the last four years. Special attention will be given to the implementation of new information and communication technologies in Croatia. The results of this research presented in this paper may be used in further design of politics, programs and studies in order to make further improvements of entrepreneurship.

1. INTRODUCTION

In the developed EU market economies, entrepreneurship plays an important role in the economic development. It is the moving force of the economic development in most European countries and it is tightly connected with the intensive changes in technologies, economy and politics, as well as with cultural and institutional achievements in a society. It is worth mentioning that rich structure of institutions and organizations, which is in the function of entrepreneurial development, is the attribute only of the developed market economies. Therefore, in order to reach the level of the developed EU countries, the Republic of Croatia should create certain prerequisites for entrepreneurial development by applying know-how and experience of the developed countries, supporting entrepreneurial concept and developing entrepreneurial culture. This paper gives an overview of the present state and development of entrepreneurship in the Republic of Croatia, focusing primarily on the analysis of the state-of-the-art information and communication technologies in entrepreneurship as some of the main prerequisites for its development.

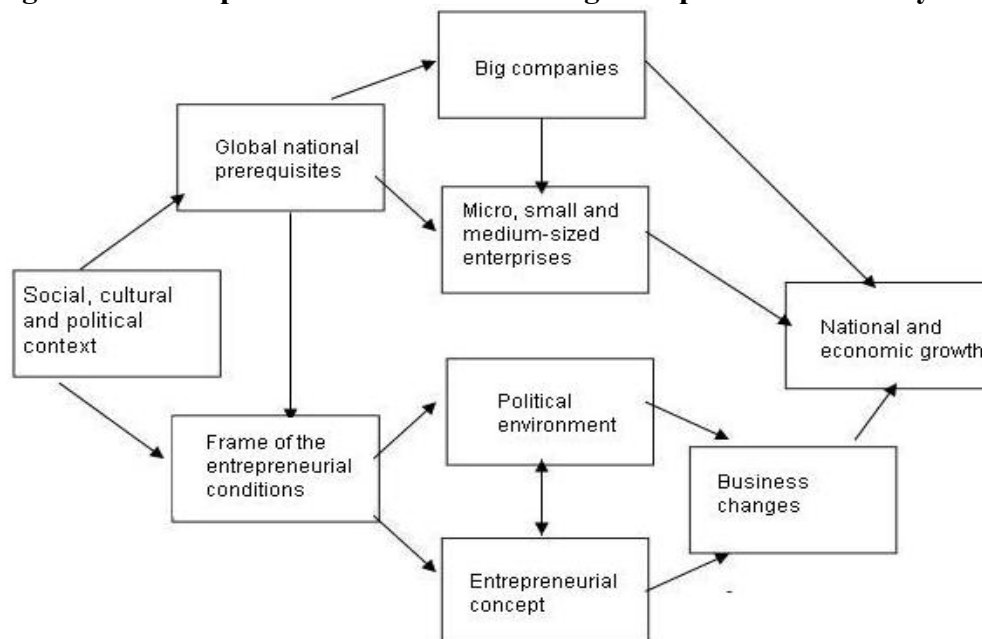
2. ENTREPRENEURIAL ACTIVITY IN WORLD BUSINESS SYSTEM

Nowadays close on 450 million people are involved in entrepreneurial activity all over the world. The Total Entrepreneurial Activity – TEA of a particular country can be expressed as the relation of the number of people to every 100 grown-ups (aged 18-64) who have attempted to start up their own business or have been the owners/managers of an active enterprise not older than 42 months.¹

¹ Singer, S. et al: Što Hrvatsku čini (ne)poduzetničkom zemljom, Rezultati GEM 2002 za Hrvatsku, CEPOR, Zagreb, 2003, p.12

Establishing the level of the entrepreneurial activity is based on the conceptual frame which presupposes that all economic processes are taking place in relatively stable political, social and historical context (Figure 1)

Figure 1: Conceptual frame for establishing entrepreneurial activity



Source: Reynolds, P.D. et al.: *Global Entrepreneurship Monitor, Executive Report, 2002*

In 1999, the Global Entrepreneurship Monitor (GEM) was set up by the researchers of the London Business School and Babson College from Boston. Its main objective was to investigate entrepreneurial activities, and in that particular year, the project was carried out in ten countries. Since then, the number of the countries involved in the project has been increasing. Croatia was included in 2002, when 37 countries participated in the project, which makes 62% of the world population, 92% of the world GDP, and close on 286 million people who were entrepreneurs (actively participating in setting up an enterprise or being already owners or managers of an enterprise not older than 42 months).

