

BUSINESS PERFORMANCE COMPARATION IN THE SELECTED CROATIAN COUNTIES AND THE ERA OF THE NEW CHALLENGES

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Abstract Dynamics is usual for entrepreneurial environment, but adding a dimension of not so common and often events, such the one in the past few years – COVID – 19, the situation instantly becomes more complex. Enterprises had to deal with the new circumstances together with usual business activities. According to Croatian Financial Agency (FINA), in 2021, there were 144.259 enterprises in Croatia with more than 950.000 employees and profits of 6 billion Euros. Essentially, these numbers vary between different counties and in the years pre and during pandemics. The aim of this paper is to analyse if there is a difference in the business performances, regarding the number of enterprises, employees, revenues, profit in pre COVID – 19 year and during COVID – 19 years. The focus will be on the most developed counties (without the City of Zagreb) and the least developed counties in the Republic of Croatia.

Keywords:

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1 Introduction

Entrepreneurial sector in Croatia, as in every other country in the world has its challenges and specifics. In the times of uncertainty, doing business it is hard and stressful, knowing that there are no guidelines how to act. One of these unpredictable situations is recent COVID – 19 pandemics which has rapidly impacted societies and economies (Parnell et al., 2020; Ratten, 2020). The reason of such an impact could be the fear that blocks activities for potential and arising entrepreneurs (Morgan and Sisak, 2016). The World Bank described the COVID – 19 recession as the one with the fastest degradation in economic growth among all global recession in history (World Bank, 2020).

Every factor and stakeholder in the entrepreneurial ecosystem had to redefine its priorities and initiate emergent steps to deal with this kind of situation on the market. To deal with this global problem and resolve it on its territory the European Commission has activated the »General Escape Clause« within Stability and Growth Pact in March 2020. Clause allows EU country members to protect their economies through uncapped spending and borrowing policies (European Parliament, 2022).

First cases of Coronavirus in Croatia were detected in February 2020. So, the pre COVID – 19 year is 2019, when there were 139.096 enterprises in Croatia with 976.306 employees in comparison with COVID – 19 years 2020, 2021.

The aim of this paper is to analyse if there is a difference in the number of enterprises, their revenues, profits in pre COVID – 19 year (2019) and during COVID – 19 years (2019, 2020). The focus will be on the most developed counties (without the City of Zagreb) and the least developed counties in the Republic of Croatia.

The criteria for selecting this groups is the Development Index of Croatian Ministry or Regional Development and European Union Funds for the period between 2004 – 2016, because the new edition is not yet in use. The counties that are in the first group of counties are according to the Development Index of Croatian Ministry or Regional Development and European Union Funds: Dubrovačko-neretvanska, City of Zagreb, Istarska, Primorsko-goranska i Zagrebačka; while those that are least developed are Bjelovarsko-bilogorska, Brodsko-posavska, Ličko-senjska, Sisačko-moslavačka, Virovitičko-podravska i Vukovarsko-srijemska.

2 Entrepreneurship and its Impact

Entrepreneurship has many definitions since the moment in which it has been introduced in the vocabulary through the word »entrepreneur«, firstly by Richard Cantillon in 18th century. In 20th century the definition has evolved and it has included new words such as innovation, creativity, recognized by Schumpeter (1934) who defined it as »carrying out of new combinations of firm organization« to Hoselitz (1952) and his introduction of innovation. Some authors characterize entrepreneurship like something that involves moderate risk (McClelland (1961), while others are focused on creation of new organizations (Gartner, 1985). Peter Drucker (1970) defined entrepreneurship as a practice, from the moment when the new organization is formed for a new business activity. On the other hand, for authors like Bygrave and Hofer (1991), entrepreneurship is as a process that is involving all the functions, activities, and actions associated with perceiving of opportunities and creation of organizations to pursue them.

The 21st century introduced a definition of entrepreneurship as »a field of business that seeks to understand how opportunities create something new...« (Shane and Venkataraman, 2000.) and like »a dynamic process of vision, change and creation...« (Kuratko and Hodgetts, 2004.) Johnson (2001) started the definition of entrepreneurship with the term »idea« that is converted into something tangible like product or, on the other side, service that is brought on the market through venture.

All these definitions have some elements in common such as innovation, creativity, risk taking, opportunities, new organizations, but also proactivity which was described by Milller (1983).

