



5th International Conference

**Economic Development Perspectives of SEE Region
in the Global Recession Context**

Proceedings:

Book of Extended Abstracts
USB with Full Papers

University of Sarajevo, School of Economics and Business
Bosnia and Herzegovina
October 14-15, 2010

Publisher

School of Economics and Business, University of Sarajevo
Trg oslobođenja – Alija Izetbegović 1, Sarajevo, Bosnia and Herzegovina

For the Publisher

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Printed by

Premier Febeco d.o.o.

Nacionalna i univerzitetska biblioteka
Bosne i Hercegovine, Sarajevo

338.2(497.6):[339.923:061.1EU(063)](082)

**INTERNATIONAL Conference of the School of
Economics and Business (5th ; 2010 ; Sarajevo)**
Proceedings : book of extended abstract / 5th
International Conference of the School of
Economics and Business "Economic development
perspectives of SEE region in the global recession
context", Sarajevo, October 14-15, 2010. -
Sarajevo : School of Economics and Business, 2010.
- X, 213 str. : ilustr. ; 24 cm + USB

Bibliografija uz svaki rad.

ISBN 978-9958-25-046-0

COBISS.BH-ID 18370310

CONTENT

FOREWORD	x
Dzenan Djonlagic, Mirza Krso THE STRATEGIC TENDENCIES FOR NEW REGULATED FRAMEWORK OF GLOBAL FINANCIAL SYSTEM	1
Fikret Hadzic, Velid Efendic BANKING SECTOR OF BOSNIA AND HERZEGOVINA IN GLOBAL RECESSION – NEW EVIDENCE FROM 2009	3
Ivan Sverko, Ivica Prga, Tadija Vrdoljak NON PERFORMING LOANS AND LOAN LOSS PROVISIONS: THE CASE OF CROATIA	5
Josip Viskovic THE APPROPRIATENESS OF INTERNATIONAL RESERVES IN CEE COUNTRIES AND THEIR ROLE DURING FINANCIAL CRISES	7
Emir Agic, Emir Kurtovic, Muris Cicic COMPETITIVE POSITIONING STRATEGIES OF COMPANIES IN BOSNIA AND HERZEGOVINA AND THEIR EFFECT ON BUSINESS PERFORMANCE	9
Vesna Babic-Hodovic, Eldin Mehic, Maja Arslanagic THE ROLE OF EMPLOYEES ON THE SERVICE COMPANIES' BUSINESS PERFORMANCE	12
Elvir Cizmici, Venan Hadziselimovic, Kenan Crnkic BUSINESS DECISIONS MAKING CONSIDERING MARKETING INFORMATION-OIL AND OIL DERIVATIVES INDUSTRY IN BOSNIA AND HERZEGOVINA	13
Anto Domazet, Adi Alic CONSUMER CONVERGENCE IN EU-10 COUNTRIES	16
Irena Guszak, Irena Pandza CONCEPT OF PERCEIVED VALUE WITH FOCUS ON PERCEIVED COSTS OF CONVENIENCE GOODS	19
Tomaz Kolar, Vesna Zabkar, Nenad Brkic, Ismir Omeragic HOW CRISIS AFFECTED CONSUMERS ATTITUDES AND VALUES IN SLOVENIA AND BOSNIA AND HERZEGOVINA	20
Marija Krstevska, Nikolina Palamidovska THE INFLUENCE OF THE BRAND ON THE PURCHASE DECISION IN RECESSION CONTEXT	24
Stefan Bojnec, Drago Papler ELECTRICITY DEMAND IN SLOVENIA	26
Violeta Domanovic, Jasmina Bogicevic, Sladjana Savovic THE GLOBAL STRATEGY ROLE IN MULTINATIONAL BUSINESS	28
Tonci Lazibat, Ines Sutic, Marija Jurcevic IMPLEMENTATION OF THE INTERNATIONAL STANDARDS IN ACHIEVING A BETTER COMPETITIVE POSITION	31
Jasmina Osmankovic, Aida Zaimovic, Hatidza Jahic COMPETITIVENESS OF CITIES	33
Ivana Plazibat, Davor Filipovic STRATEGIC ALLIANCES AS SOURCE OF RETAILERS COMPETITIVE ADVANTAGE	35
Nina Ponikvar, Maks Tajnikar THE IMPACT OF FOREIGN TRADE ON MARKUP SIZE: EVIDENCE FROM A DYNAMIC PANEL MODEL OF SLOVENIAN MANUFACTURING FIRMS	37

Zijada Rahimic, Amra Kozo		
	ADAPTABILITY OF B&H COMPANIES TO MARKET ENVIRONMENT CHANGES WITH AIM OF BUILDING COMPETITIVE ADVANTAGES	39
Dzevad Sehic, Zijada Rahimic, Jasna Kovacevic		
	PARTICIPATION OF WOMEN IN MANAGMENT IN B&H COMPANIES	41
Aida Habul, Amila Pilav-Velic		
	THE POSSIBILITY OF OUTSOURCING IN TERMS OF E-BUSINESS	43
Veronica Stefan, Darko Savic		
	MOBILE INTERNET IN SUPPORT OF SEE REGIONAL DEVELOPMENT FOR SOCIAL CHANGES	46
Kasim tatic, Merima Cinjarevic, Armin Avdic		
	KNOWLEDGE MANAGEMENT AND FIRM PERORMANCE	48
Ziga Cepar, Stefan Bojnec		
	MACRO-LEVEL DETERMINATS OF THE RELATIVE UNDERGRADUATE HIGHER EDUCATION PARTICIPATION IN SLOVENIA	50
Mirjana Jelec Raguz, Svjetlana Letinic		
	EDUCATION IN CROATIA AND THE EUROPEAN UNION: SIGNIFICANCE, STATE AND TRENDS	53
Ruza Brcic, Kristina Brodar, Andrea Vugrinovic		
	SUCCESS FACTORS FOR SCIENCE AND TECHNOLOGY PARKS IN CROATIA	55
Josef Windspreger, Nina Gorovaia		
	KNOWLEDGE AND TRUST AS DETERMINANTS OF THE KNOWLEDGE TRANSFER STRATEGY IN NETWORKS	57
Michael Kannieß		
	KEY FACTORS FOR SUCCESSFUL INTERNATIONALIZATION OF SME'S IN TRANSITION ECONOMIES IN SOUTH EASTERN EUROPE IN THE LIGHT OF GLOBAL RECESSION	59
Marina Klacmer Calopa, Jelena Horvat, Katarina Pazur		
	HUMAN RESURCE MANAGEMENT FUNCTION IN ORGANIZATION: RESEARCH OF COMPANIES FROM CROATIA	62
Sonja Remetic		
	THE GOVERNANCE STRUCTURE OF INTERNATIONAL JV: PROPERTY RIGHTS AND TRANSACTION COST EXPLANATIONS	64
Kozeta Sevrani, Klodiana Gorica		
	MARKETING IMPLICATION OF INFORMATION COMMUNICATION TECHNOLOGY ON THE PROCESS OF GLOBALISATION OF ALBANIAN ENTREPRENEURSHIPS	65
Adil Trgo, Elvir Cizmic, Kenan Crnkic		
	MICRO ENTREPRENEURSHIP-A MYTH OR AN IMPERATIVE FOR THE ECONOMIC DEVELOPMENT OF BOSNIA AND HERZEGOVINA	69
Boris Tusek, Ivana Pokrovac		
	THE ROLE OF INTERNAL AUDIT FUNCTION IN RISK MANAGEMENT PROCESS: CROATIA AND EUROPE COMPARISON	71
Violeta Vidacek-Hains, Nina Begicevic, Marina Klacmer Calopa		
	RELATIONSHIP BETWEEN MANAGERS' SELF-EVALUATION OF DECISION-MAKING AND LOCUS OF CONTROL	73
Zsuzsanna Tóth		
	SUSTAINABILITY ANALYSES OF EU ENTRANTS OF 2004	75