By using unique indicators for measuring various aspects of the entrepreneurial activity, it is possible to do contrastive analysis of an entrepreneurial activity of a particular country on international level:¹

- Total Entrepreneurial Activity indicators of the entrepreneurial process lifecycle:
 - Beginners (start-ups who decide to set up an enterprise)
 - New entrepreneurs (owners of an enterprise whose activity is measured by payrolls for over 3 months but less than 42 months)
 - Entrepreneurs (owners who have been active longer than 42 months)
- Entrepreneurial activity indicators of beginners and new entrepreneurs measured by the relation of such entrepreneurs (start-up) to the sample of grown-up population, aged from 18 to 64 expressed in Total Entrepreneurial Activity (TEA) Index.
- Motivation indicators of entrepreneurial activity
 - TEA Opportunity Index – those who have recognized entrepreneurial activity as a business opportunity

¹ Singer, S. et al: Što čini Hrvatsku poduzetničkom zemljom, Rezultati GEM 2002 – 2005. za Hrvatsku, CEPOR, Zagreb, 2006, p.13

- TEA Necessity Index – those who have been forced to entrepreneurial activity by the situation (being dismissed or not being able to find other job ...)

Taking into consideration the differences in motivation for entrepreneurial activity, two different TEA indices have been set up: TEA Opportunity and TEA Necessity, and motivation index is directly derived from them (the relation between TEA Opportunity and TEA Necessity). It is preferable that the above mentioned index is above 1, because it means that there are more those people who have decided to take part in entrepreneurial activity primarily as their own personal choice. The Table 1 shows entrepreneurial activity rates of the entrepreneurial process lifecycle as well as motivation indices in 2005 in 20 European countries where the GEM study has been conducted¹.

Table 1: Entrepreneurial activity rates and motivation indices in 2005

State	Beginners active up to 3 months	New entrepreneurs active 3-42 months	TEA index for beginners and new entrepreneurs	Entrepreneurs active longer than 42 months	Entrepreneurs' total activity	Relation between TEA opportunity and TEA Necessity
<i>Austria</i>	3	2,4	5,3	3,8	8,8	5,9
Belgium	2,9	1,2	3,9	5,6	9,4	8,7
Denmark	2,4	2,4	4,8	4,4	8,8	27,4
Finland	3,1	1,9	5	8,6	13,5	6,3
France	4,7	0,7	5,4	2,3	7,5	1,3
Greece	5,2	1,6	6,5	10,5	16,9	5,7
Croatia	4,1	2,5	6,1	3,7	9,7	0,9
Ireland	5,7	4,7	9,8	8,1	17,7	4,2
Island	8,5	2,7	10,7	7,3	17,6	18,2
Italy	2,9	2,3	4,9	6,4	11,3	5
<i>Latvia</i>	4,2	2,8	6,6	5	11,5	4,9
Hungary	1,1	0,8	1,9	2	3,8	1,5
Netherl.	2,5	1,9	4,4	5,7	9,4	11,5
Norway	4,4	5,2	9,2	7,3	15,6	9,8
Germany	3,1	2,7	5,4	4,2	9,4	2,4
Slovenia	3	1,4	4,4	6,3	10,1	7,8
Spain	2,4	3,4	5,7	7,7	13,2	5,9
Sweden	1,7	2,5	4	6,3	10,2	5,6
Switzerland	2,6	3,7	6,1	9,7	15,4	6,1
Great Britain	3,4	2,9	6,2	5,1	11,2	6,7
All countries' aver.	3,5	2,5	5,8	6,0	11,6	7,3

Source: *Global Entrepreneurship Monitor, 2005 Executive Report, Babson College and London Business School, 2006, pp. 18 -22*

¹ The European countries included in GEM study are: Austria, Belgium, Denmark, Finland, France, Greece, Croatia, Ireland, Island, Italy, Latvia, Hungary, the Netherlands, Norway, Germany, Slovenia, Spain, Sweden, Switzerland and Great Britain.

