Female entrepreneurship in Croatia
Report sponsored by the World Bank and Harvard Business School
By Lilijan Sulejmanovic, MBA 2008
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Introduction

The report analyses the experience of female entrepreneurs in Croatia and aims to identify some of the most salient issues they face in starting and growing their businesses. The report was compiled on the basis of extensive research and interviews on the ground with seven women engaged in the field of entrepreneurship. The experience of the women entrepreneurs interviewed is not in each case representative of the broader challenges faced by female entrepreneurs as the interviewees are all highly educated women from urban areas. However, their experiences have served to complement a more general analysis of the position of women in business, and have highlighted the importance of education in equipping women with skills necessary to succeed in business.

The main findings of the report are:

- Widely shared notions of gender differences and gender-specific abilities frequently impact women’s perception of entrepreneurial opportunity and their attitude to managing businesses,
- The preferred legal form of business incorporation helps encourage entrepreneurship by lowering capital requirements and registration costs but may also limit the potential growth by restricting access to capital markets,
- Rigid labor laws result in very high employment costs and incentivize businesses to under-report official wages,
- Access to capital markets for small businesses is still limited although the government has instituted a series of financial support measures aimed at entrepreneurs. The recent introduction of a credit registry will likely decrease the cost of borrowing and increase access to capital markets,
- Female entrepreneurs have a negative attitude to leverage which leads to prudent cost management but may also act as a barrier to more rapid growth,
- Contract enforcement is still weak and requires further judicial reform to improve the implementation of laws on the books.

Brief history of Croatia

The lands that today comprise Croatia were part of the Austro-Hungarian Empire until the close of World War I. In 1918, the Croats, Serbs, and Slovenes formed a kingdom known after 1929 as Yugoslavia. Following World War II, Yugoslavia became a federal independent Communist state under the strong hand of Marshal TITO. Although Croatia declared its independence from Yugoslavia in 1991, it took four years of sporadic, but often bitter, fighting before occupying Serb armies were mostly cleared from Croatian lands. Under UN supervision, the last Serb-held enclave in eastern Slavonia was returned to Croatia in 1998.\(^1\)

Current economic situation

Once one of the wealthiest of the Yugoslav republics, Croatia's economy suffered badly during the 1991-95 war as output collapsed and the country missed the early waves of investment in Central and Eastern Europe that followed the fall of the Berlin Wall. Since 2000, however, Croatia's economic fortunes have begun to improve slowly, with moderate but steady GDP

growth between 4% and 6% led by a rebound in tourism and credit-driven consumer spending. Inflation over the same period has remained tame and the currency, the kuna (HRK), stable. Nevertheless, difficult problems still remain, including a stubbornly high unemployment rate, a growing trade deficit and uneven regional development. The state retains a large role in the economy, as privatization efforts often meet stiff public and political resistance. While macroeconomic stabilization has largely been achieved, structural reforms lag because of deep resistance on the part of the public and lack of strong support from politicians. The EU accession process is expected to accelerate fiscal and structural reform.

Experience of communism in Croatia

The experience of communism in former Yugoslavia, that Croatia was a part of until 1991, was different in a number of important aspects from communism that was practiced the former Soviet Union and other countries of the East European block. Although the first postwar years saw implementation of Soviet-style five-year plans, and reconstruction of infrastructure through massive voluntary work, from the 1950s onwards the economy was organized as a mixed planned socialist and market socialist economy. Thus, there was some elementary development of market economy principles before the transition to market economy began after 1991.

A type of socialist self-management unique to Yugoslavia was introduced in the 1950s and had the effect of reducing the central state control of the economy. Socially owned companies were supervised by worker councils, which were made up of all employees, with one vote each. The worker councils in turn appointed the management of the company, often by secret ballot. The workers were organized into trade unions which wielded significant power and frequently led strikes against the companies' management, which in the case of non-politically motivated grievances tended to result in the removal of the management.

In 1970s, the economy was reorganized according to Edvard Kardelj's theory of associated labor, which further increased the rights of workers to participate in decision making and entitled them to a share in profits of socially owned companies. All companies were transformed into organizations of associated labor. The smallest, basic organizations of associated labor were organized into enterprises and roughly corresponded to a small company or a department in a large company. They were in turn associated into composite organizations of associated labor, which could be large companies or even whole industry branches in a certain area. Most executive decision making was based in enterprises, so that these continued to compete with each other to a certain extent even when they were part of a same composite organization.

Privately owned craft shops were permitted and could employ up to 4 people per owner. The land was partially nationalized and redistributed, and partially collectivized. Farmer households could own up to 10 hectares of land per person and the excess farmland was owned by co-ops, agricultural companies or local communities. These could sell and buy land, as well as give it to people in perpetual lease.

Due to Yugoslavia's neutrality and a leading role in the Non-Aligned Movement, Yugoslav companies also had significant contact with Western market economies to which they exported a number of goods. Yugoslav companies also carried out construction of numerous major infrastructural and industrial projects in Africa, Europe and Asia.

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2 1HRK was equivalent to $0.21 on 6 May 2008.
Position of women in Croatian society

Under communism, entrepreneurship was not widely developed and was even frowned upon as a somewhat dishonorable pursuit. Though the situation has changed with the fall of communism, women are still underrepresented amongst the entrepreneurs in the same way as they continue to be under-represented in the world of business in general as well as in public office positions. Women often suffer from lack of support for their entrepreneurial activities, as the society tends to look upon their sphere of influence as being confined to domestic affairs, and often give up their entrepreneurial ideas before they have even had a chance to develop them. Women also continue to be responsible for a disproportionate share of house work and child care, and therefore have limited scope to devote their attention to developing and executing a business plan.

Women in Croatia represent 58% of the unemployed persons and 65% of shadow economy employees which means they have fewer economic resources they could put to use to start their own business. Furthermore, unemployment amongst women in Croatia has increased over the past decade. In 1996, women represented 50.1% of the unemployed persons. Women are also 63% of the unemployed persons with higher education, 79% of the unemployed office workers and 75% of the unemployed service and retail workers. The increase in unemployment amongst women is partly due to the effects of transition to market economy and the loss of jobs through the privatization of public enterprises that used to employ large numbers of women.

Their inferior position in the society is also reflected in the numbers of women represented at local and county government positions and in junior and senior management positions.

<table>
<thead>
<tr>
<th>Category</th>
<th>% women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population</td>
<td>52%</td>
</tr>
<tr>
<td>Unemployed population</td>
<td>58%</td>
</tr>
<tr>
<td>County and local government leadership positions</td>
<td>13%</td>
</tr>
<tr>
<td>Local council members</td>
<td>7%</td>
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<tr>
<td>Shadow economy employees</td>
<td>65%</td>
</tr>
<tr>
<td>Founders of trading companies</td>
<td>25%</td>
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<tr>
<td>Credit holders</td>
<td>20%</td>
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<tr>
<td>Leadership positions (all levels of management)</td>
<td>27%</td>
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<tr>
<td>Top management positions</td>
<td>6%</td>
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Despite the inequalities that women in Croatia continue to face, the experience of communism from the end of the WWII to 1990, and the investment in social infrastructure that it brought about, has in many ways contributed to women’s emancipation and equipped them with skills necessary to succeed in business. Evidence of this can be found in the Global Gender Gap (GGG) Index, introduced by the World Economic Forum in 2006 and now compiled annually. The GGG Index is a tool for benchmarking and tracking global gender-based inequalities on economic, political and education- and health-based criteria. There are three basic concepts underlying the GGG Index:

- It is designed to measure gender-based gaps in access to resources and opportunities in individual countries rather than actual levels of the available resources and opportunities in those countries. Thus poorer countries can achieve high scores if the gap between men and women is small regardless of their development level in relation to richer countries.

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5 Croatian Bureau of Employment 2004 data
6 Croatian Bureau for Employment 2004 data
It evaluates countries based on outcome variables rather than input measures. Input variables are variables related to country-specific policies, culture or customs, such as for example country-specific policies on length of maternity leave.