Romina Alkier Radnic, Marija Ivanis, Vedran Milojica	
SMALL ECONOMICS OF THE REPUBLIC OF CROATIA IN THE EUROPEAN CONCEPT OF ENTREPRENEURSHIP	76
Vlatka Bilas, Sanja Franc	
INTRA-REGIONAL TRADE AND MOBILITY OF CAPITAL AND LABOR IN THE EU	77
Sreten Cuzovic, Djordje Cuzovic	
INTERNATIONALIZATION OF QUALITY SYSTEM IN TRADE – LESSONS FOR MANAGERS IN SERBIA	79
Katerina Tosevska – Trpcevska	
REGIONAL VS. MULTILATERAL, BILATERAL VS. REGIONAL CHOICES IN THE INTERNATIONAL TRADE FOR THE REPUBLIC OF MACEDONIA	80
Anto Domazet, Nadzida Saric	
SWOT ANALYSIS FOR MOBILE VIRTUAL NETWORK OPERATORS IN THE SOUTHEAST EUROPE REGION	82
Zlatko Lagumdzija, Jasmina Selimovic, Mirza Krso, Emir Kurtic	
COMPETITIVENESS OF THE COUNTRIES AND THE REGION OF SOUTH-EAST EUROPE 2009-2010	84
Jasmina Osmankovic, Hatidza Jahic, Aida Zaimovic	
REGIONS AS DRIVING FORCES OF NATIONAL COMPETITIVENESS – CASE OF SEE	86
Drago Papler, Stefan Bojnec	
DETERMINANTS OF COSTS AND PRICES FOR ELECTRICITY SUPPLY IN SLOVENIA	88
Bojan Ristic, Dejan Trifunovic, Svetozar Tanaskovic	
COMPETITIVENESS OF TRANSITIONAL COUNTRIES DURING THE GLOBAL CRISIS	90
Nikolina Smrekar	
NATIONAL ACCOUNTING STANDARDS IN CONTEXT OF GLOBALIZATION AND HARMONIZATION OF FINANCIAL REPORTING FOR SMES	92
Lajos Zager, Sanja Sever	
THE PUBLIC OVERSIGHT SYSTEMS – COMPARATIVE ANALYSIS OF SELECTED EU COUNTRIES AND CROATIA	94
Dragan Djuricin, Iva Vuksanovic	
THE WORLD AFTER THE CRISIS: LESSONS FOR SERBIA'S EXIT STRATEGY FROM PERMANENT CRISIS	96
Izet Ibreljic, Amra Kozarica	
POSSIBLE REFORM DIRECTIONS OF THE PRESENT INTERNATIONAL MONETARY SYSTEM	97
Ljiljana Katicic	
FACILITY OR ASSET MANAGEMENT IN CROATIA	99
Vukasin Kuc, Iva Vuksanovic	
THE ROLE AND SIGNIFICANCE OF RATING AGENCIES DURING THE CRISIS PERIOD	101
Sibel Cengiz, Cem Mehmet Baydur	
CRISIS AND THE LABOR COSTS IN DEVELOPING ECONOMIES: THE CASE OF TURKISH MANUFACTURING SECTOR	103
Ciric Zoran, Sedlak Otilija, Adzic Sofija	
INTEGRATIVE RESEARCH MODEL FOR ASSESSING THE DIFFUSION OF E-BUSINESS AT THE FIRM LEVEL AT VOJVODINA	105

Anto Domazet, Rusmir Sendic	
THEORETICAL CONTROVERSIES RELATED TO MODE OF ENTRY AND SEQUENCING STRATEGIC DECISIONS OF THE COMPANIES ENTERING INTERNATIONAL MARKET	107
Heri Bezic, Alemka Segota, Katija Vojvodic	
MEASURING THE EFFICIENCY OF CROATIAN AIRPORTS	110
Adnan Efendic, Geoff Pugh, Nick Adnett	
CONFIDENCE IN FORMAL AND RELIANCE ON INFORMAL INSTITUTIONS IN BOSNIA AND HERZEGOVINA: DETERMINANTS AND RELATIONSHIPS	112
Sabina Pacariz	
SOCIAL CAPITAL AND ITS ECONOMIC REFLECTIONS	113
Sandra Krtalic, Manuel Benazic	
THE EFFECT OF FISCAL DEFICIT ON INTEREST RATE IN REPUBLIC OF CROATIA	115
Ines Kersan-Skabic, Lela Tijanic	
THE NEW ECONOMIC GEOGRAPHY AND CLUSTERING IN THE <i>SOUTHEAST EUROPEAN</i> REGION – THE CASE OF CROATIA	117
Anto Bajo, Marko Primorac	
THE IMPACT OF GOVERNMENT GUARANTEES ON THE INCREASE OF PUBLIC DEBT IN CROATIA	119
Petra Dosenovic, Maks Tajnikar	
USING THE BUSINESS PROCESS MODEL OF A HOSPITAL TO IMPLEMENT ORGANISATIONAL AND MANAGEMENT CHANGES TO INCREASE ITS BUSINESS PERFORMANCE AND EFFICIENCY	120
Sandra Krtalic, Mauro Kelebuda	
THE ROLE OF THE PUBLIC-PRIVATE PARTNERSHIP IN PROVIDING OF PUBLIC GOODS: POSSIBILITIES AND CONSTRAINTS	122
Svjetlana Letinic, Verica Budimir, Mario Zupan	
CROATIAN EDUCATIONAL SECTOR – POTENTIALS OF THE PUBLIC-PRIVATE PARTNERSHIPS	124
Veljko Trivun, Vedad Silajdzic, Fatima Mahumtcehajic, Mia Mrgud	
PUBLIC PRIVATE PARTNERSHIP AND REGIONAL DEVELOPMENT – LEGISLATIVE ASSUMPTIONS	127
Vesan Vasicek, Martina Dragija, Mirjana Hladika	
CONVERGENCE OF FINANCIAL REPORTING IN THE PUBLIC SECTOR TO THE PRACTICE OF BUSINESS SECTOR	130
Sofija Adzic, Jasminka Adzic	
INDUSTRIAL POLICY AND POLES OF GENERIC GROWTH - THE STUDY OF THE CASE OF VOJVODINA	132
Sanja Alatovic	
WASHINGTON CONSENSUS AND BOSNIA AND HERZEGOVINA	134
Goran Buturac, Ivan Teodorovic	
THE IMPACTS OF THE GLOBAL RECESSION ON SOUTH-EAST EUROPEAN COUNTRIES	136
Ivo Druzic, Tomislav Gelo, Tamara Boras	
ECONOMIC GROWTH AND ENERGY CONSUMPTION IN REGIONAL COUNTRIES	138
Jalal El Ouardighi, Rabija Somun-Kapetanovic	
INCOME MOBILITY IN THE SEE REGION: A COMPARATIVE ANALYSIS WITH THE EU COUNTRIES	140

Anita Frajman-Jaksic, Natasa Drvenkar		
PROBLEMS IN CROATIA'S REGIONAL DEVELOPMENT: HOW TO PROCEED?		141
Marijana Galic, Mohamed El-ZayetElma Kirlic, Jasmina Sero, Ajla Djonko, Jasmina Osmankovic		
VISUALIZING REGION DEVELOPMENT DIFFERENCES		143
Eva Mijatovic, Josipa Visic, Ivana Tomas		
FINANCING M&A ACTIVITIES IN CROATIA		144
Ensar Sehic		
DYNAMIC FACTOR ANALYSIS OF HUMAN CAPITAL IN THE SEE REGION		146
Zdravko Sergo, Zdenko Tomcic, Amorino Poropat		
COMPARATIVE STUDY OF THE UNDER-UTILISATION OF TOURISM AND ECONOMIC CAPACITY IN CROATIA AND THE RECESSION IN WESTERN EUROPE		148
Lorena Skufflic, Sandra Sokcevic		
DETERMINANTS OF THE ECONOMIC GROWTH IN WESTERN BALKANS COUNTRIES		149
Gordana Kordic, Dario Grgic		
CURRENCY BOARD ARRANGEMENT: A TRAP FOR NATIONAL ECONOMY?		152
Jasmina Osmankovic, Rabija Somun-Kapetanovic, Ermina Resic		
RELEVANCE OF THE DEMOGRAPHIC CRITERIA FOR ESTABLISHING STATISTICAL REGIONS		153
Mirko Savic		
POTENTIAL DIRECTIONS OF LABOR MIGRATION IN THE REGION OF VOJVODINA AND COMPARISON WITH EU REGIONS		155
Dzenan Djonlagic, Kanita Imamovic-Cizmic		
MACROECONOMIC ASPECT OF COMPETITION LAW ENFORCEMENT – REVIEW FROM BIH		157
Tanja Kosi, Bojan Nastav		
SELF-EMPLOYMENT RATE IN SLOVENIA AND CENTRAL AND SOUTH EAST EUROPE		159
Matevz Raskovic, Barbara Mörec		
THE DYNAMIC VIEW OF THE SME FINANCING GAP BEFORE AND DURING THE ECONOMIC CRISIS: SOME EVIDENCE FROM SLOVENIA		161
Radoslav Stefanovic, Vladimir Oradovic, Emilija Vuksanovic		
CORPORATE GOVERNANCE AND ECONOMIC DEVELOPMENT		163
Almira Arnaut-Berilo, Azra Zaimovic		
HOW EFFICIENT ARE BOSNIAN STOCK MARKET INDICES?		165
Tajana Barbic, Iva Condic-Jurkic		
ANALYSIS OF INVESTMENT APPROACHES ON CROATIAN EQUITY MARKET		167
Velimir Lukic		
THE SOUNDNESS OF BANKING SYSTEMS IN SOUTH-EASTERN EUROPE IN THE LIGHT OF GLOBAL FINANCIAL DISTURBANCE		169
Marko Miletic, Domogojka Buljan Barbaca, Marina Lolic Cipic		
DIVIDENDS – LAGGING INDICATOR OF COMPANIES' BUSINESS?		171
Jasmina Okicic		
CORRELATION AND EFFICIENCY OF THE WESTERN BALKANS FRONTIER CAPITAL MARKETS IN GLOBAL RECESSION CONTEXT		173
Elma Agic-Sabeta, Zeljko Sain		
ASSET-LIABILITY MANAGEMENT OF LIFE-INSURANCE COMPANIES IN SOUTHEAST EUROPE		175