The insight into entrepreneurial activities unveils one of the important dimensions of entrepreneurial activity in Croatia, which is essential for program and policy-making for strengthening entrepreneurship. The data reveal that Croatia is especially lagging in entrepreneurial activity rate of “grown-up” entrepreneurs (relation of 3.70% to 6.0% of all countries’ average), while the beginners’ entrepreneurial activity rate is above GEM average (relation of 4.1% to 3.5%) and new entrepreneurs’ activity rate is at GEM average.

Croatian low entrepreneurial activity rate in the category of “grown-up” entrepreneurs ranks the country in the 18th place. It signifies that those entrepreneurs who have the absorbing power in the country’s economy are insufficiently focused on solving the problem of fresh recruits. Coordinated activities of various Government policies and programs as well as universities (education and transfer of technologies) should be geared up to create supporting environment for growing enterprises.

The indicator of motivation index is significantly unfavorable for Croatia. In 2005, Croatia was the only country with higher TEA Necessity in relation to TEA Opportunity which resulted in motivation index of 0.9. This kind of indicator calls for urgent action to hedge the risk of business failures and to train entrepreneurs in entrepreneurial life for professional service skills, higher educational level, recognizing accessibility of favorable financial resources funded by grants and instruments of business angles, etc.

Within the period 2002 – 2005 (when Croatia was involved in GEM) favorable changes were noticeable (Table 2).

Table 2 TEA Indices for Croatia

	2002	2003	2004	2005
TEA	3,62	2,56	3,74	6,11
Rank	32/37	29/30	29/34	19/35
TEA Opportunity	2,18	1,74	2,04	2,92
Rank	35/37	29/30	32/34	32/35
TEA Necessity	0,85	0,59	1,57	3,09
Rank	25/37	22/30	12/34	6/35

Source: Singer, S. et al: Što čini Hrvatsku poduzetničkom zemljom, Rezultati GEM 2002 – 2005. za Hrvatsku, CEPOR, Zagreb, 2006, p.17

From 3.62% of TEA Index in 2002, Croatia reached TEA Index of 6.11% in 2005. This means that in the year 2005 one in every 16 grown-up persons was active in entrepreneurship, while in 2002, the relation of entrepreneurial activity was one in every 30 grown-up persons.

Observing separately TEA Opportunity and TEA Necessity indices, it is noticeable that Croatia is not trailing behind other countries which is a good sign of efficiency of some activities taken for supporting entrepreneurial environment favourable both for individuals and institutions.

The steady improvement of Croatian position within the period 2002-2005 is a result of the increasing entrepreneurial activity. Entrepreneurs decided to solve their problem of being unemployed by self-employment and setting up their own enterprises. However, there are more such entrepreneurs than those who start up their entrepreneurial activity because of recognizing an event that would provide a good/golden opportunity to set up a business.

People who have become entrepreneurs of their own free will have more ambitious and long-term plans with their business enterprise than those who have been forced into entrepreneurship out of necessity. It is significant that people who have become entrepreneurs out of necessity consider their entrepreneurial activity temporary. Therefore, the best possible way should be found to stimulate such entrepreneurs to go on with their entrepreneurial activity but now out of their own free will. However, in order to achieve such an objective, in creating government policies and programs, special attention should be paid to training programs and services such as entrepreneurial consulting to motivate the exceeding number of entrepreneurs out of necessity to turn their short-term perspective into a long-term development of entrepreneurial activity. It is particularly important when we take into consideration that it was only Croatia that had motivation index below 1 in 2005 compared to the average GEM of the countries with motivation index close on 6.