Entrepreneurship is also important for economic growth (Carree and Thurik, 2003) because its positive impact on employment rates (Audretsch and Thurik, 2001), productivity, innovation, creations of new jobs (Carree et al., 2002). Back in 20th century, Schumpeter (1934) described the entrepreneur as the key figure in economic development because its commercialization of new ideas on the market - innovations. For Parson and Smelser (1956) entrepreneurship was one of the two necessary conditions for economic development together with increased output of capital.

Its vital development role is emphasized by Kružić and Buble (2006) through:

- Development and implementation of new technologies,
- Generating new ideas,
- Contribution to the development of the educational process and
- Contribution to the social welfare in the area where is situated.

Furthermore, entrepreneurial activity involves initiating and constituting change in the structure of business and society, so it is more than growth and increased output, claims Hisrich et al (2006).

Benefits of entrepreneurship are multiple no matter if it refers to micro, small, medium or large companies or to some type of it.

2.1 Entrepreneurship in Croatia

Entrepreneurial environment in Croatia has historically bad grades. In 2021 the environment has still limiting the development of new business ventures which is not positive for overall business activity in the country (Singer et al, 2021).

The profile of an entrepreneur in Croatia, as in the previous years is that more educated people are keener to start the business. Furthermore, overall intensity for starting a new business is above the European average. According to the GEM (Singer et al, 2021) results the reason could be the lack of failure fear. Most new businesses (more than twice) are opened in extractive industry and significantly less in the service sector (compared to EU average).

In the period 2019-2021 there have been some changes in business activity among Croatian regions. Continuously growth of newly launched businesses is shown by regions – Istria, Primorje, Gorski kotar and northern Croatia (Singer et al, 2021). Intensive opening of new ventures is seen in areas where there is a need of starting a new business, because in opposite they will be unemployed. These areas are Lika and Banovina. There new entrepreneurs are not motivated by opportunity, they do not have any other chance how to earn for life.

During COVID – 19 period, the Croatian Government tried to improve the situation through different measures for entrepreneurs, but they have been graded above EU average.

As in theory, also the Accounting Act in Croatia (*Zakon o računovodstvu*, 2020) recognizes 4 categories of businesses: micro, small, medium and large enterprises defined by amount of total assets, amount of income and number of employees. The micro enterprises are those with less than 10 employees, with the income up to 639,333.00 Euros and the amount of total assets up to 346,666.00 Euros. The small enterprises have less than 50 employees, amount of income up to 8,000,000.00 Euros and medium enterprises have less than 250 employees, with the income up to 40,000,000.00 Euros and the amount of total assets up to 20,000,000.00 Euros. The large enterprises are those that show larger amounts in at least 2 categories regarding the medium enterprises.

According to Croatian Financial Agency (FINA), in 2021, there were 144.259 enterprises in Croatia with more than 950.000 employees and profits of around 6 billion Euros. The majority was obtained by large firms, followed by medium ones. The situation was different in the pre COVID – 19 year (2019) when there were 139.096 enterprises with 976.306 employees (data are for the companies that are obligated to public disclose financial reports).

3 Methodology and Research

The development levels varies among Croatian counties, and the situation is near the same for years, regarding the indicators as GDP per capita, number of employees, business demography. Because of this, to make a distinction between counties, it was used composite Index of development. The Index classified local and regional self-government into four groups, of which two are below average and two above average. The Index was made by the Croatian Government and it is in use from 2010. Till nowadays, there were three valorisations of the index, but since there is no actualization of the last one, for the research purposes is used the one from 2017 (Ministry of regional development and EU funds, 2016).

In the research are used the data from Croatian Financial Agency for the companies obligated to public disclose financial reports. The base year is 2019, as the pre COVID – 19 year, followed by 2 COVID – 19 years 2020 and 2021. The retrieved data, number of enterprises in selected county, number of employees in these enterprises and their revenues and profits from 2020 and 2021 were compared with 2019 by calculating the growth rate. The results are presented in the graphs bellow.

