

Overview of Family Business Relevant Issues

Country Fiche - Croatia

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This study has been elaborated with reasonable care. The authors and the project co-ordinator do not, however, accept responsibility for printing errors and/or other imperfections and potential (consequential) damage resulting thereof.

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1 Introduction

The issue of family business is not the subject of general policy in the realm of economic development (national or regional) or enterprise development in Croatia. However, there are sector specific policies which target the family business as the main beneficiary of policy measures, i.e. agriculture, tourism and crafts. This policy orientation is driven mostly by the need to recognize the existing forms of economic organisation which is based on the family as an economic unit and legalize and develop the private initiative in these sectors. The private sector in agriculture and tourism is on the borderline between registered and informal economic activities but harbours many elements which are of interest for economic development such as a strong link to indigenous culture and life-style which is seen as a component of modern tourist destination development.

Another policy issue which is linked to the promotion of the family business is the need to address decreasing demographic potential in certain areas which has been a cause of considerable concern. Depopulation in agricultural areas coupled with intense urbanisation is behind sustainable rural development strategies, and the development of areas of special Government concern such as mountainous areas, the islands and the war-affected areas. Since the dominant form of existing economic organisation in these areas is the family enterprise, it is clear that part of the economic development efforts in these areas should focus on them.

In tackling these issues it is clear that there is a divide between entrepreneurial, market oriented activities and subsistence, traditional and culture based activities in these sectors. The aim of the policies is to transform the latter into the former but not by destroying the indigenous valuable experience and knowledge but by transforming it into more profitable, market oriented activities which will raise the living standard of the family businesses.

Unfortunately, there is no way that family businesses can be empirically separated out from the different legal forms of economic organisation. Data are collected for legal and physical persons from both establishment surveys, administrative sources as well as surveys of the general population. However, none of them make a distinction of the family vs. non-family business. So far, no attempt has been made to define and statistically identify the family business.

2 Understanding of “family businesses” in the national context

Within the existing legal framework regulating company law, there is no specific definition of a family business. There are examples of very large companies which are run as family enterprises both in terms of the ownership structure as well as management of business processes. On the other hand, there are single proprietors and crafts which are not run as family businesses but are just a legal form of economic activity. In the past, a craft was almost always a family business which was handed on from owner to siblings. Today, a craft is just a legal form which is different from other legal forms such as a limited liability company or a shareholding company in various aspects such as ownership rights, liability, regime of paying taxes, etc. None of these general laws which define economic units contain the concept of a family business.

Laws which define the family business are the Law on Agriculture¹ and the Law on Catering². The former defines the family agricultural enterprise as an independent and social unit based on ownership or use of production resources as well as management by the family. The agricultural enterprise is a production business unit in agriculture which can be a trading company, craft or cooperative in the field of agriculture or a rural or family agricultural enterprise.

The Law on Catering regulates the rental and catering services in Croatia. It defines the standards for these activities and one of the legal persons which can be involved is the household in the form of a family business. The right to do business depends on ownership of land or real estate where services are offered and it is ruled that household members can legally work in the establishment without a labour contract. The above mentioned agricultural household can also offer their rental and catering services. The agricultural households and/or rental/catering services providers have to be registered in the relevant registers.³

Therefore, the legal framework recognises the family business in agriculture, catering and crafts as one of the possible legal forms in these sectors of economic activity. The main motivation for recognising them is the existing pattern of economic activity in these sectors where the private sector is dominated by traditional production and service units – the family business. The aim is to help family businesses to become more productive, have a higher living standard and equip themselves for the competitive business environment.

One-person enterprises are not necessarily family businesses. They are just a form of economic activity which entails individual services such as individual consultant services, etc. Likewise, companies where sole proprietors may be employing others is again not a legal form which is based on family business. It may be true to say that some are, but statistically it is impossible to differentiate them as such.