Azra Zaimovic, Jasmina Mrkonja	ESTIMATING RISK FREE RATE OF RETURN: CASES OF CROATIA, SERBIA AND BOSNIA AND HERZEGOVINA	177
Daniela Gracan, Zrinka Zadel, Ana Birin	STRATEGIC MANAGEMENT FOR RURAL TOURISM SUSTAINABLE DEVELOPMENT	178
Sanda Renko	FOOD IN THE FUNCTION OF RURAL DEVELOPMENT IN THE CONTEXT OF TOURISM INDUSTRY	179
Mauro Dujmovic, Dean Sinkovic, Aljosa Vitasovic	CORPORATE SOCIAL RESPONSIBILITY IN THE BANKING SECTOR – CASE STUDY CROATIA	181
Goran Marijanovic, Drazen Cucic, Sanja Popovic	SOCIAL POLICY AS AN IMPORTANT AREA OF THE EUROPEAN UNION ACTIVITIES	182
Emina Resic, Merima Balavac	LABOUR MARKET IN BOSNIA AND HERZEGOVINA: DOES EDUCATION MATTER?	185
Belma Arnautovic, Sanela Avdic, Berina Arnautovic	RURAL TOURISM DEVELOPMENT IN SARAJEVO CANTON – CASE OF “FORGOTTEN VILLAGE “LUKOMIR”	187
Sanela Avdic, Armin Avdic, Berina Arnautovic	TOURISM DEMAND ANALYSIS: CASE OF WINTER CENTERS IN BOSNIA AND HERZEGOVINA	190
Márta Bakucz, Gábor Klesch, Judit Lamperth	REGIONAL FACTORS IN TOURIST FLOWS AND COMPETITIVENESS IN HEALTH TOURISM IN HUNGARY	193
Jasmina Osmankovic, Renato Zrnica, Vanja Kenjic	TOURISM - CREATOR OF THE LOCAL AND REGIONAL DEVELOPMENT	196
Almir Pestek, Muris Cicic	PRACTICAL ASPECTS OF E-MARKETING APPLICATION IN TOURISM DEVELOPMENT IN BOSNIA AND HERZEGOVINA	199
Natasa Urosevic	DEVELOPMENT AND MARKET POTENTIAL OF CULTURAL TOURISM – ISTRIAN CASE STUDY	201
Jelena Rozic, Nevenka Hrovatin	RESIDENTIAL HEATING TECHNOLOGY PREFERENCES IN SLOVENIA	203
	INDEX OF AUTHORS	205

SMALL ECONOMICS OF THE REPUBLIC OF CROATIA IN THE EUROPEAN CONCEPT OF ENTREPRENEURSHIP

Romina Alkier Radnic

Faculty of Tourism and Hospitality Management in Opatija

Marija Ivanis

Faculty of Tourism and Hospitality Management in Opatija

Vedran Milojica

Faculty of Tourism and Hospitality Management in Opatija

Keywords: small entrepreneurship, accession to the European Union, economic growth, work places

Ridderstrale and Nordstrom point out: "In the world of developed capitalism the success is not measured by getting a pass to backstage, but only imagination and authenticity are being put in the first line, and the future, as always, belongs to those in the first rows". This is the "Century of Entrepreneurs". This especially applies to the Republic of Croatia, in which true originality must become more valuable than ever. Courage, valour and innovations, represent the future in the world of entrepreneurship. Economic crisis is the Croatian chance, and small entrepreneurship is a possible potential of economic prosperity. This is supported by the fact that the Government of the Republic of Croatia, in the project "Croatia in the 21st Century", pointed out small entrepreneurship as a generator of economic development in general. This puts emphasis on the country's national policy and re-organisation of the society's institutions in favour of entrepreneurship as the key determinant of entrepreneurial success. In the development of Croatian economy, entrepreneurship includes the same determinants as in other European countries. On the European level, entrepreneurship helps opening of new work places and economic growth, it is crucially significant for competitiveness, develops personal potentials, and general society interests. Creation of entrepreneurial environment demands a harmonised government policy and the concept of comprehensive legal, strategic and institutional approach to small entrepreneurship development. The policy should be conducted continuously, standards of the European Union should be implemented, and legislation for government supports should be applied. Except for stimulation measures, small economics will maintain its development, and become a factor of adjustment to market trends, of development of economy in general, which is a pre-requisite for enhancing the competitiveness of Croatian economy on the global level. Does the accession to the European Union benefit the small economy? – That is the question which the authors attempt to answer in this paper. The purpose of the paper is to analyse the expected positive effects of small enterprises when Croatia joins the EU, and to point out possible disadvantages and costs of staying out of the EU. The goal of the paper is to think out the construction of a dynamic concept of Croatian entrepreneurial economy through the prism of key EU entrepreneurial documents, and through the current state of small entrepreneurship in Croatia.

Ph.D. Romina Alkier Radnić, Assistant Professor
Telephone number: +385 51 294-718
Fascimile number: +385 51 292 945
E-mail address: rominaa@fthm.hr

Marija Ivaniš, Assistant
Telephone number: +385 51 294-715
Fascimile number: +385 51 292 945
E-mail address: marijai@fthm.hr

Vedran Milojica, Student
Telephone number: +385 51 294-718
Fascimile number: +385 51 292 945
E-mail address: vedran_mi@yahoo.com, vmilojic@fthm.hr

SMALL BUSINESS OF THE REPUBLIC OF CROATIA IN THE EUROPEAN CONCEPT OF ENTREPRENEURSHIP DEVELOPMENT

Ridderstrale and Nordstrom point out: «In the world of developed capitalism, success is not measured by getting a backstage pass; only imagination and authenticity are put first, and future, as always, belongs to those standing in the front lines.» This century is the «century of entrepreneurs». This especially holds for Croatia, in which true originality must become more valuable than ever. Courage, boldness, and, consequently, innovations, represent the future in the world of entrepreneurship. Economic crisis is a chance for Croatia, and small business is a possible potential of economic prosperity. This claim has been supported by the fact that the Croatian government focused on small entrepreneurship in its project «Croatia in the 21st Century», as a generator of development of entire economy, which emphasises the country's national policy and re-organisation of social institutions in favour of small business as the key determinant of entrepreneurial success. The meaning of entrepreneurship in the development of Croatian economy includes the same determinants as in other European countries. On European level, entrepreneurship stimulates opening of new workplaces and economic growth; it has been crucially significant for competitiveness, it develops personal resources and develops general social interests. Creating entrepreneurial conditions demands a co-ordinated government policy and the concept of a comprehensive legal, strategic, and institutional approach to development of small business. The policy should be implemented continuously, by introducing the standards of the European Union, and implementing legislation for government grants. Small business will maintain its development with stimulative measures, become a factor of adjustment to market trends, total economy development, which is, after all, a pre-requisite of increasing competitiveness of the Croatian economy on the global market. The basic question the authors want to answer in this paper is whether accession to the European Union would be profitable for small business. The purpose of the paper is to present the expected positive effects on small enterprises upon accession to the EU, and point out possible disadvantages and costs of remaining outside of the integration of European democratic countries. The objective of the paper is to present the current state of small entrepreneurship in the Republic of Croatia from the point of view of key EU entrepreneurial documents, and to design a dynamic concept of entrepreneurial economy of the Republic of Croatia.

Keywords: small business, accession to the EU, economic growth, workplaces

1. INTRODUCTION

It is evident that successful entrepreneurs are those who know what they want. The key of their success is the need to accomplish an objective, a desire to achieve something better and of greater quality, something different, or do it in another way. Once they achieve entrepreneurial success, the greatest reward is the feeling of self-fulfillment and satisfaction in knowing that they are their own bosses, and that they achieved everything thanks to their own efforts. They undertake new entrepreneurial ventures with even greater enthusiasm, competing with themselves, always wanting more and better. Entrepreneurship is the key to a higher living standard. To become an entrepreneur means having a career which fulfills and inspires. It is definitely not, what many people think at the first glance, just «money making», but rather a social activity which teaches responsibility and taking advantage of opportunities in a unique way. To be an entrepreneur means having a vision. Not necessarily money to start a business venture, but one's own idea and inexhaustible desire and will power to realise this idea and make it real. It is, in fact, a kind of self-affirmation and determination of one's own life, taking responsibility for oneself, and for others. These ideas change the world. They are sometimes so simple, and yet, they change the present time and the world we live in, and they are mostly visible in small enterprises.