The Figure 1 shows the comparison of growth rates between the counties regarding the number of enterprises. As said before, the base year was 2019, to see the change in the years of COVID – 19 pandemics. The graph shows that there is the highest positive percentage change in Sisačko - moslavačka county followed by Virovitičko – podravska and Vukovarsko – srijemska, which are the counties that are least developed. On the other side, between the counties that are most developed there were also positive percentual changes regarding the base year, but in smallest percentual change, with the exception of County of Zagreb.

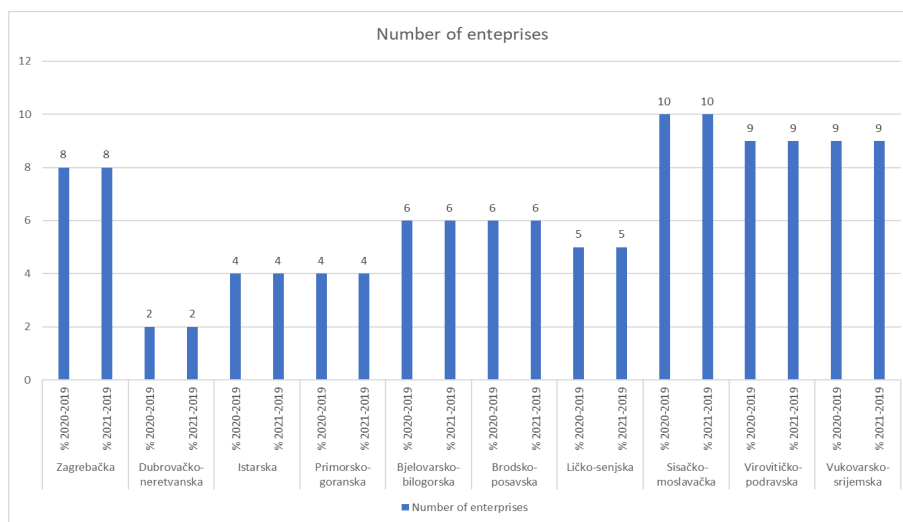


Figure 1: Comparison of number of enterprises growth rate

Source: author's contribution

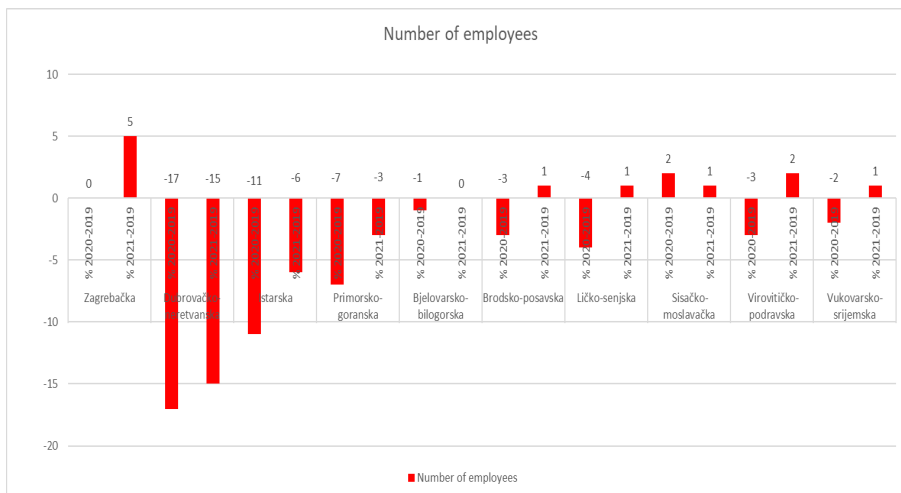


Figure 2: Comparison of enterprises' number of employees' growth rate

Source: author's contribution

The Figure 2 shows that the growth rate of number of employees is negative in most counties in the year 2020 and it is between -1 to -17% with the exception of Sisačko - moslavačka county. The rate is more negative among the most developed counties in both years. The most negative is in Dubrovačko – neretvanska in 2020. The situation is better in 2021, although there is still negative employee's growth rate in the group of most developed counties. Least developed counties showed positive growth rate of number of employees from 1 to 2% in 2021 regarding 2019.