It ranks countries according to their proximity to gender equality rather than to women’s empowerment. Thus, countries score highly if outcomes for women equal those of men but are not rewarded or penalized for variables in which women score better than men.

Table 1 outlines the four fundamental categories of the GGG Index.

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Source</th>
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<tbody>
<tr>
<td>Economic Participation and Opportunity</td>
<td>Ratio: female labor force participation over male value</td>
<td>International Labour Organization, Key Indicators of the Labour Market, 2005</td>
</tr>
<tr>
<td></td>
<td>Wage equality between women and men for similar work (converted to female-over-male ratio)</td>
<td>World Economic Forum, Executive Opinion Survey 2007</td>
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<tr>
<td></td>
<td>Ratio: female legislators, senior officials and managers over male</td>
<td>International Labour Organization, LABORSTA Internet, online database, 2006 or latest available data</td>
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<tr>
<td></td>
<td>value</td>
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<td></td>
<td>Ratio: female professional and technical workers over male value</td>
<td>International Labour Organization, LABORSTA Internet, online database, 2006 or latest available data</td>
</tr>
<tr>
<td></td>
<td>Ratio: female not primary level enrolment over male value</td>
<td>World Bank, World Development Indicators (Online), accessed June 2007, 2010 data or latest year available</td>
</tr>
<tr>
<td></td>
<td>Ratio: female not secondary level enrolment over male value</td>
<td>World Bank, World Development Indicators (Online), accessed June 2007, 2010 data or latest year available</td>
</tr>
<tr>
<td></td>
<td>Ratio: female gross tertiary level enrolment over male value</td>
<td>World Bank, World Development Indicators (Online), accessed June 2007, 2010 data or latest year available</td>
</tr>
<tr>
<td>Political Empowerment</td>
<td>Ratio: female seats in parliament over male value</td>
<td>International Parliamentary Union, April 2007</td>
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<td></td>
<td>Ratio: number of years of a female head of state (last 50 years) over male</td>
<td>own calculations, as of June 2007</td>
</tr>
<tr>
<td></td>
<td>Sex ratio at birth (corrected to female-over-male ratio)</td>
<td>CIA World Factbook, U.S. Census Bureau, International Data Base (IDB), estimated May 2007</td>
</tr>
</tbody>
</table>

Croatia was ranked 16th in the overall 2007 GGG Index out of 128 countries, ahead of many more developed countries such as Canada (rank 18), USA (rank 31), and France (rank 51). Sweden and Norway were ranked 1 and 2 respectively. Croatia’s score has also improved since 2000. In 2000, it scored 0.666, where a score of 0.0 represents full inequality and a score of 1.0 represents full equality. In 2007, Croatia’s score was 0.721. Number 1 ranked Sweden scored 0.814 on the GGG Index thus indicating that even in the best performing country women have a long way to go towards achieving full equality with men. Croatia’s ranking in the GGG sub-indices similarly reveals that women in Croatia have achieved many of the rights that men have traditionally enjoyed, and on some measures fare better than women in the USA:

- In terms of Economic Participation and Opportunity, Croatia ranked 40 with a score of 0.678 with a particularly high score for labor force participation of 0.81 (rank 48) and income score of 0.67 (rank 18). The USA achieved rank 14 with a score of 0.7383 and Sweden rank 6 with a score of 0.7613.
- In Educational Attainment, Croatia ranked 61 with a score of 0.989, with the USA coming in at rank 76 with a score of 0.981. Similarly, the gender gap on the Health and Survival Index was relatively small – Croatia ranked 37 with a score of 0.9791, one place after the USA at rank 36 with a score of 0.9795.
- Croatia recorded a particular success on the Political Empowerment Index, ranked 18 with a score of 0.2375 compared to the USA ranked 69 with a score of 0.1016. Number 1 ranked Sweden scored 0.5252.

8 Table 3 of the GGG Index 2007
9 Table A of the GGG Index 2007
A significant impetus for the improvement in legal rights of women has been the process of EU integration that Croatia entered in full force with the signing of the Stabilization and Association Agreement with the EU in October 2001. Article 90 of the Agreement stipulates the obligation of the Croatian legislature to harmonize all national laws with the requirements of the European Convention on Human Rights which guarantees equal rights for men and women. The Commission on Gender Equality was established even earlier in 1996. In 1997, it drafted a national policy for advancement of equality and implemented a series of measures dealing with the role of women in decision making positions, health, education and home. However, the implementation of laws which prohibit discrimination against women has not always had the desired effect and women continue to face indirect and subtle forms of discrimination.

For example, Labor Law which was passed in 1995 clearly forbids gender discrimination yet common advertisements for jobs with requirements that the candidate should have already completed military service indicate that the employer is looking for a man. It is not uncommon for women to be told in interviews that women are not suitable candidates for a job because they are frequently absent from work during pregnancy or child illness. Yet few women would be inclined to take such instances of discrimination to court partly because they lack awareness of their own rights. Some employers also use temporary contracts when employing women which free the employer of all obligations toward the employee as soon as the contract ends regardless of whether the employee may have fallen pregnant during the duration of the contract. Under other types of contracts, a pregnant woman is protected from termination of contract. More subtle forms of discrimination have also led to a well-known glass ceiling effect: according to the data from the Croatian Ministry for Commerce (HGK), only 45 of the largest 500 companies in Croatia are run by women, indicating that women still struggle to climb the ranks of management in large companies.

A different sort of pressure on women to stay at home has recently arisen out of concerns for Croatia’s declining population growth. According to UNICEF statistics, Croatia’s population growth averaged 0.4% per year from 1970 to 1990 but only 0.1% from 1990 to 2006.\textsuperscript{10} It was estimated to have reached a negative rate of -0.03% in 2007. The average number of births per childbearing woman, a short-term fertility indicator, was 1.4 in Croatia in 2004, compared to the EU average of 1.5, UK average of 1.7 and USA average of 2.1.\textsuperscript{11} Two main actors have been critical in bringing the issue to the forefront of national debate. The first is the Catholic Church which has played an important role in the revival of Croatian national identity after the fall of communism and Yugoslavia. The Church has publicly called on women to have more children and has shaped public opinion on the role of women and priorities of womanhood.

The second actor has been the government that has, partly as a result of public opinion and pressure from the Church, introduced a series of measures designed to incentivize women to have more children through its 1995 National Program of Demographic Renewal. Amongst the most important measures have been those introduced through the Labor Law. The Law stipulates a mandatory maternity leave for the mother beginning 28 days before the expected date of childbirth (45 days in case of complications) and lasting at least up to 42 days after childbirth, after which day the father can opt to take the parental leave in place of the mother. The mother received 100% of salary for the first six months of the leave and an additional benefit until the child reaches 1 year. The law stipulates a minimum monthly benefit which unemployed women are entitled to as well. For twins, third child and every next child, employed women are entitled to maternity leave until the child is three years old. The Law also permits one parent to take unpaid leave for the first and second child until the child is three years old without losing their


\textsuperscript{11} Demographers say that just over two children per woman are required to keep a population from shrinking, without counting immigration.
employment rights and obligations. Furthermore, the Law prescribes two breast-feeding breaks per day of one hour per break which are to be considered as part of working time.

The effect of the measures in practice has been to make the cost of employing women prohibitive for most businesses and has thus inhibited, rather than helped young women in particular to progress in career development. Smaller companies often resort to asking young women to sign contracts promising not to get married or have children for a few years. When in doubt, employers prefer simply to employ men who are unlikely to take advantage of parental protections built into the law even though they are in theory open to men as much as to women.

Female entrepreneurship in Croatia – the interviewees

For the purposes of the report, seven women in the field of entrepreneurship were interviewed in March 2008. The interviews revealed that many of the challenges women face as entrepreneurs are the same as those faced by their male counterparts. However, there are some issues that further exacerbate the position of female entrepreneurs, and make it more challenging for them to grow and sustain successful enterprises. Amongst those issues are their attitude to risk and ability to access informal networks in which many of the most important business decisions tend to get made.