In their research, many scientists study the place and the role of small enterprises in the economy by following global economic and tourist trends. It is interesting that they all point out the dominance of advantages and significance of small enterprises which prevail over the disadvantages, and attribute great significance to their contribution to economy in the whole.

According to Megginson, the significance of small enterprises is reflected through the following trends:¹

1. The number of small enterprises grows rapidly.
2. They provide possibilities of employing new workers.
3. They are respected in the society.
4. There is an increase in the interest for education in this field at the two-year college and university education.
5. It strengthens the trend of independent entrepreneurs.

According to Middleton, the significance of small enterprises arises from:²

1. Reflections and enhancements of unique and specific features of the destination in which they operate (the cuisine of the specific area, architecture, language, local heritage, customs, culture),
2. Achieving distinctiveness and originality, and leadership in securing and providing the best,

¹ W. L. Megginson et.al.: *Small Business Management*, Irwin Mc Graw-Hill, Companies Inc., USA, 1997, p.4-5.

² V. Middleton: *Agenda 2010 SME in European Tourism: The Context and a Proposed Framework for European Action*, AIEST, No.4/98, p.36-37.

3. Their business activities, which have a specific feature of peculiarity and individuality,
4. Faster adjustment to changes on the market,
5. Strengthening and supporting competitiveness of the tourist destination and reflecting future development.

According to Aes and Audreitschu, the significance of small enterprises is pointed out through:

1. New technologies,
2. Greater flexibility in the conditions of globalisation,
3. Rapid increase in the number of women as founders and managers of small enterprises,
4. Individualised products and services – small-series manufacture,
5. Emergence of small enterprises in a number of new fields, such as telecommunications, banking, intellectual services, etc.

The greatest advantage, among many, is the one which needs to be repeated over and over again, until it becomes an integral part of the awareness of each individual in all national economies: small enterprises open new workplaces and stimulate «self-employment». And, for undeveloped countries and developing countries such as Croatia, increase in employment in the competitive market economy is the General Strategic Objective in the competitive market economy of the European welfare state of the 21st century.

2. SMALL ENTREPRENEURSHIP – THE TRUE AGENT OF EUROPEAN ECONOMY

Small and medium-sized enterprises in the EU (hereinafter: SMEs) have been recognized as significant agents of economies, sectors of regions, and countries. On the macroeconomic level, entrepreneurship is viewed as the engine of structural changes and development, employment growth, and on micro level, it is viewed as a process which precedes the creation of new enterprises. Increased significance of SMEs and entrepreneurship is very tightly linked to changes which lead towards the economy of knowledge. Technical changes, globalisation, a great share of service activities, liberalisation... all of this leads to situations in which small and medium-sized enterprises have growing opportunities to present their innovations, discover new markets, take advantage of globalisation and grow as fast as possible.

Small enterprises are the pillar of European economy. They are the key source of new jobs and a fertile ground for realisation of new business ideas. The new European economy will only be successful if small enterprises are put on the top of the European policy's priority list.

Namely, the starting point are two key European documents from the field of entrepreneurship:

1. *The European Charter for Small Enterprises*, compiled and published by the European Commission in the year 2000³, and
2. *Green Paper: Entrepreneurship in Europe*, compiled and published by the European Commission in Brussels in 2003.

The European Charter for Small Enterprises presents developmental guidelines for entrepreneurship through ten key areas, with the purpose of stimulating and creating entrepreneurial climate and environment, in order for small enterprises to use the advantages of European economy based on the economy of knowledge. The Republic of Croatia has also been a member of this Charter since 2003. The key areas/fields refer to:⁴

1. Education and training for entrepreneurs,
2. Cheaper and faster initiation of a business venture,
3. Improved legislation,
4. Accessibility of skills,
5. Improvement of online access to information and registration of enterprises,
6. Use of the single EU market,
7. Tax and financial conditions,
8. Strengthening of technological capacity of small enterprises,
9. Use of successful E-business model and development of top support for small and medium-sized enterprises,
10. Development of stronger and more effective presentation of interests of small and medium-sized enterprises on the EU level and national levels.

The Green Paper: Entrepreneurship in Europe by the European Commission has provided regulation for European entrepreneurial challenge. The European Union intends to become the most competitive and most dynamic world economy, based on the economy of knowledge by 2010, capable of creating sustainable economic growth and new, better workplaces, and greater social cohesion. The indicator of the significance of small entrepreneurship in the European Union is the fact that micro, small and medium-sized enterprises make 99,9% of all the enterprises in the European Union.⁵

A statistical classification of economic activities called NACE rev.2 was introduced on the territory of the European Union. The National Classification of Activities of the Republic of Croatia was synchronised with this classification. It entered into force on January 19, 2007,

³ *The European Charter for Small Enterprises* was adopted on the General Affairs Council on 06/13/2009, and verified on the Feira European Council on June 19-20, 2000.

⁴ S. Singer: *Prepreke razvoju poduzetništva i kako ih otkloniti*; 8. *Nacionalno savjetovanje o gospodarstvu i poduzetništvu* (CEPOR), Šibenik, 2004. (ppt) and *Multiannual Programme for Enterprise & Entrepreneurship, in Particular for Small and Medium Sized Enterprises 2001-2005* and www.europa.eu.int/scadplus/leg/en/lvb/n26002.htm/09.02.2005.

⁵ European Commission: *Putting Small Business First-Europe Is Good for SMEs, SMEs Are Good for Europe*, Enterprise and Industry, 2008, p. 5

and its implementation started on January 1, 2008. It was published in the Regulation of the European Commission under the title: Regulation of the Commission of the European Community No. 1893/2006 of the European Parliament and the Council.⁶ The following table shows NACE classes and a description of the above-mentioned categories of economic activity in the European Union Member States.

Table 1: National Classification of Economic Activities of the European Union, NACE ver 2., According to Classes

Ordinal number	NACE classification	Description
1	A	Agriculture, forestry and fishery
2	B	Mining and working of a mine
3	C	Processing industry
4	D	Power supply, gas supply, steam and air-conditioning
5	E	Water supply; removal of liquid waste, waste disposal
6	F	Construction industry
7	G	Wholesale and retail trade, repairing of motor vehicles and motorcycles
8	H	Transport and storage
9	I	Accommodation activities, preparing and serving of food
10	J	Information and communication
11	K	Financial activities and insurance activities
12	L	Real-estate business activities
13	M	Professional, scientific and technical activities
14	N	Administrative and auxiliary service activities
15	O	Public administration and defense; compulsory social security
16	P	Education
17	Q	Health care and social welfare activities
18	R	Art, entertainment and leisure industry
19	S	Other service activities
20	T	Household activities as employer; household activities manufacturing various goods and performing different services for their own needs
21	U	Activities of extraterritorial organisations and bodies

Source: Authors' creation

⁶ European Commission: Regulation (EC) No. 1893/2006 of the European Parliament and of the Council, 20.12.2006.

The new classification replaced the former NACE rev 1.1. NCA of the Republic of Croatia completely; in terms of content and structure, it corresponds to the NACE rev.2 classification. Thus, it will be able to show the true state of the Croatian economy. By this classification, the statistical data of the Republic of Croatia will be compared with any European economy. The NCA of the Republic of Croatia, which has been applied in the statistical system of the Republic of Croatia since January 1, 2008, was published in the *Official Gazette* No. 58/07.

Table 2: Number of Enterprises According to Their Size in the EU in 2005 (Classes C-I and K)

Indicators	Total	SME	Micro	Small	Medium-Sized	Large
Number of enterprises in millions	19,65	19,60	18,04	1,35	0,21	0,04
Share in percentage	100,0	99,8	91,8	6,9	1,1	0,2
Number of employees in millions	126,7	85,0	37,5	26,1	21,3	41,7
Share in percentage	100,0	67,1	29,6	20,6	16,8	32,9
Added value in billions of euros	5.360	3.090	1.120	1.011	954	2.270
Share in percentage	100,0	57,6	20,9	18,9	17,8	42,4

Source: Authors' creation according to: European Commission, Eurostat, Statistics in Focus 31/2008, Industry, Trade and Services, www.epp.eurostat.ec.europa.eu, 07/01/2009

As shown in Table 2, according to the former National Classification of Activities, there was almost 20 million of active enterprises from classes C to I and K in the European Union in 2005. A great majority of them, as much as 99,8%, were small and medium-sized enterprises with less than 250 employees. Their significance in relation to the contribution to employment indicates that 67,1% of the labour force was employed by the SMEs, and they created as much as 57,6% of added value. Micro enterprises ensured 29,6% of workplaces, small enterprises 20,6%, and medium-sized enterprises 16,8%. In this way, large enterprises are left with only 32,9% of the share in total employment. The share of enterprises in the employment according to the size of the enterprise and activities in 2005 is shown in Table 3.