¹ Official Gazette no. 66/2001 (www.nn.hr)

² Official Gazette no. 138/06 (Zakon o ugostiteljskoj djelatnosti)

³ Register of rural agricultural enterprises (Ministry of Agriculture, www.mps.hr) and the Register of household catering services (Ministry of tourism, www.mint.hr)

There are differences in opinions of individuals in relevant institutions about what family businesses should be. Some think that big enterprises should not be included among the family businesses simply because they can not be involved in decision making to an extent which is meaningful for business performance (Croatian Chamber of Crafts). This opinion is based on a definition of ownership and decision-making on a daily basis. On the other hand, others (Chamber of Commerce) think that big enterprises can and are family businesses through ownership rights and strategic management decisions but not day to day decisions. There is also the issue of family members working in the family business. In Croatia, members of family can work in the business without a work contract and without any obligation to pay insurance based contributions (unemployment, health and pension insurance). This is not the practice in other European countries.

A professor at the postgraduate course in Entrepreneurship⁴ seems to think that most small businesses are actually family businesses regardless if they are crafts, or limited liability companies. This belief is built on the fact that family members often work in family enterprises and that most of the business decisions can be attributed to head of households or family members and that the family owns the business. However, this is just an experiential opinion which can not be backed by hard data.

In summary, there are no accepted definitions of the family business in Croatia but there are different ways of understanding the concept. There are diverse opinions concerning family business and size considerations. However, typically the concept of a family business is vested in the agricultural sector, tourism and crafts.

⁴ Natalija Pekić – University of Osijek, J.J. Strossmayer.

3 Importance of family businesses for the national economy

There is no empirical evidence of the family business which is based on a single definition and it is impossible to ascertain their structural components such as a delineation by size, number of employees, share of value added, and other considerations. We know that 99.4 % of all enterprises in Croatia are SME's, that they employ 72,8 % of the employed, create 52,8 % of total income and 54 % of the after tax profit. They contribute to 40 % of the GDP and 40.5 % of exports.⁵ How many are family businesses is very difficult to tell.

However, there is a source which could shed some light on the family business sector but only based on ownership rights which is not necessarily a synonym for a family business. In the Labour Force Survey⁶, which measures the economic activity of the population on a quarterly basis in Croatia there are questions which request response on whether a person is an owner or co-owner of a business, craft or a farm. Positive answers to these questions can be cross-referenced with many demographic, economic and other data which may be of interest and they are shown in the next section.

It is likely in the future that the importance of family businesses will decline both in large and small enterprises. Tradition based crafts and agricultural households are on the decline and the large, family operated corporations will necessarily remain few. Furthermore, the institution of the family itself is under strain and its ability to survive exchanges of generations is likely to decrease.

However, at the moment, the family as a business entity is extremely important for the Croatian economy albeit it is difficult to analyse. If we put aside agriculture and tourism which depend on family organisation the very intense enterprise growth over the last few years indicates that entrepreneurial activity is rising which must entail much activity of the family.

The Labour force survey gives the employment status of all employed persons in Croatia. The chart below shows the percentages of the employed by employment status in 2006.

⁵ Croatian chamber of commerce, www.hgk.hr/malogospodarstvo, the data relate to 2006.

⁶ The Labour force survey is conducted quarterly by the Croatian Statistical Office (www.dzs.hr). It used the ILO definitions of employment, unemployment and inactivity to divide the working-age population into these three types of activity status.