Below is a brief introduction to the women interviewed for the study, and their thoughts on female entrepreneurship.

**Mirela Schreiber, CEO of the Entrepreneurship Centre in Velika Gorica**

Mirela Schreiber has been the CEO of the Entrepreneurship Centre in the municipality of Velika Gorica since its inception in October 2004. The Centre is a commercial company in the majority ownership of the Municipality of Velika Gorica, founded with the aim of initiating the development measures, projects and services striving towards local economic development and, more specifically, supporting small- and medium-sized enterprises (SMEs). The Centre offers advisory services for entrepreneurs from business start-up to compilation of investment and feasibility studies, information on SME- and business-supporting institutions at national and local levels, as well as many other business-related services and information. As of 2008, the Centre had compiled EUR44.4 million worth of investment projects for 76 enterprises and companies. Workshops and seminars organized by the Centre since 2005 were attended by over 250 entrepreneurs. From the initial two employees, the Centre has grown to today’s five full-time staff members.

Prior to taking up her role as the CEO of the Entrepreneurship Centre, Mirela has served as the General Secretary of Croatian Maltezer humanitarian organization, the CEO of MediaKoncept, a private company for publishing and PR, Assistant to the Managing Board of EPIC, an Austrian-based privatization and investment advisory house, Assistant to the Managing Board of DOM Holding, the largest voucher privatization investment fund in Croatia, as well as a local consultant on the project of implementation of guarantee funds within the EU PHARE programme for Slovenia, and in the organization and implementation of the guarantee funds in Croatia.

In Mirela’s view, women do not tend to suffer gender-specific difficulties once they decide to become entrepreneurs, but the prevalence of traditional hierarchical values in the Croatian society means they face a fierce battle at home to achieve any kind of economic emancipation. Hence, women, especially those in rural areas, often remain economically inactive and rely on their husbands to provide the family with income. For the same reason, even when women decide to engage in work, they most often take on activities in sectors traditionally seen as belonging in the women’s sphere such as cosmetics, flower shops or hairdressing salons. Men with higher education and more exposure to the cultures of Western European countries are more able to accept women as high earners, but they are still in the minority and tend to be concentrated in urban areas.
Entrepreneurship has increased a lot during the period of increased unemployment driven by transition and tends to fluctuate with the state of the economy. Women face most difficulties getting permanent full time employment which would for many be the preferred option given the financial security that it provides.

**Kristina Horbec, CEO of Heraklea**

Kristina Horbec is the founder and CEO of Heraklea Mystery Shopping, the first and only specialized mystery shopping agency in Croatia and the first Croatian company to become a member of the Mystery Shopping Providers Association (MSPA). After completing her degree in economic and marketing, Kristina went on to join Pliva, the largest pharmaceutical company in Croatia where she spent four and a half years, including a year in Poland and the Czech Republic. In 2001, Kristina underwent an operation of the spine and while recuperating at home saw a programme about mystery shopping on TV. She was immediately excited by the concept and her first thought was that she wanted to be a mystery shopper herself. She found two companies that advertised mystery shopping services but after calling them she quickly learnt that this type of market research did not actually exist in Croatia. Kristina says, “then the economist inside me woke up and I realized this was a niche market that was going to grow along with increased focus on customer service”. For the next eight months, she researched every mystery shopping firm in the world that Google could come up with and became immersed in the industry. She was driven by an intense desire to bring mystery shopping to the Croatian market.

Kristina registered the firm at the end of 2002 as a limited private company and started operating in 2003. She continued to work at Pliva for a while but soon realized that she needed to devote herself full time to the venture. At the same time she acquired her first customer and the money she earned she spent on a buying a ticket to London to attend the conference of the European Mystery Shopping Association. This was significant step for the business as it gave Kristina the confidence that the market for her type of market research in Croatia was going to follow the growth for the same service in other EU countries. It also provided her with access to the practitioners with many years of experience from whom she learnt many valuable lessons. She now employs 5 full-time employees (all women) and has 550 mystery shoppers on the books (70% women) who work on a contract basis. Kristina has now expanded the operations regionally, choosing to work in joint ventures with regional partners. Outside Croatia, the companies operate under different brands as Kristina was concerned to protect and grow the Heraklea brand first in Croatia – “our aim is for Heraklea to become synonymous with mystery shopping in Croatia”. In 2004, Heraklea won the MSPA Europe PR Award for the most successful promotion of mystery shopping in Europe. Kristina also sits on the Board of MSPA Europe and is a regular speaker at mystery shopping events. In 2005, she was awarded the MSPA Europe Marketing Award for special personal contribution to the promotion of mystery shopping in Europe.

Kristina believes education plays an important role in equipping the women with the skills they need to become successful entrepreneurs. Kristina read widely on entrepreneurship and was determined to think big from day 1 – “my friends used to laugh at me, sitting in my kitchen and drawing up procedures and norms as if there were 150 of us rather than just one!” She is continually learning and improving her skills, from communication skills to public speaking, and is even studying for an MBA. Together with Veronica Karlsson, she is a co-author of the first book on mystery shopping intended for clients, Measuring Management and The Moment of Truth (www.measuringmanagement.com). In 2007, she won the Cromin Award for the best young manager of the year in Croatia. Kristina holds that mentorship is critical to growing as a business person. She says she has benefited significantly from having a mentor and today relies on a small group of young entrepreneur colleagues and friends for business advice and support.

Kristina does not feel that her experience has been any different from that of other entrepreneurs on account of being a woman but “that may be because I wasn’t really paying attention to that, I was and always am focused on my goals and how to achieve them, I tend not to pay too much attention to obstacles”. However, she recognizes that the older generations think the women’s
place is at home, not in work, and that Croatia remains a patriarchal society. However, she feels that things are changing and that the government is taking measures to encourage more entrepreneurship. If anything, she feels she has faced more discrimination on the basis of her age – she started the company when she was only 26 years old. Kristina claims that age discrimination is something is something many of her male colleagues also face.

**Petra Ćolak and Melita Visnjic Ćolak, founders and owners of HalPet**

Petra Ćolak and Melita Visnjic Ćolak are sisters, and co-founders and owners of HalPet Business Communication, a leading Croatian language centre specializing in teaching language for business use, as well as personal and professional communication skills using a proprietary Learn-Practice-Communicate (LPS) method that Petra developed. Petra completed her degree in English Language and Literature at the University of Zagreb and went on to qualify as a Neurolinguistic Programming (NLP) Trainer. Petra is the author of the LPS teaching and training method and the founder of LPC Academy, one of the most prominent Train the Trainer institutions in Croatia. Petra is a member of International Coaches federation and Vice President of Croatian Association for Lifelong Learning.

Entrepreneurship has been in the sisters’ family even though they grew up during the times when entrepreneurship was not kindly looked upon. Their father was a visionary, full of ideas that he could not follow through but keen to instill in his daughter an interest and passion for entrepreneurship. With the fall of communism in the early 1990s, it became very easy to start a company in Croatia and in 1995, the sisters decide to register a company even though they did not yet have a clear idea as to what they wanted to do with it. After completing her degree, Petra started teaching, working primarily with professionals. It was through that experience that Petra realized she had a talent that she could put to use. So in 1997 she decided to branch out on her own with another colleague offering business English language courses to business professionals. Melita was a perfect partner to bring in with her complementary background in finance and administration. So while Petra and her colleague put together the curriculum for the course and taught, Melita run the business and the finances. Within a short time frame, HalPet grew to become a highly respectable company in Croatia, recognized as a leader in the field of language education for business and communications skills. HalPet’s team includes 40 professors, 10 trainee professors, 4 NLP practitioners and more than 30 external partners.