Table 3: The Share of Enterprises in Employment, According to the Size of the Enterprise And Activities in the EU
In 2005 in percentage

	Micro	Small	Medium-Sized	Large
Total C to I and K	29,6	20,6	16,8	32,9
Construction industry	42,3	30,5	15,4	11,9
Hotels and restaurants	44,8	26,6	11,3	17,7
Trade	39,9	20,9	12,3	26,9
Real-estate, leasing and business activities	34,1	16,9	16,3	32,7

Production	14,0	20,5	24,8	40,6
Transport and communications	18,6	14,4	13,0	53,3
Power, gas and water supply	2,3	5,2	14,2	80,1

Source: Authors' creation according to: European Commission, Eurostat, Statistics in Focus 31/2008, Industry, Trade and Services, www.epp.eurostat.ec.europa.eu, 07/01/2009

The above Table shows that small entrepreneurship sector has the greatest share in employment in all activities, except in transport and communication, and power, gas, and water supply. In the activities of restaurants and hotels, small entrepreneurship participates in employment with as much as 82,7% of the share, out of which micro enterprises make 44,8% of the share, small enterprises 26,6%, and medium-sized enterprises 11,3% of the share, which clearly indicates the strong role of small entrepreneurship in employment in comparison with large enterprises. Small and medium-sized enterprises in the EU averagely employed 4,3 persons in 2005, and this figure varies among the Member States: for example, in Slovakia, averagely 12 persons were employed, while 7 were employed in Estonia, Lithuania and Germany, and only 3 in Greece and Italy.⁷ In the EU, the average was 39,3 in small and medium-sized enterprises per 1000 inhabitants in 2005, and the greatest density was registered in the Czech Republic, 86, and in Portugal, 80,5, followed by Greece, Italy, and Spain, while Romania and Slovakia recorded the smallest density of 18,9 and 7,7.⁸ Small entrepreneurship makes 67% of the share in the EU private sector; 29,6% refers to micro enterprises, 20,6% to small, and 16,8% to medium-sized enterprises. Large enterprises make 32,9% of the share.⁹ The figures indicate the strength of small entrepreneurship in the private sector of the European Union. A mid-term review of the modern policy of small enterprises in the EU from 2005 to 2007 has shown that the Member States and the entire EU have made progress in the creation of friendly business environment for small enterprises.¹⁰ The European Commission has taken tremendous efforts in the significant increase in the share of small enterprises in the main supporting programmes of the EU for the period between 2007 and 2013. The Member States have significantly improved their business environments for small enterprises, inspired by the best examples from the context of the European Charter for Small Enterprises verified in Feira in 2000. They have implemented conclusions of the European Council adopted in spring of 2006, introduced one-stop enterprises and reduced time and expenses for the registration of the business and beginning of work. With this in mind, the EU Strategy for Improved Regulation has been crucial for small enterprises, which will benefit from modernisation and simplification of the existing EU laws and ambitious programme of removing administrative barriers by 25% by 2012.¹¹

⁷ European Commission, Eurostat: Statistics in Focus 31/2008, Industry, Trade and Services, www.epp.eurostat.ec.europa.eu, 07/01/2009

⁸ Ibidem

⁹ European Commission: *Putting Small Business First-Europe Is Good for SMEs, SMEs Are Good for Europe*, Enterprise and Industry, 2008, p. 6

¹⁰ European Commission: *Small and Medium-Sized Enterprises. Key for Delivering More Growth and Jobs-A Mid-Term Review of Modern SME Policy*, COM(2007) 592 final, 10/4/2007

¹¹ http://ec.europa.eu/enterprise/admin-burdens-reduction/home_en.htm, 06/29/2009.

In spite of the encouraging progress, the EU still has to undertake further significant measures in order to release full potential of small enterprises in the whole.¹² In general, small enterprises in the EU still have low productivity and grow much slower than their subsidiaries in the United States of America. In the United States of America, small enterprises averagely increase employment by as much as 60% until its seventh year of business, while in Europe, this percentage only amounts to 10-20%.¹³ Small enterprises are still facing market difficulties, striving to create conditions in which they can do business and compete with others in fields such as finances (especially associated capital), research, innovations and environment. For example, around 21% of small enterprises indicate that the greatest problem is financing, and in many Member States, this percentage is much higher for micro enterprises. To make the situation worse, there are structural difficulties, such as lack of managerial and technical skills, and rigidity of the labour market on national levels.¹⁴

The role of small enterprises in European economy has been confirmed on the highest political level. In March of 2008, the European Council expressed strong support and initiative for further strengthening of small enterprises towards sustainable development and competitiveness, and called it the «Small Business Act» - SBA, and demanded its urgent implementation. The single market review also indicated the necessity for further initiatives for better adjustment of small enterprises to individual markets, with the purpose of achieving better results and greater benefits.¹⁵ The last, but not least, is the public debate and online conclusions enforced with the purpose to prepare the Small Business Act of Europe, confirming the need for the main political initiative to fully unlock the potential of small European enterprises. By this, European Commission took a decisive step in the presentation of the Act. The Small Business Act of Europe was built on the policy of the European Commission and the EU Member States, and makes a fragment of the new policy which integrates the existing instruments of entrepreneurial policy, but also builds a special policy based on the European Charter for Small Enterprises and modern policy of small enterprises. In order to implement this ambitious policy, the Commission suggests true and fair partnership between the EU and its Member States, which upholds the principles of subsidiarity and proportionality. The symbolic name of the Act points to the political desire to recognize the central role of small enterprises in the European economy, and to put it first through a set of ten principles which serve as guidance for implementation of the policy of the EU and the Member States, a set of legal proposals and a set of new measures which implement the above-mentioned ten principles.

Ten principles of the Small Business Act for Europe:¹⁶ to create an environment in which entrepreneurs and family owners will know that entrepreneurship is rewarding, to provide fair entrepreneurs, who quickly faced bankruptcy, a second chance, to create rules which follow the Think Small First principle, to make public administration responsible for the needs of small enterprises, to adjust public policy interests to the needs of small enterprises: to ensure enterprises greater participation in public procurements and better use of government subventions, to facilitate the approach to finances and develop legal business environment which supports installment payments in commercial transactions, to help small enterprises to benefit more from opportunities offered by the market, to promote improvement of skills and

¹² European Commission: *Impact Assessment on the SBA*, SEC(2008) 2101

¹³ European Commission: *Think Small First - A Small Business Act for Europe*, p.3

¹⁴ *Ibidem*, p. 3.

¹⁵ European Commission: *A Single Market for 21st Century Europe*, COM(2007) 724 final, 11/20/2007.

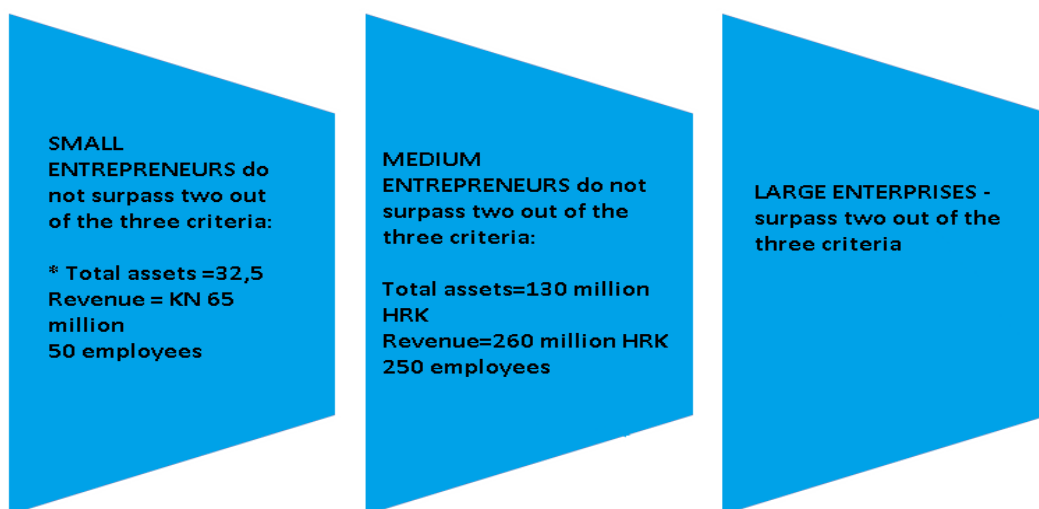
¹⁶ European Commission: *Think Small First*, op.cit...p. 4.

innovations in all forms, to enable small enterprises to transform challenges of the environment into opportunities, to encourage and support small enterprises to profit from market growth. The majority must uphold the rules of the Think Small First principle. Thus the answer why the Small Business Act was oriented towards improving the entire political approach to entrepreneurship, as an anchor, transforming regulations into public service, promoting small enterprises and their growth, to help eliminate the problems which prevent their development.

4. SMALL ENTREPRENEURSHIP IN THE REPUBLIC OF CROATIA

The Republic of Croatia has undergone certain changes in the manner of defining criteria, considering that the Croatian Parliament adopted the new Accounting Act on October 5, 2007, thus replacing the former Accounting Law from 1992 and the Law on Amendments of that Law.¹⁷ According to the new Accounting Law, from 2007, which came into force on January 1, 2008, the criteria of classification of entrepreneurs have been defined and are shown in the Chart 1.