The category that includes total revenues growth rate of enterprises in selected counties shows different results (Figure 3). Also here, the situation is in favour of least developed counties. The growth rate decline was bigger in 2020 regarding 2019 in some selected counties like Zagrebačka, Dubrovačko - neretvanska, Istarska, Primorsko – goranska. In 2021 in the group of most developed counties the situation was better, it also showed growth in comparison to 2019. Although, some of these counties like Dubrovačko - neretvanska, Primorsko - goranska have not reach the results from 2019, and in 2020 have showed negative percentual change regarding 2019. In the group of least developed counties in Croatia, the results are different, they show a smaller percentual decline regarding the most developed counties. The negative revenue growth rate was recorded for each of them in 2020 with the exception of Vukovarsko - srijemska, in which enterprises also in 2020 regarding

2019 showed positive revenues growth rate. Other counties in the category of the least developed, together with Vukovarsko – srijemska, showed positive rate in 2021 regarding 2019.

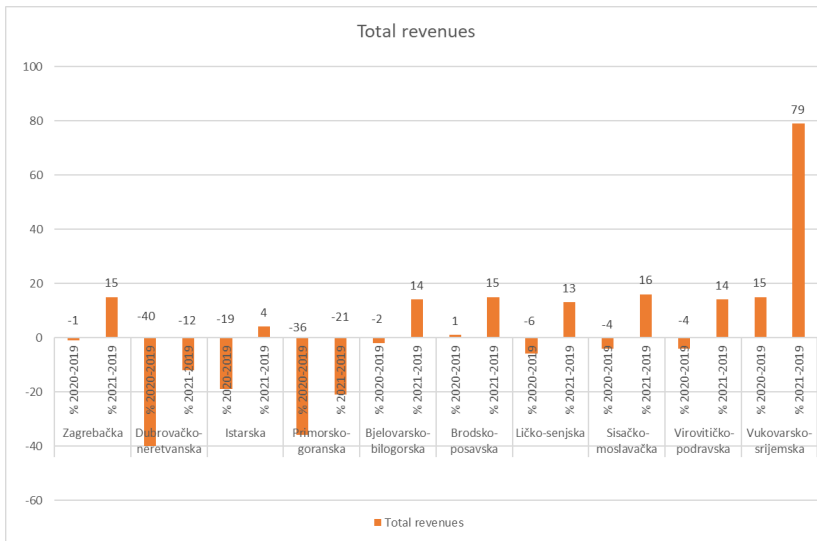


Figure 3: Comparison of enterprises' total revenues growth rate

Source: author's contribution

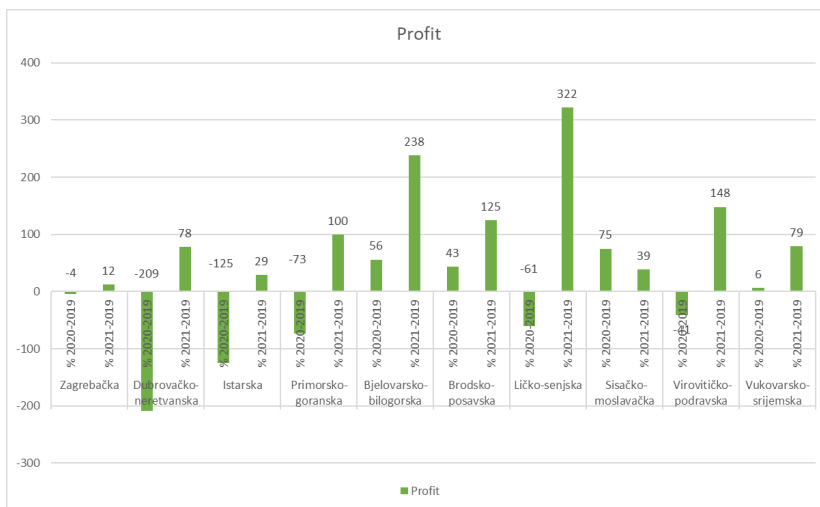


Figure 4: Comparison of enterprises' profit growth rate

Source: author's contribution

The Figure 4 presents the comparison of enterprises' profits growth rate. Between the group of most and least developed counties the bigger negative impact is shown in the group of most developed, where the smallest negative rate in 2020 was registered in Zagrebačka županija (-4%). In the group of least developed in 2020 the negative rate had only Ličko – senjska and Virovitičko – podravska, while the others have accomplished the rise in profit and positive growth rate. In 2021 enterprises' in every selected county showed positive profit growth rate regarding 2019. The biggest percentual rise in profits had Ličko – senjska, the smallest had Zagrebačka.