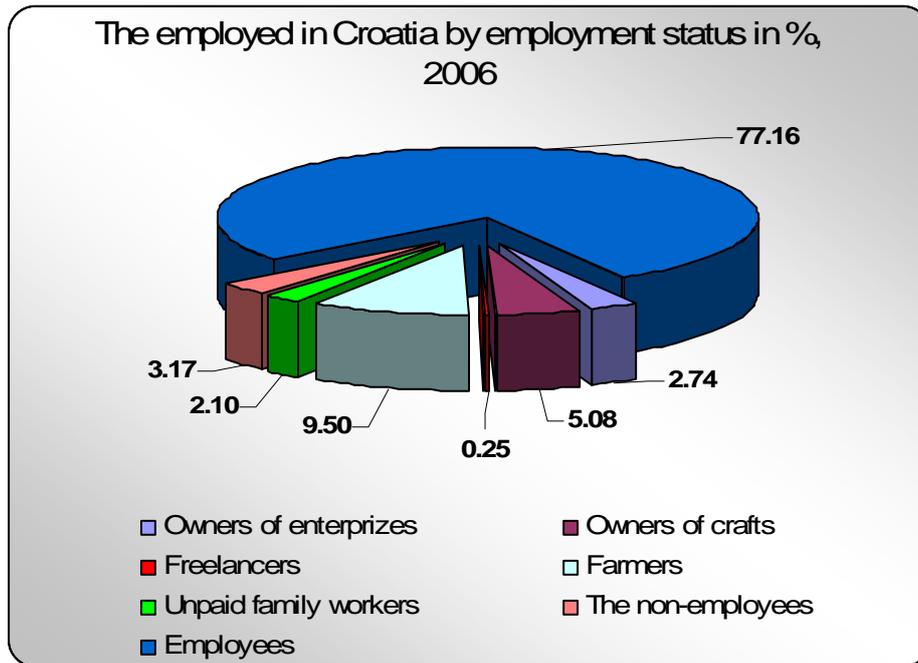


Chart 1: LFS, Bureau of Statistics, authors calculations.

Owners of enterprises, crafts and farmers are three categories which represent the outer boundary of what could be family businesses based on ownership. Together they constitute 17.32 % of total employment and they employ 33.54 % of the employed. Together this gives slightly more than half of all the employed. However, if we disregard farmers who are almost 10 % of all the employed the share drops by that amount.

Furthermore, 55.6 thousand persons have declared to be working in a family business⁷ which means that there is at least one more person involved in the business and this gives about 100 thousand persons in family businesses which is 6.16 % of total employment.

⁷ This is a response to the question in the questionnaire ; „In which of the following ways have you started working in your present job? And the item of choice was: „There was a need for help in the family business, craft, farm.“