Starting up entrepreneurship is a must. However, it is not a sufficient prerequisite to build up entrepreneurial capacity of a country. It is substantial to create a safer business environment to make it possible for enterprises to survive and successfully reach full maturity. The relation of “grown-up” to start-up entrepreneurs gives the key index of “growing up” which enables better understanding of entrepreneurial capacity of a country (Table 3)

Table 3 Entrepreneurial capacity of Croatian economy within the period 2002-2005

		2002	2003	2004	2005
Motivation Index	Croatia	2,56	2,95	1,30	0,95
	GEM	5,73	5,68	5,55	5,94
Growing-up Index	Croatia	0,58	0,96	0,58	0,60
	GEM	0,87	0,79	0,92	0,92

Source: Singer, S. et al: Što čini Hrvatsku poduzetničkom zemljom, Rezultati GEM 2002 – 2005 za Hrvatsku, CEPOR, Zagreb, 2006, p.26

In the observed period, the trend in motivation index is particularly unfavourable indicating increasingly adverse relation of the entrepreneurs who recognised their enterprise as an opportunity to those who entered entrepreneurship out of necessity. Growing-up Index is calculated as a relation of the category of “grown-up” entrepreneurs to the category of “start-ups + new entrepreneurs”. Entrepreneurial capacity of a country can be developed by increasing start-up entrepreneurial activity, as well as by creating safer “growing up” conditions for those who have undertaken entrepreneurial activity. The way of creating condition for the development of both categories of entrepreneurs primarily depends on the national economic policy of each country.

The growing-up index raises the question of whether the existing conditions of entrepreneurial activity in Croatia could contribute to the entrepreneurs’ growth and to what extent. Extensive entrepreneurial activity primarily depends on individual decision mostly made by people who entered entrepreneurs out of necessity supported by government programs for start-up entrepreneurs. Afterwards, however, start-up entrepreneurs are deprived of any effective mechanism for making their entrepreneurial activity sustainable.

3. APPLICATION OF NEW INFORMATION AND COMMUNICATION TECHNOLOGIES IN CROATIA

New information and communication technologies and their application require greater investment share in know-how than in tangible property. Although the number of growing enterprises has decreasing tendency in all economies, it is such enterprises that are the resources of innovations, fresh recruit and growth potential of a country.

Growth potential is a synergy of all dimensions of growing up (openness to technological and production innovation, export orientation, fresh recruit expectations). GEM project defines the following levels of the growth potential by applying the combined growth potential index:

- Without growth potential – products are new to some or no customers. There are a lot of enterprises or just a few competitors, but no new technologies
- Partial growth potential without new technologies– products are new to all customers. An enterprise has no competitors and no new technologies
- Partial growth potential based on new technologies – products are not new to anyone. An enterprise based on new technologies has quite a few competitors
- Strong growth potential– products are new to some or all customers. An enterprise has few or no competitors and it is based on new technologies.

In the period 2002– 2005, there are positive tendencies of decreasing the number of entrepreneurs without growth potential in the Republic of Croatia as can be seen in Table 4.

Table 4 Croatian combined growth potential index within the period 2002-2005

	2002	2003	2004	2005
Start-up entrepreneurs	%	%	%	%
Strong growth potential	2,6	0	2,7	1,7
Partial growth potential based on new technologies	6,6	7,8	14,6	27,6
Partial growth potential without new technologies	19,7	19,6	18,7	20,7
Without growth potential	71,1	72,6	64,0	50,0
Total	100,00	100,00	100,00	100,0
"Grown-up" entrepreneurs	%	%	%	%
Strong growth potentials	0	0	0	1,8
Partial growth potential based on new technologies	5,7	10,0	9,1	21
Partial growth potential without new technologies	14,3	7,5	3	14
Without growth potential	80,0	82,5	87,9	63,2
Total	100,0	100,0	100,0	100,0

Source: Singer, S. et al: Što čini Hrvatsku poduzetničkom zemljom, Rezultati GEM 2002 – 2005. za Hrvatsku, CEPOR, Zagreb, 2006, p.31

In both observed categories of entrepreneurs it is noticeable that the number of entrepreneurs with growth potential has increasing tendencies. Strengthening the share of start-up entrepreneurs with growth potential based on new technologies is a good base for increasing business effectiveness. This tendency conforms with the situation in other GEM countries, since it is logical that younger enterprises have newer technologies than the “grown-up” entrepreneurs.