HalPet operates in a fiercely competitive market in Croatia. There are around 350 language schools offering a range of services, even though only 4 or 5 are dedicated to business language teaching. From the outset, HalPet focused on the quality of teaching and the high level of service offered to clients. Building the HalPet brand has taken a long time but the sisters pride themselves on what they have achieved. HalPet is held in very regard for the high quality of its team and the service offered. So much so that the sisters are able to turn business away if necessary. Melita recalls, “we just received an inquiry from a potential large client that we would have given the service to for next to nothing eight years ago. He said, “I know that you are good but such and such a school is offering the course for 30% less”. And I wrote back to him “While we respect our competitors, we cannot be compared on the service we offer and therefore not on price either.” And he said he appreciated our response and was happy to pay extra!”

Though the entire credit for building a successful business goes to the sisters and the high quality team they had assembled, Melita and Petra recognize they benefited greatly from cooperation with the Croatian Employers’ Association (HUP). HUP offered a programme to link SMEs in Croatia with retired foreign consultants on strategic projects to help businesses grow. HalPet was matched with a consultant who came and spent a week with the HalPet team, and helped them think through each of the critical issues they needed to address. The consultant came back 6 months later to follow up on the action plan and the results of the cooperation were long lasting both in terms of the impact on the bottom line and as a way of transferring important strategic planning and management skills to the owners. Apart from accommodation and per diem expenses, all consultant costs were paid for by HUP. However, at the time HalPet was only the second firm to have taken advantage of the programme in the five years that the programme had
been running. The level of education about the range of services available to entrepreneurs was low and remains so.

Petra and Melita see women as offering a different kind of leadership, one marked by tenacity and dedication to business and an almost maternal attachment to the business and the employees. Melita says, “Men start with many ideas and feel comfortable passing them on to a team to execute. Women tend to grip tightly onto one idea and oversee every minute detail of its execution themselves which can take its toll on the person, it is very demanding. The end user of our service is extremely important to us. We continue to get involved with every aspect of the business even 10 years on just to make sure that the feedback we get each and every time is “this is great”. That is how we do business and I think this is something specific to women entrepreneurs”. Petra adds, “It helps that we offer communication skills to our clients. Each new course we develop, we test inside the company. This helps increase our emotional intelligence and improves how we interact with each other.”

**Andrijana Paric, co-founder and owner of Razbor**

Andrijana Paric is one of four women co-founders of Razbor, a regional development consultancy that offers its services to public and private institutions on local, regional and national level, in Croatia as well as in the region. The company’s expertise is regional and local socio-economic and institutional development, human rights issues, cross-border cooperation and all issues relevant for European integration. Prior to founding Razbor, Andrijana had spent seven years building her experience in civil society and organization development; research, monitoring and evaluation of projects; and preparation and implementation of EU projects, working extensively with international organizations including UNDP, OSCE, CARE International and number of other NGOs. In addition to consultancy work in Croatia, Andrijana has worked in other countries in the region as well as in the Netherlands and Denmark. Andrijana holds an MA in Local Development from the University of Trento, Italy.

All four co-founders had been working free-lance prior to starting Razbor. Around 2000, when the Community Assistance for Reconstruction, Development and Stabilization (CARDS) program was created by the European Commission to support economic development of the Western Balkans countries through effective protection and enforcement of intellectual property rights, the demand for their skills grew significantly. They soon saw an opportunity to start their own consultancy business that would enable them to approach the opportunities in a more systematic and organized way, as well as capture more of the value their clients were paying for in order to take advantage of their skills on projects. Razbor was started in 2004 offering consulting services for regional development. All four co-founders are still with the business and now also employ a part time office administrator. While the co-founders are equal partners in the business, one acts as the CEO of the company, and looks after the finances.

When it comes to EU projects, Razbor has to compete with international firms with many years of experience. Inevitably, this means that Razbor mainly works as part of consortia with other consulting firms. While this provides a good opportunity for the business, it does restrict the share of funds they can receive from the project, and hence the growth of the business. Andrijana says, “In a consortium, the smallest share of profit goes to us, a local partner, but in practice we end up doing the bulk of the work on the ground.”

Andrijana recognizes that many rural areas are still very patriarchal which makes it extremely difficult to encourage women to start a business. Andrijana says, “I know of many examples of women in rural areas doing organic farming, for example, that could be very successful commercially but if I suggest it to them, they say “Oh, I am only doing this as a hobby, my husband takes care of everything.” It is a different situation in the western parts of Croatia that have received a lot of influence from Italy and where entrepreneurship is much more developed and part of the culture, you see a lot more female entrepreneurs there”.

Andrijana also points out that lack of women in business is related to the lack of women in politics, and that the two will have to change in tandem. She recalls an amusing incident to
illustrate an example of institutional gender discrimination reminiscent of the times when politics and government were an exclusive domain of men. The co-founders of Razbor wanted to make their formal documents all in female gender form which the authorities initially welcomed as a good initiative. But unfortunately, Razbor co-founders had to give up their ambition when they were informed by the court that their software did not support a female gender version of the tenses in the required documents. Ironically, this happened at the time when the Constitutional Court increased the retirement age for women to 65 to give the sexes equality under law!

While Andrijana does not believe she and her co-founders have come across many instances of overt gender discrimination, she feels that women entrepreneurs are seen in a different way by their customers. Andrijana says, “The society still sees women in a different way, as caretakers, as maternal figures. And as a result, the customers are surprised by what they perceive as your “arrogance” in asking for a high price or telling them “that is not my job”. I don’t think that is how they would perceive a man doing the same thing. I agree that women are often more generous and empathetic with their clients; I myself often end up doing pro-bono work for many of my clients. But I want to do this because I choose to not because it is expected of me.”

**Vesna Kaludjer, founder and owner of Eventus**

Vesna Kaludjer is a founder and owner of Eventus Center for Fast Learning, a company dedicated to the provision of seminars in the field of learning and memory improvement based on the Buzan Mind Mapping methodology ([http://www.buzanworld.com](http://www.buzanworld.com)). The seminars are tailored to different audiences and include primary and secondary school pupils, university students as well as professionals in all walks of life. To date, over 3000 attendees have completed the Mind Mapping seminars.

Vesna received her degree in Economics from the university in Osijek, specializing in marketing management. As a student, she became familiar with Buzan’s mind mapping learning method and applied it extensively through her studies. Upon graduating in 2004, aged 24, Vesna decided that there was an opportunity to commercialize the benefits of the technique that was almost completely unknown in Croatia at the time. She recalls that her passion for entrepreneurship stems from her father who always wanted to have his own company but never succeeded. She always wanted to be an entrepreneur even though the decision to pursue the field of education was accidental.

Vesna registered Eventus as a sole proprietorship in May 2004 on account of its lower registration costs and no capital requirement. At the outset, Vesna was a part of a technology incubator that aimed to support young entrepreneurs in Osijek. They provided her with offices from which to start the company’s operations. Vesna recounted the difficulties she encountered at the beginning. There was very little awareness of mind mapping as a learning method and she found that the people in general were not open to new things and ideas. The situation was particularly hard in Osijek that was hard hit during the war in Croatia in the early 1990s, and was left in an economically depressed situation that made it difficult for Vesna to get people to listen to new ideas about how to educate themselves more effectively. She believes that it was her sheer determination and patience, as well as a deep belief in the usefulness of the method, which helped her persevere. She was convinced that Osijek’s large student population, drawn from numerous nearby towns, was the perfect client base, and that they simply needed to be educated about the potential to benefit from applying mind mapping in their studies.