Schema 1: Criteria of Defining of Small, Medium and Large Enterprises in the Republic of Croatia, According to the Accounting Law from 2007



Source: The Accounting Law, *The Official Gazette* of the Republic of Croatia, 109/07, Article 3.

The new Accounting Law from 2007 defined the criteria of classification of entrepreneurs, shown in the Chart 1. From January 1, 2008, when this Law came into force, the Accounting Law from 2005 and the Law on the Registry of Annual Financial Reports from 2003 ceased to have effect. It is evident that Croatian Accounting Law defines the classification criteria into small, medium-sized, and large entrepreneurs. In other countries, these criteria have been defined by similar legal documents. If the existing criteria of categorisation are analysed, it is

¹⁷ The Accounting Law, *The Official Gazette* of the Republic of Croatia 146/05, Article 17.

concluded that the above-mentioned criteria often differ between countries, which is shown in the Table 4.¹⁸

Table 4: Classification Criteria of Small Business Entities According to National Regulations in Various Countries Within And Outside of the European Union and in the Republic of Croatia in Millions of USD

Countries	Small business entities		
	Number of employees	Total revenue	Total assets
Croatia	50	9,31	4,66
EU Member States	Number of employees	Total revenue	Total assets
Belgium	50	4,7	9,4
The Czech Republic	50	12,8	12,8
Denmark	50	10	5
Finland	50	9,4	4,7
Germany	50	12,8	12,8
Hungary	50	12,8	12,8
Ireland	50	4,9	2,4
Italy	50	8	4
Malta	50	6,4	3,2
Norway	50	9,6	4,8
Poland	50	12,8	12,8
Romania	50	8	5
Slovenia	50	9,26	4,63
Sweden	50	6,4	3,2
Great Britain	50	10,6	5,3
EU recommendations from 2006	50	11,16	5,58
Non-EU countries	Number of employees	Total revenue	Total assets
Brasil	-	1,1	-
Malaysia	50	6,3	3,1
Sri Lanka	-	4,8	1

¹⁸ All values shown in the Table were reduced to USD by conversion of the local currency on 11/01/2006. Recommendations for figures shown for Croatia and the EU date from 2006, and CNB mid-point exchange rate on 11/01/2006 was used: EUR1 = KN 7,358100 and USD 1 = KN 5,799716, available at www.hnb.hr.

Switzerland	100	16	8
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Source: I. Mamić Sačer, S. Sever, A. Oluić, *Analiza mogućnosti primjene MSFI-a za mala i srednja poduzeća*, Economic Review, 59 (3-4), Zagreb, 2008, p. 110

It is evident that the criterion of the number of employees in small enterprises in the Republic of Croatia is equal to the criterion of the EU Member States. There are differences relating to the criteria which determine the amount of total revenues and total assets. Taking into consideration Croatian negotiations for the accession to the European Union, the defining criteria for small enterprises by the European Commission are shown in Table 5.

Table 5: European Commission's Criteria for Small Business Entities in Euros

CRITERIA	MICRO ENTERPRISES	SMALL ENTERPRISES	MEDIUM –SIZED ENTERPRISES
Value of real assets			EUR 50 mil.
Annual turnover and/or balance sheet	EUR 2 mil.	EUR 10 mil.	EUR 43 mil.
Employees	Less than 10	Less than 50	Less than 250

Source: *Official Journal of the European Union*, Commission Recommendation (concerning the definition of micro, small, and medium-sized enterprises); Annex, Article 2, May, 2003, L124/36

Upon proposal of the Ministry of Crafts, Small and Medium Entrepreneurship, the Croatian Parliament on its session on March 13, 2002, adopted the Act on Promotion of Small Business Development, by which small entrepreneurship, under the terms of the Act, consists of entities which:¹⁹ employ averagely less than 250 employees a year, are independent in their business activities and make total annual turnover of up to KN 60.000.000,00, or have balance sheet total if they are profit tax payers, i.e. the amount of real assets, if they are income tax payers amounts to KN 30.000.000,00. Under the terms of this Act, micro, small and medium-sized enterprises in the Republic of Croatia differ in the defined criteria, which is shown in Table 6.

Table 6: Defining of Micro, Small and Medium-Sized Small Business Entities in the Republic of Croatia

CRITERIA	MICRO ENTERPRISES	SMALL ENTERPRISES	MEDIUM-SIZED ENTERPRISES
Employees	<10	<50	Surpass the above-mentioned criteria
Annual turnover and/or balance sheet total if they are profit tax payers and/or real assets if they are income tax payers		up to KN 16.000.000,00 up to KN 8.000.000,00	

Source: Act on Promotion of Small Business Development, *The Official Gazette* of the Republic of Croatia, 29/02, p., Article 3

¹⁹ Act on Promotion of Small Business Development, *The Official Gazette* 29/02, p. 1, Article 2

The Act on Promotion of Small Business Development was adopted in 2002 for four years; however, on June 1, 2007, the Croatian Parliament adopted a Decision on Amendments of the Act. The second criterion was amended to read as follows: small entrepreneurship consists entities which achieve total annual turnover up to KN 216.000.000,00, or have total assets if they are profit tax payers, i.e. have real assets if they are income tax payers, in the amount of up to KN 108.000.000,00. Under the terms of the Amendments Act, micro enterprises have been defined as small business entities which²⁰: averagely employ less than 10 persons per year and achieve total annual turnover of up to KN 14.000.000,00, or have total assets if they are profit tax payers, i.e. have real assets if they are income tax payers, in the amount of up to KN 7.000.000,00. The above-mentioned Act prescribes that small enterprises achieve total annual turnover of up to KN 54.000.000,00, or have total assets if they are profit tax payers, i.e. have real assets if they are income tax payers, in the amount of KN 27.000.000,00. Croatian small business entities have to meet the criteria prescribed by the Accounting Law.

Table 7: Defining Criteria of Small Business in the Republic of Croatia and the EU

Criteria	Micro economic entities in the Republic of Croatia	Small economic entities in the Republic of Croatia	Medium-sized economic entities in the Republic of Croatia	Micro economic entities in the EU	Small economic entities in the EU	Medium-sized economic entities in the EU
Number of employees	<10	<50	<250	<10	<50	<250
Total annual turnover up to (mil.)	HRK 14	HRK 54	HRK 216	HRK 15	HRK 74	HRK 316
Value of real assets up to (mil.)	HRK 7	HRK 27	HRK 108			HRK 368

Note: The figures shown for the European Community are the values presented in the EU recommendations from 2006 and CNB mid-point exchange rate on 11/01/2006 was used: 1EUR= KN7,358100, available at www.hnb.hr.

Source: Authors' creation

Table 7 points out equal criteria regarding the number of employees in all sizes of economic entities, while they obviously differ in the criteria of total annual turnover and the value of real assets, which is higher in the EU.

Small entrepreneurs (86,507) make 98,4% of all Croatian entrepreneurs (87,893). Small and medium-sized entrepreneurs together (87,455) make 99,5% of all entrepreneurs. Large entrepreneurs (438) make only 0,5% of all Croatian entrepreneurs. The figures confirm the dominance of small business over large corporate systems. Small entrepreneurs employ 489,908 persons and thus participate with 53% in the total number of employees (916,629), and, together with employees in medium-sized enterprises, make 66% of the share in the total number of employees. It is evident that the number of employees in small enterprises grows by 2,23% in relation to the same period previous year, while the number of employees in medium-sized enterprises was reduced by 1,93%. Large enterprises recorded a reduction in

²⁰ Act on Amendments of the Act on Small Business Development, *The Official Gazette*, 63/07

the number of employees of 1,74%. Taking into consideration total revenues, it is evident that small entrepreneurs made KN 111,838,937 in the first six months of 2009, by which they made 37% of the share in total entrepreneurs' revenues (309,056,244). Together with medium-sized enterprises, they participate in total revenues with 51%. They achieve 39% of total revenues in the country and 23% of total revenues abroad. Figures in Table 8 show business activities of entrepreneurs according to sizes and all fields of the National Classification of Activities.