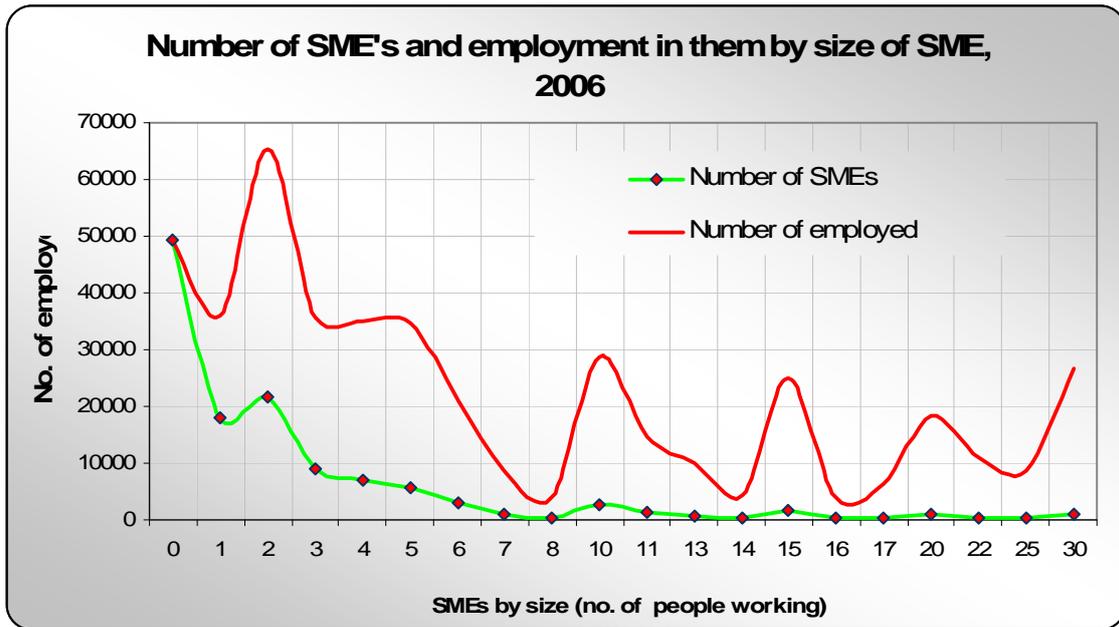


Chart 2: Croatian Bureau of Statistics, Labour force survey, 2006

The chart above shows frequencies of SME's by size categories and the number of persons employed in such enterprises in total. For example, there are almost 50 thousand sole proprietors with no employees. There are about 20 thousand enterprises which employ only 1 person and such enterprises employ about 40 thousand workers in the economy, etc. This indicates that most SME's in Croatia have less than 10 workers but it is difficult to tell if they are family enterprises.

4 Characteristics of family businesses

Given the limited data sources for family businesses it is very difficult to do this sector justice. The legal form of the family business can vary from craft to trading company, to a shareholding company, to agricultural family enterprise. It is only possible to put a number to registered agricultural family enterprises which is however unrepresentative of the sector as a whole.

The large family owned businesses in Croatia may merit some analysis. In the transition period in Croatia, several family businesses have used the opportunity to acquire cheap socially owned enterprises through the privatisation process. The centralised strategic management which is typical of family businesses has proven decisive in overcoming the initial pit-falls of transformation. There are several reasons for this. Firstly, the acceptance by workers inherited from socially owned enterprises of the new order was easier than when management was professionalised since family ownership is easier to accept than diffuse ownership by many shareholders, for example. The more personalized touch was easier to accept after very soft self-management forms of governance. Secondly, initial investments which were typically financed internally (banks were initially very sceptical) which required delayed and sometimes uncertain returns on investment. This was much easier to cope with within the family. Thirdly, families have long-term horizons and make decisions which may not be acceptable to profit oriented managers or shareholders even in the medium term.

Some of the most successful corporations in the post-transition period started out as family businesses during the socialist period or have managed to regain their businesses which had been taken over by the state. Their success points to a feature of family business which may be important for other similar companies which are now faced with new forms of "transition", i.e. global competition which requires more stamina, longer-term perspective, higher levels of trust, ability to sustain damage without losing commitment and loyalty. It seems that precisely these characteristics are crucial to weather hard times, adjust to changing environments and sudden market fluctuations. Stability which comes from family ties and non-economic factors could be an element of business resilience in face of volatility.

Succession in large family corporations is especially problem laden. Siblings often lack the leadership qualities since they were often excluded from strategic decision making.

An example of a large scale family enterprise in Croatia is Agrokor, a corporation in the FMCG⁸ sector with strongly interlinked segments of the supply chain from agricultural production to processing to retail. They also have international operations in the region where the same concept is promoted. Most of the companies (more than 20) were bought during privatization and their rate of expansion since then has been impressive. Most of the companies are on the stock exchange but the majority of the shares are owned by the general manager of the company and his family. All the strategic management decisions in all the companies are made by the head of the family but not on a day-to-day basis which are the responsibility of the professional managers. Many family members and their friends work in the corporation and form the loyal network of insiders. However, they do not necessarily hold positions of formal responsibility. These parallel decision-making lines raise the complexity of doing business and reduce

⁸ FMCG – fast moving consumer goods

clarity of the business process. This is the negative side of family run businesses in large corporations.

In terms of small family businesses which are the more common in Croatia one also has to differentiate between real work contribution of family members and benefits which family members use based on legal provisions and policy measures. For example, many family businesses register several members of household as employees in order for them to get health and pension insurance. This is often a mechanism of attaining social benefits when employment on the labour market is difficult to find and not a way of supporting the business. Since active labour market measures usually focus on the young unemployed, many family businesses use this funding to employ family members, but it is not clear whether they actually work or not.