In those early days, Vesna says she was greatly helped by a few media outlets that picked up on her story and published it, thus rapidly raising awareness about the company within Osijek as well as beyond. Before she knew it, Vesna had clients coming to Osijek from all over Croatia in order to attend her seminars. During the first six months of the operation, Vesna developed the business and marketing plan but was not teaching herself. Instead, she cooperated with, at the time the only certified Buzan instructor in Croatia who would travel to Osijek to teach seminars. After noticing the immense demand for the courses, Vesna decided that she would become a certified Buzan instructor herself. Vesna’s parents helped her put together the necessary HRK50,000 license fee and she traveled to Milan, Italy where she completed the course and
became a Qualified Buzan Instructor, QBI. At the same time as she acquired the Buzan certification, Vesna began to hold courses and seminars in other towns in Croatia which meant a heavy travel schedule from Osijek, located in the northeastern tip of Croatia. A year later, in 2005 she decided to move the company operations to Zagreb. She continues to travel to six other cities and towns in Croatia on a regular basis to teach.

Today, Eventus faces competition from a number of different centers although none are certified Buzan centers like Eventus. Vesna believes that her most important differentiator is the high quality, personal service that she offers to her clients. She says, “The quality is the single most important thing. You have to believe in your business, in order to get other people to believe in you. The best teachers are those that teach with passion, that believe in what they do from their heart. I differentiate my business through my flexibility with clients. If they cannot attend any of the scheduled courses, I will arrange to give them a one-on-one session. And people appreciate that. I really care that everyone understands the method. I will happily stay an extra hour or two to make sure that everyone walks away having completely understood every aspect of the course.”

Vesna is reluctant to view her experience through a gender lens and believes that the experience of entrepreneurs has all to do with the characteristics of the person and not their gender. She was warned that she would find it hard to succeed on account of her age but has never paid much heed to such warnings either. She says, “I see it more as a challenge, not an obstacle. The hardest thing is to introduce something new in Croatia!”

**Ana Gruden, Chief Editor of “Zaposlena”**

Ana Gruden is the Chief Editor of a monthly magazine *Zaposlena* that was founded by her mother, Morana Paliković-Gruden, in 1994. In 2001, after completing her degree in journalism at the University of Zagreb, Ana joined her mother at the magazine. Four years later her she took over at *Zaposlena* and her mother moved on to pursue a career in politics. Ana describes *Zaposlena* as one of the few magazines for women in the Croatian market that does not focus on celebrity gossip and lifestyle advice that perpetuate a stereotypical way of representing women. Instead, *Zaposlena* aims to address the more serious and substantive interests of working women, from those in manual jobs to those in management positions. One of the core principles of the magazine is the monthly feature of working women in different walks of life. The magazine addresses a range of women-related issues, from women’s rights to the impact on women of the transition to market economy.

Having taken over an established business from her mother, Ana has not faced the challenges involved in starting a company but she knows only too well how difficult it is for entrepreneurs to sustain and grow small and medium sized businesses. Through her work as an editor, she has also come into contact with numerous stories of female entrepreneurs as well as helped many gained prominence for the work that they do.

Ana believes that the mentality in Croatia is one of the main obstacles to entrepreneurship. She says, “A lot of people still consider permanent employment in a state owned company to be the most desirable employment option. This is even more the case for women who see the maternity leave as an important way to ensure the family continues to have income when they are unable to work.” Ana points out that the government’s generous maternity leave provisions further encourage women to make such trade-offs between security of employment and pursuit of entrepreneurship, while at the same time making women employees very costly for employers. Ana believes that women would benefit greatly from being given an opportunity to go back to work part-time soon after birth, or options to work from home, which would enable them to maintain continuity in employment and increase their value to employers.

The second issue Ana raises is that of support for female entrepreneurs. Women frequently do not have the support of their families or community to engage in risky pursuits that

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entrepreneurship entails. And women rarely have their own money to use so the support of family is critical. Government support for women entrepreneurs was extremely limited until a few years ago when a range of programs were launched. However, such programs still have a limited scope and duration; a programme aimed at women one year was replaced by a programme aimed at young people the next year. Ana says. “I am sure that the government will increase its support for entrepreneurs and that these programs will get better, but I am the generation of entrepreneurs who know that they will have to achieve everything they want on their own.”

**Issues faced by female entrepreneurs**

The culture of entrepreneurship is still in its infancy in Croatia and women in particular appear to lack awareness either of the potential benefits of entrepreneurship in helping them raise their family incomes, or of the resources available to help them in their endeavour such as tax relief, credit lines with most attractive terms, government grants and similar. While the general business environment still makes entrepreneurship a challenging career choice for all, there are a number of issues that appear particularly salient for female entrepreneurs.

1. **Cognitive values**

The society in Croatia continues to be characterized by widely shared notions of gender differences, distinct gender roles and different gender-specific abilities although some of these notions are less pervasive in urban than in rural areas. Such notion of gender frequently affect women’s perception of entrepreneurial opportunity as well as serve as likely determinants of how seriously the woman will be taken in her chosen field of work. While all the entrepreneurs interviewed for the study were driven by the pursuit of a perceived market opportunity based on interests and/or skills, for the great majority of women entrepreneurs, entrepreneurial opportunities tend to be in areas deemed to be a “woman’s sphere of work” such as personal care, agriculture or services. When women choose to enter traditionally male industries, such as manufacturing, their success is greatly limited by their lack of perceived credibility with peers as much as with clients. Stories of women who partner up with a husband or male relative with a specific purpose of having a male face for the company in dealing with client and suppliers are not uncommon.

Cognitive gender biases may also affect how women perceive each other. Despite a common perception that women tend to face greater challenged in reaching their full potential professionally, women in Croatia frequently resist viewing each other as a potential network and a source of support distinct from other types of professional networks. There is a notable lack of women’s professional associations and grass-root efforts to create formal and informal networks to share experiences and further common interests. The most prominent association of professional women, **Krug** (“Circle” in Croatian) was founded by the government and appears to have a limited profile. Most entrepreneurs interviewed were not aware of Krug or its activities. Others pointed out that it seemed to lack clarity and focus – it sought to bring together all professional women which include the CEOs of large public companies as well as small scale farmers from rural areas who have little in common for each other. Therefore, although current government efforts to create a network for professional women are well intended, a more realistic assessment of their effectiveness is needed. A more active participation in professional networks comprised of women would likely increase women’s perception of the potential value they could offer to each other as colleagues and mentors.

Finally, most women entrepreneurs hold on to traditional ideas of differences in the management style of men and women, viewing women bosses as essentially more nurturing and caring in their attitude towards employees and customers. While such an approach to management can be a source of competitive advantage in creating a loyal work force and customer base, those same self-perceptions of what is expected of a woman manager may also make it more difficult for women to take tough decisions their male counterparts would take that are important for the survival or growth of their businesses.
2. Starting up the business

There are a number of different legal forms business can take in Croatia, of which two tend to be the main forms for newly registered small and medium sized enterprises (SMEs):

1. **Sole trader or sole proprietor ("obrt" in Croatian):** Under this legal form, the business and the owner are the same person in law and the owner is personally liable for all debts of the business. There can only be one owner, rather than a partnership. A sole proprietorship is not a corporation and it does not pay corporate taxes. Rather, the owner pays a personal income tax on any profits earned.

2. **Limited liability private company ("drustvo ogranicene odgovornosti" or "d.o.o." in Croatian):** This legal form creates a legal person separate from the owners who can be both equity and debt providers. The business is a corporation and pays corporate taxes. Approximately 90% of private companies are SMEs.

Sole proprietorship is a much easier way to start a business and thus helps encourage entrepreneurship. Sole proprietorship accounts for around 60% of all newly registered companies. It has no minimum capital stock requirement, the registration costs are 400-500HRK and the whole registration process is completed in around 14 days. Private company Ltd. on the other hand requires a minimum of 20,000HRK as capital stock and the costs of registration are in the region of 3000HRK. The financial benefits of sole proprietorship can be significant for a new entrepreneur even apart from the easier registration. As sole proprietor, the entrepreneur does not have to pay value added tax (VAT) until the income reaches 85,000HRK in a year. The entrepreneur can also operate the business on a seasonal basis with minimal recurrent expenditure. While the business is not active, the owner is responsible for her tax and social security payments but nothing else (she would also be responsible for paying any workers although unlikely to be the case for a seasonal business). Sole proprietors pay a personal income tax on profit which is charged at a progressive rate ranging from 15% to 45%. The corporate tax rate that the private companies pay is 20%\(^\text{13}\). Sole proprietorship can transfer to private company form when income reaches 2,000,000HRK.