Overall looking, the Covid crisis had have higher negative impact on the group of most developed counties in Croatia, that are mostly coastal and depend on tourism, in comparison with least developed counties in Croatia.

4 Discussion and conclusion

Croatia is a country in which BDP dominates the service sector, among which tourism. Although, in the COVID – 19 years, 2020, 2021 there was a decline in tourism revenues from 18,3 and 21% in 2018 and 2019 to 9,6 and 15,9% in 2020 and 2021 for the pandemic reasons (Croatian Ministry of Tourism, 2020), these percentages remain the highest percentages in European Union.

So, the most developed touristic counties in Croatia match with the one that are characterized as the most developed by Development Index. As the pandemic hit the world in the 2020, its negative impact on Croatia tourism was felt already in summer 2020 and 2021. All the counties, no matter of their touristic development, felt the negative impact.

The number of arrivals and overnights has fallen drastically in the most developed touristic counties in Croatia. In Istarska, the index of arrivals 2020/2019 was 39, which suggest the fall of 61%, In Dubrovačko – neretvanska, the index of arrivals 2020/2019 was 20 (fall of 80%), Primorsko – goranska 47 (fall of 53%) (Croatian Ministry of Tourism, 2021). The situation is similar in overnights index. The drop is also visible in the rest of the counties that are selected in the research, although they don't have so developed touristic infrastructure and so high touristic statistics.

But pandemic has not only influenced touristic sector, the fall in number of enterprises' employees and their performances regarding the revenues and profit is visible in the rest of the counties that are continental and least developed. Every county, taking in account its specific development stage and industry profile, has felt, more or less, the impact.

That everything is not so negative and that this new era has brought positive trends for some, is visible in not so touristic counties. The high revenue growth rate in 2021 in Ličko – senjska can be a result of a good financial year for one of the biggest firms in Croatia in the field of mining and extraction that is active in this county. Analysing the reasons, it is also visible, that firms in construction sector and providing food and beverage are dominant in the number, which was not the case in the previous years when the lead was on the side of wholesale and retail trade. Entrepreneurs in Bjelovarsko – bilogorska county has also significantly improved the results in 2021 regarding profit and employee's growth rate thanks to also some big firms that operate in the area like Prima Commerce, Čazmatrans Promet. Virovitičko – podravska county has also showed improvements in the category of profit growth rate in 2021. Traditionally, in this county, firms in agriculture have had the best results, but in 2021, to the list is added the manufacturer of wooden floors, Pan parket as the best exporter. This county is also one of the most economical in Croatia (4th place). The county in which was visible the rise in the revenues growth rate is Vukovarsko – srijemska is amongst the counties with the highest work productivity.

So, Croatian entrepreneurs in selected counties have feel the impact of Corona virus but for some of them that was seen as a new opportunity, after the initial shock in 2020, as in 2021 the results for the entrepreneurs in most counties improved. Pandemics impacted more negatively the most developed counties in Croatia which mostly depend of tourism with the exception of County of Zagreb. So, it seems that enterprises in least developed counties, showing better results in 2021, have adopted to the new situations, which was not possible for touristic counties.

Croatian Government together with regional and local communities should work on new programs of local and regional development, new incentives and credit lines but also control the effects and spending of existing ones, to make the development more balanced through all Croatian counties. The innovation is crucial for

entrepreneurs, so it should be more promoted and validated, as the mean of obtaining market sustainability.

Although in Croatia, following the EU average, small and medium enterprises have the greatest share in the number of enterprises, the large ones should not be ignored as in the small communities they steadily improve business statistics and employ significant number of people. Because, as seen in the pandemic time, being flexible, innovative, respond promptly on market demands, succeed in not losing a single employee and/or employ new ones, gain new market share, export and increase or retain revenues becomes the virtue of a single one entrepreneur. Furthermore, without examples of recent good practices every single step that is taken is more challenging for them.

Positive touristic trends in 2022, the rise of arrivals in Croatia for 37% regarding 2021 and the rise of overnights for 25% (Croatian National Touristic Board, 2023), it's a good sign, for Croatia as the touristic country, that the economy is recovering. So, further research should be done to analyse single Croatian county to make better recovery recommendations in accordance with its specifics.

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