Table 8: Indicators of Business Activities of Croatian Entrepreneurs According to Sizes in the First Six Months of 2009 in All Fields of Activities (NCA)

INDICATORS	Total – all entrepreneurs	Small entrepreneurs	Medium-sized entrepreneurs	Large entrepreneurs
Number of entrepreneurs	87,893	86,507	948	438
Number of employees	913,748	479,232	119,957	314,559
	916,629	489,908	117,645	309,076
Domestic sales revenues (KN)	262,020,603	101,914,827	42,983,449	117,122,327
	238,794,975	92,826,019	37,063,876	108,905,080
Sales revenues abroad (KN)	45,195,028	11,207,976	7,355,798	26,631,254
	39,855,616	10,073,990	6,274,507	23,507,120
Total revenues (KN)	334,330,806	121,453,908	53,759,292	159,117,606
	309,056,244	111,838,937	46,657,889	150,559,418
Costs of employees (KN)	40,545,426	17,523,260	5,676,527	17,345,640
	41,979,637	18,519,684	5,695,699	17,764,254
Wages and salaries (net) (KN)	24,138,590	10,649,411	3,329,403	10,159,776
	25,224,709	11,402,329	3,365,309	10,457,071
Total expenditure (KN)	326,563,883	121,724,895	50,440,842	154,398,146
	295,709,898	105,579,069	44,688,754	145,442,074
Value of realised investments in real assets (KN)	32,656,772	12,919,723	2,562,488	17,174,561
	30,561,767	10,857,065	2,485,130	17,219,572
Stocks (KN)	101,959,420	52,157,885	14,094,197	35,707,338
	119,501,912	73,426,815	13,220,974	32,854,123
Monetary assets on the account and in the cash desk (KN)	30,399,139	15,747,649	4,101,032	10,550,458
	26,069,028	13,879,063	3,782,419	8,407,546
Trade receivables (KN)	143,074,071	57,139,918	24,081,851	61,852,302

	154,509,903	63,569,898	25,397,557	65,542,448
Trade payables (KN)	148,287,396	64,874,290	21,311,231	62,101,875
	150,380,872	67,700,531	20,805,219	61,875,122

Source: Authors' calculation according to figures provided by info.biz, www.fina.hr, 09/01/2009.

In general, bad economic situation in the country has had a negative effect on some indicators. Total revenues were reduced in relation to the same period the year before by 7,92%, employees costs grew by 5,69%, the value of realised investments in real assets were reduced by 15,97%, stocks were increased by 40,78%, monetary assets on the account and in the cash desk were reduced by 11,87%, and trade receivables and trade payables were increased. There was a reduction of total expenditure by 13,265, and wages and net salaries were increased by 7,07%. In relation to business activities of medium-sized entrepreneurs, small entrepreneurs have achieved poorer results in employees costs, total expenditure, value of realised investments in real assets, stocks, monetary assets on the account and in the cash desk, trade receivables and trade payables. In relation to large entrepreneurs, poorer results were recorded in relation to employees costs, total expenditure, value of realised investments in real assets, trade receivables, and trade payables. The figures confirm the predominance of small entrepreneurs in the entire Croatian economy. Small entrepreneurs employ the most employees and from year to year achieve increasingly better financial results. Poorer business activities of entrepreneurs in the first six months of 2009 were a consequence of the financial crisis that had struck Croatia. It is the authors' opinion that government policy has the key role in the reduction of the indicated negative tendencies in almost all indicators, as well as the policy of the Croatian National Bank. However, the power for greatest changes is in the hands of entrepreneurs themselves, and those who are about to become entrepreneurs, who will achieve success by their inventiveness and innovations.

5. WHAT MAKES (DOES NOT MAKE) CROATIA A COUNTRY OF ENTREPRENEURS?

It is fair to say that Croatia is a small, transition country faced with a large integration of 27 countries. The EU represents a single market with almost half a million inhabitants, based on the freedom of movement of goods and services, factors of production. Specific programmes have been implemented on the level of the integration, and, except for these programmes, each Member State has the obligation to enforce its own national measures and policies of promotion of small entrepreneurship in accordance with the legislation of the Community. As previously mentioned, Croatia is a member of the European Charter for Small Enterprises and it is fair to say that the role of small entrepreneurship has become increasingly important, almost to the same extent as in the European Union.

The answer to the question whether Croatia is a country of entrepreneurs is «no». This claim is supported by the fact that, in the rating process of entrepreneurial environment by GEM research in 2006 and 2007, almost all relevant elements in the rating of entrepreneurial environment, were rated lower than three, while only two elements were ranked over three:²¹ business and professional infrastructure (2,92), university education (2,86), financial support (2,68), government programmes (2,64), protection of intellectual property (2,63), government policies - subventions (2,41), openness and competitiveness on the internal market – input

²¹ I. Kersan-Škabić, M. Banković: *Malo gospodarstvo u Hrvatskoj i ulazak u Europsku Uniju*, Ekonomska misao i praksa, No.1, July of 2008, Zagreb, p. 62.

barriers (2,30), elementary and secondary school education (2,21), transfer research and development (2,19), government policies - regulations (2,17), access to physical infrastructure (3,75), openness and competitiveness on the internal market – dynamics of changes (3,47).

When the World Bank conducted research on doing business in 2008, Croatia was ranked 97th out of 178 world countries, with the lowest rank in the segment of founding enterprises, employment and investments.²² Thus, it is necessary for Croatia to make additional efforts in the promotion of entrepreneurship, and by that, small business. However, although the EU has a single market, this does not mean that the conditions for doing business are ideal for small business entities. On the contrary, small entrepreneurs in the EU also encounter many barriers which Croatian small entrepreneurs are also facing. Croatia is distinctive by the fact that the barriers are a consequence of difficulties from the transition period and of insufficiently developed system of monitoring and grants for small business.

Table 9: Obstacles to Small Business in the European Union and the Republic of Croatia



Source: Authors' creation according to: I. Kersan-Škabić, M. Banković: *Malo gospodarstvo u Hrvatskoj i ulazak u Europsku Uniju*, Ekonomska misao i praksa, No.1, July of 2008, Zagreb, p. 64.

The barriers indicate the above-mentioned difference. This is why the European Union has set a very ambitious objective: to reduce administrative costs by 25% by 2012, because this would achieve the growth of GDP of 1,5%, or 150 billion dollars, and in order to achieve this, the Member States and the European Union in the whole must make great joint efforts. With this in mind, unnecessary regulations will be removed and changed (The European Union withdrew 68 acts in 2006, and additional 10 acts in 2007). In the making of new acts, it will pursue the above-mentioned «Think Small First» principle. The European Union continuously promotes small entrepreneurship by incorporating it into the education system, which is very relevant for creating new generations of entrepreneurs. It strengthens the internal market by

²² www.doingbusiness.org/economyranking, 2009.

promoting export from one to another Member State, and this also eliminates the existing market barriers, encouraging standardisation, elimination of technical barriers and greater participation of small business entities in the process of public procurement, as well as encourages enterprises to protect the environment through socially responsible business activities, in accordance with the objectives of the Lisbon Strategy.

It seems that Croatian small business can compete with the European, but there is still a gap which Croatia has to overcome. Undoubtedly, Croatia enforces changes and adjustments in the desire to become a member of the European integration, it harmonises small business legislation with the European legislation, in accordance with the given standards. However, the question is: is it profitable for the small business for Croatia to become a Member State of the European Union? YES, because positive effects are expected, such as improved access to various markets, programmes, co-operation with enterprises (sharing the best practice), sources of financing. On the other hand, Croatia should be aware of greater needs for investing in knowledge, innovations and technology, and entrepreneurs should be aware of the time that must pass before experiencing these positive effects. Regardless of personal opinions, staying out of the European Union would mean isolation from foreign investors, insufficient funds and non-competitiveness of Croatia on the global market.

Croatia works on its competitiveness, and the manner of its activities in the past few years can be summarised in the following:²³

- ▶ Progress in electronic business activities,
- ▶ E-craft, business navigator, E-PDV (VAT), E-Regos, E-Payment,
- ▶ More accessible credit lines of the banks,
- ▶ Government programmes of grants and subventions,
- ▶ Hitrorez and www.hitro.hr,
- ▶ www.biznet.hr website.