However, the easier legal form that sole proprietorship entails limits the potential growth of the business primarily by restricting its access to capital. Sole proprietors are required to maintain only a simple accounting system of incomes and expenditures. Private companies, on the other hand, are required to maintain double-entry bookkeeping systems and submit quarterly financial reports. Even though the reporting requirements are more stringent for a private company, the owners are placed in a much stronger position when approaching banks for loan by being able to demonstrate a track record of management and financial controls in running the business. Thus, even though sole proprietorship lifts barriers to entrepreneurship, it necessarily stifles the potential for learning for the entrepreneur and confines such entrepreneurial ventures to the margin of the economy, making it difficult for them to reach any kind of scale or impact on the local and regional economy.

One positive development for new entrepreneurs has been the creation of a web portal "HITRO.HR" as a one-stop-shop for company registration that makes it possible to submit the requests online. The new law mandates a 15 day period to complete the registration which significantly speeds up the process.

3. Employment costs

Employment protection legislation was very strict in Croatia by international standards until recently, when restrictions were lifted on both temporary and permanent employment. Croatia

\(^{13}\) Reduced corporate tax rates of 5%, 10% and 15% are available for companies locating in "special care areas" (62 municipalities and towns deemed to be undeveloped) and in the Vukovar area.
had one of the most rigid legislative frameworks in Europe in terms of the length of the layoff period and the amount of severance payments. Moreover, it had pockets of very highly protected workers in the public sector. In 2004, Croatia implemented a new Labor Law intended to increase labor market flexibility and reduce costs. For example, the new law reduced notice periods and severance payments, and introduced non-standard forms of work; in particular, part-time work.\textsuperscript{14} Despite some improvement, Croatia is still ranked at the bottom of the table in the Doing Business 2008 report, scoring 139\textsuperscript{th} place on Employing Workers measure, out 178 countries assessed. Though its relative position has improved from 142 rank in 2007, none of the three indices measured has improved since 2005.

However, the informal sector still constitutes an important part of the economy, driven by high unemployment, the desire to avoid high taxation and social security contributions, as well as institutional weaknesses in checking financial reporting. The sectors where undeclared work is most common are agriculture, construction, social and personal services, and especially hotels and restaurants, businesses and retailing. However, it is not only unskilled labor that tends to be underreported. Medical services and some types of business services also see a significant incidence of undeclared work. In a 2002 study on Croatian tax evasion, the evaded share of income tax and social security contributions was estimated to be in the range of 31\% to 47\%. The lion’s share of evasion was represented by social security contributions in private SMEs, in particular in the construction, trade and tourism sectors.\textsuperscript{15}

Employers pay employee contributions at two levels, local and state. Local councils control their own rates and often use them as a way to attract businesses to locate in their jurisdiction. At state level, employers’ contributions to social security amounts 17.2\% (15\% for general health insurance, 0.5\% for work-related accident insurance, and 1.7\% for unemployment insurance). The firing costs amount to 39 weeks of wages. The mandatory employee social security contribution is 20\% which also contributes to the high gross wage costs.

In order to avoid paying social contributions and employee taxes, many SMEs declare only a minimum salary on which taxes and social securities are paid, with the rest of the salary paid out as cash. For many women, this is an obstacle to developing a good financial track record with a bank that would help with obtaining a credit to start up a business. Given that women are frequently not title holders of the property they may own jointly with their husbands, obtaining credit is difficult unless they are able to get the support of the husband or another relative who could act as a loan guarantor for the bank.

High employment costs act as a significant deterrent to growing the business to its full potential. Giving the rigidity of employment protection and the uncertainty of income for many small businesses, entrepreneurs are reluctant to employ full-time staff unless absolutely necessary. This in turn makes it difficult to get the best people on board. Kristina Horbec of Heraklea tells us that the cost of freelance mystery shoppers she employs in Croatia amount to 104\% of salary compared to 30\% in Sweden, 10\% in Macedonia and 9\% in Montenegro.

At HalPet, Melita and Petra employ 50 staff in total of which 22 are full-time employees and the remaining are employed on a contract basis as freelancer workers. Despite the high employee costs, Petra and Melita recognize that people are their main asset. Given the difficulty Petra and Melita have faced in recruiting good teachers, HalPet invests heavily in its people and their continuing education, both as a way to keep the employees motivate and retain the best ones as well as in order to maintain the high level of service HalPet seeks to deliver to its clients.

At HalPet, Petra and Melita tried working with the National Employment Service that was promoting a number of labor market programs including subsidized employment whereby part of the wages and costs of on-the-job training was paid for by the government in order to stimulate

\textsuperscript{14} ILO, Croatia: Employment Policy Review, 2004 pp. 21-22
\textsuperscript{15} ILO, Croatia: Employment Policy Review, 2004 pp. 21-22
employment. One of the target groups of the NES were college and university graduates under 27 years of age, exactly the kind of demographic that HalPet looked to for new teachers. However, Melita and Petra did not find the experience of working with the NES entirely satisfactory. Most importantly, the conditions for participating in the programme were prohibitively strict. The person had to be employed on a permanent basis and could not be laid off for two years. The employee could, however, leave the employment voluntarily without incurring any penalties. In their place, HalPet would have to hire another person from the NES on the same terms. However, in a business which critically depends on its people, this model for hiring was not suitable as it left the owners with too little flexibility to find the right people for the job who would fit in with the HalPet culture. HalPet has since ceased working with the NES and now hires exclusively from the open market. This practice is more expensive but the company has flexibility to test new employee during a probationary period without any additional costs or restrictions. Thus, while the measures the government is taking to address unemployment are well intended, it is questionable whether such measures benefit SMEs and in particular human resource intensive businesses.

Mirela Schreiber of the Entrepreneurship Centre says that the rigidity of labor markets also renders ineffective certain other measures intended to help entrepreneurs. For example the Ministry of Commerce makes a number of grants to small businesses to help with specific projects or business needs, for example, with marketing costs, IT infrastructure investments etc. However, most such grants are open to companies with a minimum of three employees, in addition to other criteria that may limit the grants to companies in specific industries or those developing IP. Not only do such criteria exclude the majority of sole proprietorships, which still account for the majority of small enterprises, they also make it difficult for small companies to bridge the gap from informal to formal economy – these grants could be a resources to help small companies improve their profitability and could in turn make it easier for them to hire full-time permanent employees.

4. Access to capital

**Government sponsored measures**

In addition to equity capital contributed to the enterprise when starting the business, some entrepreneurs interviewed have benefited to some extent from the financial and non-financial support measures undertaken by the government to encourage entrepreneurship as embodied in its 2004 Programme for Promoting the Small and Medium-Sized Enterprise Sector, including providing access to seed capital and grants for specific projects. Venture and private equity capital is still very limited in Croatia.

The increased role for the government in supporting entrepreneurship has arisen in parallel with the reforms of the financial sector undertaken as part of the harmonization with the EU directives and the EU accession process in Croatia. In 2006 and 2007, the government passed amendments to the Banking Law and the new Credit Unions Law which provides for a new type of credit institutions in Croatia: savings banks and credit unions. Savings banks were designed to help boost competition in the Croatian banking market (which is currently rather concentrated, with six major banks dominating the market), and to make financial services more easily available to individuals, as well as to medium and small entrepreneurs. Credit unions were intended to replace savings and loan associations, which have, due to the lack of an appropriate legal framework, frequently been associated with illegal activities, scandals and bankruptcies. For these reasons, the Credit Unions Law introduced detailed financial criteria (regarding share capital, mandatory reserves, etc.) to safeguard the stability, solvency and liquidity of credit unions.