The statistical data being very vague on family businesses makes experiential data more informative. The interviews carried out with experts point to the following characteristics of small family enterprises in Croatia:

- They are typically owned by the head of household who is more often male than female
- It is most often either a family farm or a craft but in fewer cases it is also a limited liability company
- Size of the company is small, usually up to 10 workers
- Usually the spouse is also active in the firm as an unpaid family worker and the siblings participate occasionally if they are still going to school / college or more regularly if they have finished their regular school
- The siblings are often employed with a work contract in order to attain health and pension insurance
- Family businesses in agriculture are specific in that they are strongly differentiated according to their relationship to the market: some are commercial and some are subsistence
- Services in tourism are also often family businesses but are often seasonal in character so that family members have additional occupations
- It is frequent to work as an employee and also have a business where the spouse is usually the dominant figure although seldom the actual owner
- Although mostly small in size, family businesses can be large and there are several very large firms in Croatia which fit the family business pattern (Gavrilović, Agrokor, Pevec, Kerum, Magma).

5 Institutional actors and their strategies, policies and initiatives

As mentioned before, the Ministry of Agriculture and Rural Development (www.mps.hr) is responsible for the legal as well as the policy framework concerning agricultural family businesses. Institutions which the Ministry relies on to implement policy and to provide permanent services to persons involved in agriculture are agricultural extension services which are very well distributed across the country. The main mechanism for targeting agricultural producers is their register and any household, firm or cooperative which wants to access funding needs to be registered. The coverage of the Register of agricultural producers is limited. There are 107,000 entities registered, most of whom are family businesses but the actual number of such households in the census of 2001 was over 400,000. Even though this number has been decreasing, it is evident that many individual households have not joined the Register for various reasons some of which could be: the age structure of the agricultural population, orientation exclusively on subsistence and not commercial production and perhaps unclear ownership structures which need to be clarified before participation on the Register.

The Ministry differentiates between two types of family households: those who have the intention and the potential to become commercial business entities and those who will continue their present subsistence economic activity. Those who enter the Register have to decide which group they would like to join. Commercial agricultural households can choose between a series of funding opportunities which range from support to cooperative development, loans for starting agricultural production of various kinds, participation on fairs and other marketing activities. On the other hand the non-commercial households are not eligible for these funds and once they choose this status there is no turning back – they become recipients of government social benefits.

	The Ministry of Agriculture is the government institution responsible for policy development in the sector of agriculture and defines private household policy in agriculture all of which are family businesses
institutional features	
name of the actor	Ministarstvo poljoprivrede i ruralnog razvoja Ministry of Agriculture and Rural Development
nature of the actor	X government <input type="checkbox"/> employers' organisation <input type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	Ulica Grada Vukovara, 10 000 Zagreb
telephone	00 385 1 6106 111
web-page	www.msp.hr
name of the strategy/initiative/ regulation	Program ruralnog razvitka <i>Rural Development Programme</i>

	Explanation
content based features	
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar X education/training measures <input type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments X financial support X marketing X networking X others, namely: income subsidies to non-commercial, subsistence family farms
objective	The aim is to develop modern agriculture in Croatia, support rural development, establish links with tourism, give support to non-commercial agricultural households
initiation	The program started in 2007
contents/description of the initiative/measure	There are 4 modules in the program: <ol style="list-style-type: none"> 1. Supporting agricultural production 2. Capital investments in agriculture 3. Income support programme 4. Rural development programme
user based features	
eligibility criteria/target group	Target group: all economic units involved in agriculture including family businesses/farms who are registered in the Register of agricultural producers.
Promotion tools/information strategy	The promotion mechanism are the agricultural extension services which also support the process of inclusion of individuals on to the register
source of funding	<input type="checkbox"/> EU-funds X national funds (governments) <input type="checkbox"/> membership fees <input type="checkbox"/> others, namely:
costs for participants/members	About 30 Euro
performance based features	
evolution	Agricultural inspectors have to monitor the use of funding in the field. The Ministry keeps records of out-going funding