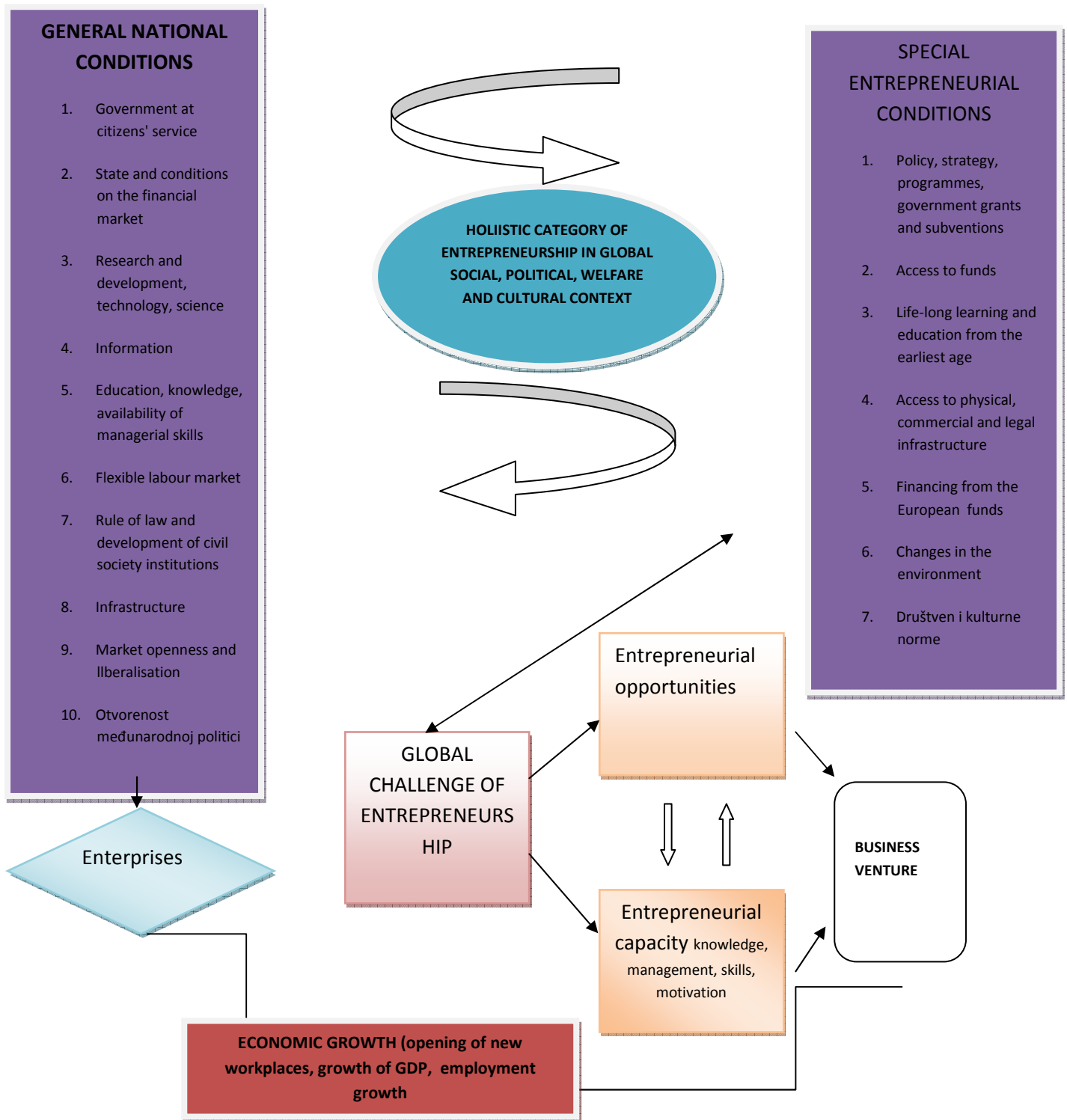
Croatia slowly enhances its entrepreneurial environment and removes barriers to entrepreneurship, although still insufficiently. The indicators show that small enterprises in Croatia should definitely expect positive shifts and experience the advantages of the impending accession to the European Union. It is hard to eliminate barriers such as institutional framework, poor functioning of the rule of law, ineffectiveness and slow justice, as some of the parts of the economic policy, but Croatian entrepreneurs need to prepare better for the market conditions in order to take advantage of the opportunities such as facilitated financing sources and joined appearance on the third markets, especially with the help of government grants oriented towards education and innovativeness.

Positive effects, i.e. benefits of accession to the European Union for Croatian small business can be summarised in the following: the access to the Union's single market, possibilities of co-operation, networking and connecting with the best-practice enterprises, access to additional funds, access to organisation, technological and managerial know-how. In this way,

²³ I.Kersan-Škabić, M. Banković: op.cit...p.67.

entrepreneurs will be able to use these possibilities for development of entrepreneurship and innovative environment, which will, consequently, increase the GDP, employment and the living standard, as well as reduce regional inequalities. Small enterprises will, in this way, be able to participate in various programmes of the European Union.

Chart 2: Model of the Role of Modern Entrepreneurship and Economic Growth of the National Economy of the Republic of Croatia



Source: Authors' creation according to the conceptual model of GEM research

Economic growth of the Republic of Croatia should be observed through a multitude of factors. Taking into consideration that Croatian economy is a part of the global economy, the factors which influence its economic growth must be observed in the context of global environment, and contemporary entrepreneurship must be observed as a complex, holistic category in social, political, welfare and cultural context. Why?

Social, political, welfare and cultural conditions shape general living conditions in a country, and by this, better or poorer living standard (entrepreneur's perception and relationship of an individual to significance of entrepreneurship for the national economy and its social and welfare role, political stability or instability, liberalisation, degree of democracy, education, etc.). The model has its point of reference in the fact that economic growth is under strong influence of the above-mentioned factors, and that it is a result of action of two mechanisms which are different, but complementary, with mutually connected activities.

The first mechanism which stimulates economic growth is the mechanism which consists of enterprises, regardless of their size (micro, small, medium-sized and large). It is known that large enterprises significantly contribute to prosperity of a national economy, because they often operate on the global market. Their growth and expansion will increase the demand for products and services, and in this way, market opportunities for numerous micro, small and medium-sized enterprises. On the other hand, small enterprises in Croatia have an increasingly significant role in Croatian economy because, by their differentiated offer and unique products or services, they can satisfy specific demands of buyers, better than large companies. Small enterprises are the result of ambitious and creative entrepreneurs which offer innovations and differences which change the environment, make profit, generate new workplaces, increase employment and GDP. Croatian economic growth needs to be based on such small enterprises in particular (which will be elaborated below), because they are agents of European economy, in which they have a share of as much as 99,8% in total employment. The following general conditions act within the mechanism: government at citizens' service, state and conditions on the financial market, investments in research and development, technology and science, informing the citizens, education, knowledge, access to managerial skills, flexible labour market, the rule of law and development of civil society institutions, infrastructure (physical).

The second mechanism is the mechanism which creates and forms the entrepreneurial process, and also significantly contributes to the economic growth. It emphasises the significant role of entrepreneurship in initiating of new entrepreneurial ventures, also the process of founding of new enterprises and growth of these enterprises on the market. Thus, expansion of enterprises, along with general national conditions, is also affected by special entrepreneurial conditions, which is visible in the second part of the model. In the context of special entrepreneurial conditions, the following factors are active: policy, strategy, programmes, grants and government subventions, life-long learning and education from the earliest age (elementary and secondary school education), access to physical, commercial and legal infrastructure, information on the possibilities of financing of entrepreneurs from the European Union funds, changes in the environment, social and cultural standards. This mechanism provides transformation of an entrepreneurial idea into reality, realisation of an individual's creation through starting a business venture, founding of an enterprise or providing a product or a service on the market. Success of an entrepreneurial process depends on the entrepreneurs' ability to take advantage of market opportunities and their entrepreneurial capacity, in the sense of entrepreneur's skills, knowledge, motivation to enter the world of entrepreneurship, necessary for realisation of entrepreneurial opportunities.

CONCLUSION

„This century is the age of entrepreneurs.“ This especially holds for the Republic of Croatia, in which true originality must become more valuable than ever. Only the brave and the bold will make the future through new workplaces and the process of innovations. Economic crisis which has struck Croatia, and the trend of discharging employees in large companies could also be an opportunity for Croatia and its citizens. The discharged employees and managers can gradually start their own business ventures, found and manage small enterprises which will provide quality and valuable products and services to the buyers, which they could not do working in large, bureaucratic companies. There will be a rapid growth of micro- and small enterprises with less than ten employees. Thus, one does not have to be a fortune teller in terms of Croatian entrepreneurial economy in order to establish that entrepreneurship will have a great role in the future of the Republic of Croatia. The key determinant of entrepreneurial success is the country's national policy and re-organisation of social institutions in favour of entrepreneurship. The meaning of entrepreneurship in the development of Croatian economy includes the same determinants as in other European countries. Creation of entrepreneurial conditions thus demands a co-ordinated government policy and the concept of extensive legal, strategic, and institutional approach to the development of small entrepreneurship. The policy should be conducted continuously, with implementation of the standards of the European Union, and through enforcement of legislation for government grants. By stimulative measures, small business will maintain its development, become a factor of adjustment to market trends, develop total economy, which is, after all, a prerequisite of increasing competitiveness of the Croatian economy on the global market

How to design a dynamic concept of Croatian entrepreneurial economy? Based on affirmation and encouraging entrepreneurs, which implies the following:

- ✓ Formal education on entrepreneurship from the earliest age
- ✓ Continuous informing of citizens on possibilities offered by entrepreneurship
- ✓ People as owners of ideas and creators of innovations
- ✓ Re-organisation of social-political institutions in accordance with entrepreneurial needs
- ✓ Reduction and elimination of bureaucratic barriers in the process of founding of an enterprise
- ✓ Creation of a friendly business environment for entrepreneurs
- ✓ Stimulation of entrepreneurship on all levels of national economy
- ✓ Building of entrepreneurial infrastructure
- ✓ Placing entrepreneurship in the focus of the country's developmental policy.

The conclusion is that Croatia can expect years of «tourist catharsis». Regardless of the opinions of general tourist and other public, remaining outside of the European Union would surely mean isolation for Croatia.

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