One consequence of the reforms is that many legitimate microfinance institutions that have supported numerous small scale entrepreneurs in rural areas, and in particular women, have been forced out of business. The new Credit Unions Law required all microfinance institutions to reorganize as either credit unions or savings bank to remain in operation. The requirements for becoming a savings bank were far too burdensome for most microfinance institutions and
included conditions such as providing 2,000,000HRK in capital, the adoption of a banking code including moving to a teller service, and the installation of expensive banking software. The condition for becoming a credit union included restricting operations to a regional level, an unsustainable requirement for most microfinance institutions. While ostensibly these measures are designed to strengthen the financial system in Croatia, many entrepreneurs and microfinance practitioners believe they also reflect a dislike of what microfinance institutions are associated with, namely Third World countries. A senior government official had apparently once declared “There is no poverty in Croatia”.

In 2007, as part of its programme to support SMEs, the Ministry of Commerce started offering micro credits at subsidized rates, in the amounts between 35,000 and 200,000HRK. These loans are issued by the commercial banks at market rate and the Ministry undertakes to pay a certain percentage (1-4%) of interest payment on behalf of the borrower. The micro credits have been used as part of a government policy on a number of specific issues, including:

- Female entrepreneurship micro credits with 2% interest subsidy
- New technologies micro credits with 4% subsidy
- Primary production micro credits with a range of subsidies

The Croatian Bank for Reconstruction and Development and the EBRD also offer support to entrepreneurs with subsidized credit rates but programs are not specifically targeted at women.

Kristina Horbec of Heraklea says that she has benefited significantly from such government initiatives to encourage entrepreneurship. For example, she had received a grant from the government to cover the full cost of registration and IT enablement of the business. She has also received grants from the fund aimed at women entrepreneurs and funds aimed at young entrepreneurs, as well as a grant to help with various marketing costs. She notes, however, that these grants were dependent on the entrepreneur’s investing some of their own money to start the business first. Andrijana Paric of Razbor received non-financial support from the same programme. The government paid for a consultant to work with the company on financial and operational planning. Vesna Kaludjer received government support for the costs of IT equipment and obtained a laptop and projector for the company which were worth around HRK17,000.

However, there is still a long way to go to ensure that the resources offered are widely publicized and made available to those entrepreneurs operating outside the main urban centers. Most importantly, the grants are being issued for a limited time only which makes it even more important that they are publicized effectively and widely. One of the entrepreneurs noted that the grant for women entrepreneurs was open for a very short period of time and not widely publicized. She had heard about it from a colleague only once the call for application was closed.

The second major issue is that many of the grants, whether offered by the Croatian government or through EU institutions remain too strictly defined and set high barriers for qualifying firms. For example, the latest EU PHARE program aimed at Croatian exporters required a minimum of 10 employees and a minimum of 25% exports in 2006.16

Access to credit markets

The measures taken by the government, however imperfect, were critically important until recently as Croatia did not have a credit registry until 2007 that would have enabled the great majority of entrepreneurs to access debt markets at affordable interest rates. Two major banking reforms have taken place in 2007. The first was the creation of the Croatian Registry of Credit Obligations (HROK) which instantly increased the coverage of borrowers from 0% to 72%. The second was the creation of a collateral registry that recorded EUR 1.4 billion in credit in the first two months of operation. For the first time now, banks are able to share both positive and negative information on borrowers which will help them assess credit risk much more effectively, bringing interest rates down and opening up credit markets to many SMEs that were previously

16 EU PHARE 2006 funding for SMEs
locked out. The reforms have been reflected in Croatia’s scores in Doing Business 2008 Report. Croatia’s rank on Getting Credit measure increased from 111 rank in 2007 to 48 rank in 2008.

The privatization of the banking sector has meant that over 90% of financial assets in Croatia are in the hands of foreign owned banks. These banks operate on the basis of their international norms and are primarily focused on the credit risk of the borrower in which gender does not play a role. Thus, most banks are happy to lend to women as much as to men as long as the borrower can provide evidence of satisfactory collateral. While large numbers of women may not own property in their own name, the entrepreneurs interviewed all agree that, in itself, this is not an issue as long as the entrepreneur can find a guarantor willing to provide the collateral for the loan, be it a husband, friend or relative. Thus, the crucial obstacle to female entrepreneurship seems once again to lie with the societal attitudes to women’s economic emancipation and role in family, rather than in institutional barriers women encounter when seeking to build a business. Most women would probably struggle to convince their partners or relatives to invest in them. When it comes to business, women are seen as lacking credibility as serious high-potential entrepreneurs.

An interesting feature of female entrepreneurs in Croatia highlighted in the interviews is their negative attitude to leverage. All entrepreneurs interviewed had started their business with own capital or money borrowed from family. The growth of the businesses has been primarily organic and financed by operating cash flow. While this may have been partly as a result of restricted access to credit markets, it is also a reflection of a more fundamental way in which the society looks upon debt as a negative thing, which goes hand in hand with an unfavorable view of entrepreneurship in general. The situation is even more difficult for women entrepreneurs as they tend to assume greater responsibility for family welfare and are thus even less likely to want to assume large financial liabilities. Things are changing in Croatia but some of these deep seated biases are likely to prove difficult to dislodge.

Kristina Horbec of Heraklea started the business with her own funds. The 20,000HRK of stock capital required to register the company included her savings of 12,000HRK and some physical capital such as her computer. She was able to work from home for a long time, investing the profits into software. So far, all growth has been organic but she is open to bringing more investors in when the time is right. Recently the company moved to own offices with the help of a bank loan that Kristina took out in her own name. The decision to take out a personal loan was made on the basis that she was able to get a much more favorable interest rate and longer repayment period for a personal loan than for a corporate loan. The corporate loan would have required her to provide a 30% equity injection for the amount she needed which she was not prepared to do.

Melita and Petra Colak of HalPet were able to start the business with almost zero capital. All that was necessary initially was a computer and a space at home for Melita, while Petra used clients’ premises for classes. The profits from the business were reinvested, enabling them to rent an office within a few months. However, even today 70% of classes take place at clients’ locations and they are able to keep overheads low. They have never received any financial injections from outside sources. When the business was fully solvent, they were able to apply for credits. They recall that, before the reform of the banking system in Croatia, obtaining credit was difficult for small businesses. However, they also note that credit can now be easily obtained so long as the borrower has collateral, own or from a guarantor.

At Razbor, initial stock capital was contributed jointly by the co-founders and the firm has grown without any outside funding. Overheads are low and most work is carried out at client sites. Andrijana Paric and her co-founders are very conservative with finances. All profits from the business have been accumulating on the company account and the co-founders have not taken a dividend payout yet. High interest rates and lack of security in predicting income are key reasons why they are reluctant to take on credit.
Vesna Kaludjer at Eventus received financial help from her parents for the biggest cost she incurred in starting the business which was the 50,000HRK license fee to become a certified Buzan instructor. Although being a one-person show can take its toll on the business – she recently fell ill and had to postpone seven courses – she prefers to cooperate with a colleague, also a certified Buzan instructor running her own education company, rather than take on the financial burden of employing and training another person. Vesna says that she would consider taking on a loan to cover the cost of obtaining further professional certifications but would first explore the option of borrowing from her parents.

While prudent and conservative management is a good thing, the negative attitude to leverage inevitably acts as a barrier to achieving more significant growth. All entrepreneurs mentioned the prohibitively high cost of debt which has been the result of inefficiencies in the financial markets caused by the lack of credit information to assess borrower risk. With the introduction of the credit registry, the borrowing costs are likely to come down and more entrepreneurs may decide to access credit markets for capital injections. A slower and more fundamental task, however, would be to increase financial education for the entrepreneurs so that they are better able to assess the full benefits and risks of increased leverage.

5. Contract enforcement

The reform of the judicial system remains one of the most important tasks as part of the harmonization with the EU directives and the EU accession process in Croatia. Though Croatia has harmonized the great majority of statutes on the books with those of the EU countries, further reforms are needed to raise the efficiency of the system and the speed of courts' operations to ensure that the laws on the books are actually implemented and enforced in courts.

