
Recent research about entrepreneurship and small business in Croatia¹

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Biographical notes: Leo Paul Dana is Senior Advisor to the World Association for Small and Medium Enterprises. He is currently based at the University of Canterbury, in New Zealand. He formerly served as Deputy Director of the Nanyang Business School International Business MBA Program, and Visiting Professor of Entrepreneurship, at INSEAD. He is Founder of the *Journal of International Entrepreneurship* and author of over 100 papers. His reference volume, *Entrepreneurship in Pacific Asia: Past, Present and Future*, has been on the best-seller list for over two years. His biography appears annually in the *Canadian Who's Who* as well as in *Who's Who in the World*.

Croatia covers 21,829 square miles, bordering the Adriatic Sea, Bosnia and Herzegovina, Hungary, Serbia and Montenegro, and Slovenia. It is a nation with a rich history. As a result of a personal union of thrones, in 1091, Croatia came under Hungarian administration; this lasted until the First World War, after which Croatia became a part of the Kingdom of Serbs, Croats, and Slovenes. Dalmatia, which had been under Venetian rule from 1420 to 1797, and under Austrian rule since 1813, was annexed to Croatia in 1919. Under the rule of the Kingdom of Serbs, Croats, and Slovenes and later Yugoslavia, Croats were treated unfairly by the central government, and this led to a nationalist separatist movement.

After the defeat of Yugoslavia, in 1941, regions of Croatia were annexed by Hungary and others by Italy. The rest of Croatia, occupied by Germany and Italy, became the *Nezavisna drzava Hrvatska (NDH)*, translated as the Independent State of Croatia. During the war, hundreds of thousands of gypsies, Jews, and Serbs were executed. Yad Vashem has presented certificates of honour and the 'Medal of the Righteous' to over eighty persons who helped save Jews, in Croatia, during World War II.

During the 1980s, 10% of Yugoslavia's hard currency earnings came from tourism, and this sector earned Croatia \$2 billion, in 1990. In May 1991, a referendum endorsed independence from Yugoslavia, and forecasts predicted that tourism would yield an independent Croatia \$5 billion that year. However, predominantly Serb areas of Croatia, including the Krajina, leaned towards union with Serbia. Declaration of independence, in June 1991, resulted in civil war. More than 12,000 people were killed and 35,000 were wounded.

As Belgrade refused to accept Croatia's statehood, Croatian civilians spent the summer of 1991 armed, to protect their crops from Serbian forces, and Croatia's

tourism industry was crippled. The state of war prompted inflation that escalated to 2,000% in 1993 (Martin and Grbac, 1998). Until 1993, inflation and high taxes contributed to growth of the unofficial economy; the reduction of taxes, in 1994, prompted a shift from the parallel sector to the firm-type economy. Privatisation was concluded faster in Croatia than elsewhere among the former Yugoslav republics. However, Croatia's privatisation model enabled a few Croats to take over important firms, without the needed resources and managerial knowledge; this was referred to, by the Strategic Planning Office, as 'tycoon' based privatisation.

During the period from 1996 to 1998, Croatia had a lower rate of inflation than any other country in Eastern Europe. Yet, in 1999, Croatia experienced negative growth and an unemployment rate that exceeded 20%. For elderly people, the job search was a challenge. The following year, a coalition led by the Social Democrats and the Social Liberals left Franjo Tudjman's Croatian Democratic Union as Opposition; the new leader was Ivica Racan, a former communist who believed the government should have a strong hand in the economy.

In November 2001, the Strategic Planning Office, in Zagreb, included extensive support to entrepreneurship, as a developmental priority of the republic. The government announced favourable conditions for craftsmen, as well as the establishment of technological incubators, and a system of financial stimulation, to encourage small and medium entrepreneurship.

Croatia's Law on Small Business Development Encouragement was accepted in 2002, as prepared by the Ministry for Crafts, Small and Medium Enterprises. The Department of Entrepreneurship Promotion, at this ministry, has been headed by former television commentator and journalist, Dragica Karaic. She has been defining long-term measures aimed at encouraging the activities of craftsmen, cooperatives, and small firms. With the assistance of the Dutch Government, an operational model has been developed, to train advisors and to promote entrepreneurs. A credit line was established for small and medium enterprises in international business. Yet, some entrepreneurs say that not enough is being done; some entrepreneurs in Croatia demand tax incentives, as well as better access to premises and infrastructure.

I am pleased to present this issue presenting a variety of research studies focusing on entrepreneurship in Croatia. A special thanks to the reviewers and to Professor Claudio Vignali for helping to make this issue a reality.

Reference

- Martin, J.H., and Grbac, B. (1998), 'Smaller and larger firms' marketing activities as a response to economic privatization: marketing is alive and well in Croatia', *Journal of Small Business Management*, Vol. 36, No. 1, January, pp.95-99.

Note

- ¹An elaborate version of this short introduction is forthcoming in Leo Paul Dana, *When Economies Change Hands*, International Business Press, 2005.