A good example of the original idea for using new information and communication technologies is Marinanet d.o.o., a private limited company that uses online system for marina berth reservation.

Nautical tourism is an elite tourism for users who demand premium service, and price is of less importance. For nautical tourism in Croatia, the lack of marina berths is a great problem that triggered some entrepreneurs to set up the company Marinanet d.o.o. On the website www.marinanet.hr marina berth reservations can be made online for the first time in Europe. The reservation can be made months in advance as well as during the voyage, the day before sailing in. For the time being, it is the only web site in Europe that provides such a service.¹

The website is in Croatian, English, German and Italian as can be seen on the intro page of Marinanet d.o.o.

Picture 1: Marinanet intro page



Source: www.marinanet.hr

Marinanet d.o.o. has made contracts with a number of leading marinas and ports on the Adriatic coast to provide marina berth reservations and purchase.

¹ For the time being, there are similar online marina berth reservations only in the USA

Picture 2: Marinanet system



Source: www.marinanet.hr

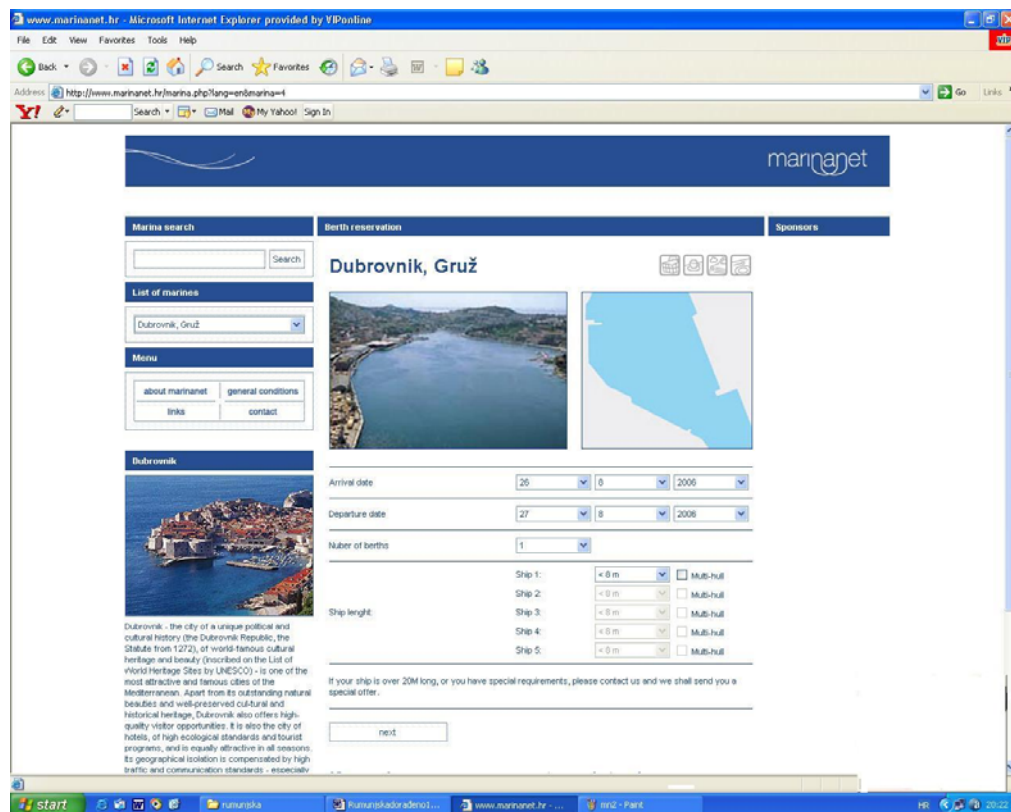
The picture presents marina locations that are included in the Marinanet system. Marinas have shown a great interest in online berth reservations. For the time being, the company offers services in 18 marinas, and it is in the mid of negotiations with another 10 marinas and ACI group of 21 marinas. The Ministry of the Sea, Tourism, Transport and Development of the Republic of Croatia, Croatian Tourist Association as well as some important sponsors have shown interest in this project.