One of the most significant issues identified by all entrepreneurs interviewed is non-payment of outstanding bills or stretching of accounts payable. This is a critical issue for small entrepreneurs that operate on a tight cash flow and one of the key reasons why small businesses become insolvent. Research carried out by Mirela Schreiber and her team at the Entrepreneurship Centre suggests that average days payable are 120-180 rather than the 30 days stated in most contracts. The larger the company it appears, the more likely it is to try to settle its bills late. The legal process for enforcing payment is slow and unreliable. Cases take a long time to be heard in front of a judge and different judges have frequently made inconsistent decisions regarding enforcement of contract terms so most entrepreneurs have little confidence that law will offer them sufficient protection. The judges use the principle of “good will” in most cases of non-payment which gives the benefit of the doubt to the non-payor. Namely, if a non-payor offers to start making small incremental payments, the case is dismissed from the court on the ground that the non-payor has shown “good will” to settle the bill. If they fail to make payments again, the company needs to take the case to the court again, incurring further costs and time. Such a process can be prohibitively expensive and cumbersome and many entrepreneurs prefer to try to solve the issue themselves or write off the amount owed. At the Entrepreneurship Centre, the view is that non-payment is a big issue for entrepreneurs although it is not a gender specific issue. Many banks in Croatia now offer factoring as a source of help for SMEs (whereby the bank buys the debt at discount in exchange for cash) but many entrepreneurs are not educated either about the service or its availability.

Kristina Horbec of Heraklea says she had experienced a number of different problems with non-payment from clients, from those who pay 2-3 months late to those who query the costs and will only pay for a part of the service. She has taken a strong stance against such practices and immediately breaks off the relationship even though it is sometimes risky. She recalls a situation a couple of years ago when she broke off the relationship with the largest client at the time that accounted for 40% of revenues. She says, “It is better to stay at home rather than incur expenses and finance someone else’s business.” Heraklea’s strategy now is not to have any client account for more than 10-20% of revenues in order to make the business less vulnerable. Vesna Kaludjer at Eventus chose to require advance payment by direct transfer to business account from all course attendees in order to avoid any problems with collecting payment.
Non-payment tends to be a smaller issue if a business offers a product or a service for which funds have been earmarked in the budget in advance. For example, Andrijana Paric of Razbor has not experienced non-payment problems because most of their clients have specific funds for the development projects on which Razbor works. However, she notes that there is a difference in how quickly the invoices tend to be paid. In their experience, the smaller clients pay the quickest, while the largest ones, those with market power, tend to stretch the payment as long as possible.

At HalPet, Melita and Petra happily observe that 90% of their client base observe the payment terms and are rarely late. Getting to this position, however, has taken time and a lot of personal investment into building relationships with their client. They key, they say, is in being flexible. Their approach has been to always try to find a solution with the client so that at least a part of the payment is made on time with the remained paid over an extended period. Petra and Melita have even developed a habit of calling the clients when the payment is made to thank them! The clients really appreciate this flexibility and the understanding. It helps that most firms have an earmarked education budget that is available for language teaching.

Melita and Petra’s experience in dealing with the government has been positive for the main part. They have found the government institutions have a fair bit of understanding when dealing with small businesses, especially when it comes to paying employee costs. They make sure that salaries are paid on the due date but have had to delay the payment of full employee contributions on a few occasions. At those times, the government agency was happy to accept for example a payment of 50% immediately with the rest due over an agreed period. Even though the business has to pay interest on the outstanding amount, this has often helped them manage the cash flow and keep the business solvent.

Petra and Melita have, however, experienced the weak contract enforcement protection at the hands of courts. HalPet often sends its teaching staff abroad for language specialization after which the teachers are contractually obliged to return to the company for a specified period of time. Two of the teaching staff who attended classes abroad decided not to honor the contract and HalPet sued them. The cases were taken to court, albeit to two different judges. One of the judges ruled against HalPet, a decision which HalPet has appealed and which remains pending 4 years on. The other judge ruled in favor of HalPet and the company received full payment back – the cases and terms of the contract were identical and it is difficult to know the basis for different judgments by the courts.

Ana Gruden at Zaposlena has faced similar problems with contract enforcement. Ana says that the largest companies amongst her clients frequently use delaying tactics to avoid settling the bills. For example, they would query the appearance of the invoice or request proof of services rendered that would take an additional month or two to resolve before she would be able to receive a payment. In one instance, she sued a company for non-payment and it took three years for the court to reach judgment in favor of her company. In the meantime, however, the ownership of the client had changed hands and new owners did not want to honor prior liabilities. While the court was willing to pursue the old owner personally, the old owner had moved on and it was impossible to locate his new address details for the court ordered to be delivered.

It seems thus that the quality of laws is not an issue in Croatia but the implementation of laws leaves a lot to be desired. Entrepreneurs are in an extremely vulnerable position with their clients. Given that most of the entrepreneurs operate on a tight cash flow with minimal access to debt to cover the working capital requirements, non-payment or delayed payment of bills can have a detrimental impact on the business solvency. Ensuring that contract will receive due protection in the courts could therefore have an enormous impact on survival rates of new businesses, most of which fail in the first two years of operation, according to some research.
6. Low trust environment and patronage

Ostensive corruption is low in the view of all the entrepreneurs interviewed even though many have been warned going into business that bribes will be expected. None of the entrepreneurs interviewed has ever been in a position were a bribe was asked. However, winning business is most often the case of who you know rather than what you know, and this is where women face some of the most entrenched obstacle as entrepreneurs. In many situations, winning a contract requires having a connection at the right level or knowing the right people even if no actual corruption occurs. This can be more difficult for women as they are underrepresented in senior management positions as well as at local and national government levels. As a result, they have a smaller professional network as well as a more difficult entry to the informal channels where information is exchanged and deals made. Their position as outsiders is reinforced by widespread societal biases against women in business.

While most entrepreneurs interviewed said that they did not come across any overt gender discrimination, they also recognize that the world of business is still a “boys club” in many respects. The larger the client or contract, the more likely it is that it will be awarded to those with informal ties to the decision makers. Andrijana Paric of Razbor mentions that 80% of their competitors are men who cultivate personal relationships with the senior management of domestic NGOs, and local government institutions. These relationships often extend into private lives, with weekend parties, football matches, golf and barbeques. It does not help that there are very few women in local government positions. Andrijana says, “they refer to us as “those girls” even if they are complementary about how good we are what we do. But they often do not take us seriously enough to come to us for really big projects. We frequently hear from our colleagues at competitor firms how they went to lunch or dinner with such-and-such, events we are rarely invited to. So despite the fact that all organizations issue calls for tender on any one project, the real decisions get made through this informal mingling.”

Ana Gruden at Zaposlena takes a similar view of why relationships really matter. She says, “In Croatia, we still lack the awareness of how to use marketing and advertising to grow the business. That means that I cannot easily convince a client that advertising in my magazine will be great for their business. Getting new clients is about who you know, not how good your proposition is. 1% of our ad sales are sold on the basis of how good the magazine is but 99% depends on my ability to find someone who can connect me with someone who I can sell to.”

What this means in practice is that for many small businesses, and especially those run by women, advertising and traditional marketing methods are not effective and they therefore tend to under-invest in those types of promotion. Instead, all entrepreneurs interviewed said that they rely heavily on word of mouth to gain new clients. It also explains why so much space on the companies’ websites and in promotional material is devoted to quoting feedback from past clients. However, while building a business on the basis of word of mouth may ultimately lead to a very strong brand, it also necessitates a much slower growth rate. In this respect, women would appear to have a potential advantage over men in handling such low trust factors through relationship building. Women are also more likely to be perceived as trustworthy. However, any such advantage would have to come after the woman’s competence is proven and that is, as we have seen, where women face some of the toughest challenges.