

TRANSFORMATION GENERATED ENTERPRENURSHIP IN CROATIA: IS THERE A DEFICIT?

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NON-TECHNICAL SUMMARY

From the beginning of the transformation the growth of entrepreneurs and entrepreneurship were viewed as a central phenomena for a successful transformation from socialism to capitalism. The reasons for this importance are largely due to the market dynamism they generate, the new ways of doing business they introduce, the innovations they apply and the development of a private sector. However, in spite of this importance the transformation started with very modest level of entrepreneurs and entrepreneurship. Even though the general notion of entrepreneurs and entrepreneurship are clear, there are numerous definitional problems and a great variety of definitions can be found in the literature. The paper settles for the most recent one proposed by the OECD. Applying this definition does not solve the problem of measuring entrepreneurs and entrepreneurship, for many reasons the accepted approach is to settle for a proxy variable, the most common choice is the extent of self-employment or the importance of small and medium sized enterprises.

Following these more general issues, the paper concentrates on the central topic: a case study of entrepreneurship and entrepreneurs in Croatia. The importance of entrepreneurs and entrepreneurship for the Croatian transformation is approached from two aspects. The first is the portrait of the 'typical' transformation generated entrepreneur and the second is the link of entrepreneurship to growth.

The first aspect concerns deriving a portrait of the 'typical' transformation generated Croatian entrepreneur. Using data from the Global Enterprise Monitor (GEM) and micro data from the Labour Force Survey (LFS) this part of the paper shows the characteristics of the 'typical' Croatian entrepreneur. Even though the two data sources do not agree in all respects, they show that the Croatian entrepreneur is different from his counterpart in other GEM countries. The Croatian entrepreneur is older, less well educated and even more predominantly male, he has entered entrepreneurship out of necessity, there is a glaring gap between his perceptions for possible entrepreneurship and actual business decisions taken and he is inward oriented and so does not export. Furthermore, the data clearly indicate a relatively low level of entrepreneurs and entrepreneurship in Croatia.

The second aspect analyzed in the paper concerns development of a notion of an entrepreneurial deficit. The paper derives a measure of the deficit in relation to the growth of GDP per capita. Two functional forms, a 'U' and an 'L' shaped curve, are tested with better results derived for the 'U' shaped curve. The results show that this deficit

exists in all transformation economies and that it thus exists in Croatia as well and that the Croatian one is average. The consequence of the deficit is a growth penalty, i.e. economies with a higher entrepreneurial deficit have lower growth rates. The results show that Croatia is experiencing lower growth rates due to the entrepreneurial deficit.

The paper ends with some policy recommendations. After noting a favourable shift in Croatian pro-active entrepreneurship policies it suggests that further policy development should concentrate on five areas. First, it should raise the awareness of entrepreneurial possibilities through education. Second, it should provide incentives for decentralization and thereby increasing the importance of regions to promote spillovers. Third, it should aim to reduce the gap between the high perception of entrepreneurial opportunity and low levels of actions actually taken. Fourth it should take measures to reduce the entrepreneurial deficit and the growth penalty it assumes. Finally, further efforts should be made in replacing the traditional pro-entrepreneurship policy with one dealing with the supply and allocation of entrepreneurship and the demand for entrepreneurship.