The graphic portal of marina berth reservation system is presented in Picture 3 .

The system is user-friendly. On the menu, the marina of choice can be selected, dates of arrival and departure and the vessel data are filled in and the service is paid by credit cards. After reservation, Marinanet sends reservation confirmation by e-mail, and forwards information about booking as well as the data of the ship and crew to a particular marina or port.

It is worth mentioning that it is not important whether a particular marina is computerized or not, because Marinanet can proceed the received reservation by phone or fax. It is expected that all marinas on the Adriatic coast will be computerized in the forthcoming years, so that users can be interactively be informed about free berths and other necessary information.

Picture 3: The graphic portal of marina berth reservation system



Izvor: www.marinanet.hr

Marinanet d.o.o. belongs to start-up entrepreneurs with a strong potential of growth. In addition to current services, the enterprise plans the following:

1. To increase the number of marinas in Croatia that will be in the reservation system;
2. To connect with the Croatian Tourist Association;
3. To implement "first minute" and "last minute" reservations;
4. To elaborate interactive navigational map to help the user determine the course, plan the voyage route and calculate the distance;
5. To contact sponsors
6. To provide services for booking the place in restaurants, service information, weather forecasts free of charge
7. To plan long-term spreading of the system to Monte Negro, Turkey and Greece

4. MEASURES FOR IMPROVING ENTREPRENURSHIP

Taking into consideration the needs and priorities of the entrepreneurial development, as well as the adaptability of the Croatian economy to European and world economy, the measures and activities for upgrading entrepreneurship should be based on the following programs:

1. to develop entrepreneurial culture,
2. to elaborate measures and instruments for stimulating entrepreneurial activity,
3. to stimulate local development initiatives and instruments of local/regional development,
4. to eliminate administrative hurdles in all stages of entrepreneurial lifecycle,

5. to stimulate capital market development for financing new business enterprises with the growth potential,
6. to set up legal framework for effective business policy-making,
7. to develop institution infrastructure for providing professional services to small and medium-sized enterprises,
8. to form institutional structure on local and regional level,
9. to stimulate “export mentality” of small and medium-sized enterprises,
10. to diminish regional unstable development by creating statistical and analytical bases for measuring and evaluating effects of regional policies that conform to the EU statistical standards.

By implementing the above-mentioned recommendations and programs, a healthier and safer economic environment will be created for the growth and development of small and medium-sized enterprises. Once the enterprise has entered the market, it is the growth potential of individual entrepreneurs that will become the key factor of development and success.

5. CONCLUSIONS

In the adjustment process of Croatian economy to the European Union and its standards, the role of entrepreneurship is significant, because it is the entrepreneurship that has set in motion the Croatian own recourses from human to financial.

In the last four years, the evident upward trend of the Croatian entrepreneurship is a good sign of the positive effects of various growth activities implemented to create favorable entrepreneurial conditions for individuals and institutions.

The insight into entrepreneurial activities unveils one of the important dimensions of entrepreneurial activity in Croatia, which is essential for programs and policy-making for strengthening entrepreneurship. However, the data reveal that Croatia does have an increasing number of start-up entrepreneurs, but is lagging in entrepreneurial activity rate of “grown-up” entrepreneurs. This mere fact pinpoints the inadequate position of entrepreneurship in Croatian economy. Therefore, the Republic of Croatia should conduct extensive field research on entrepreneurship and implement a set of measures and activities to re-design policies and programs in order to upgrade entrepreneurial activity to the European standards.

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