	Explanation
institutional features	
name of the actor	Ministarstvo turizma Ministry of Tourism
nature of the actor	X government <input type="checkbox"/> employers' organisation <input type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	Prisavlje 14., 10 000 Zagreb
telephone	00 385 1 6169 111
web-page	www.mint.hr
content based features	
name of the strategy/initiative/regulation	Poticaj za uspjeh <i>Financial support for success</i>
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar X education/training measures – in tourism <input type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments X financial support: interest rate subsidy, loans <input type="checkbox"/> marketing X networking: linking elements of tourist services into a single tourist destination attraction <input type="checkbox"/> others, namely
objective	The aim is to develop tourism especially in the hinterland and connect agricultural production with tourist services
initiation	The program started in 2004
contents/description of the initiative/measure	There are 4 modules in the program: <ol style="list-style-type: none"> 1. Developing rural tourism 2. Increasing competitiveness in tourism 3. Developing tourist routes with multiple content 4. Production of authentic products from the region

	Explanation
user based features	
eligibility criteria/target group	Target group: all economic units involved in agriculture and/or tourism including family businesses/farms who are registered in the Register of agricultural producers.
Promotion tools/information strategy	Devoluted government offices in the counties and other local institutions
source of funding	<i>Please select (multiple answers possible; if there are several financiers, please indicate the main contributor):</i> <input type="checkbox"/> EU-funds <input checked="" type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees <input type="checkbox"/> others, namely:
costs for participants/members	Very varied depending on the amount of funds needed.

	Explanation
institutional features	
name of the actor	Ministarstvo gospodarstva, rada i poduzetništva Ministry of the Economy, Labour and Entrepreneurship
nature of the actor	<input checked="" type="checkbox"/> government <input type="checkbox"/> employers' organisation <input type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	Ulica Grada Vukovara 78 , 10 000 Zagreb
telephone	00 385 1 6106 111
web-page	www.mingorp.hr
content based features	
name of the strategy/initiative/regulation	There is a National Employment action plan which is being implemented by a series of government institutions with different responsibilities. MINGORP is responsible for the development of the SME sector among other responsibilities. Operative programs are developed each year based on the multi-annual programme. The goals are to be achieved through series of measures under the auspices of a wide ranging network of cooperating institutions from government to local self-government, civil society and the private sector.

	Explanation
content based features	
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar <input type="checkbox"/> education/training measures – in tourism <input checked="" type="checkbox"/> information/advice <input checked="" type="checkbox"/> business transfer support instruments <input checked="" type="checkbox"/> financial support: interest rate subsidy, loans <input checked="" type="checkbox"/> marketing <input checked="" type="checkbox"/> networking: cluster development, cooperatives <input checked="" type="checkbox"/> promoting innovation, research and development
objective	<p>The main aims of the programme for 2008 are:</p> <ul style="list-style-type: none"> → Strengthening competitiveness of SME sector → Achieving equal development levels across regions → Developing high quality entrepreneurial infrastructure → Reduction of administrative barriers to doing business → Boosting entrepreneurial climate → Internet based e-business development <p>The goals are to be achieved through series of measures under the auspices of a wide ranging network of cooperating institutions from government to local self-government, civil society and the private sector.</p>
initiation	The program started in 2004 but the programme differs substantially in relation to the first attempts
contents/description of the initiative/measure	This program is a complex policy document with more than 40 measures. None of the measures have a focus on family business but are general support to the SME sector
user based features	
eligibility criteria/target group	Target group: all economic units.
Promotion tools/information strategy	Over the internet (download of templates)
source of funding	<input type="checkbox"/> EU-funds <input checked="" type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees <input type="checkbox"/> others, namely:
costs for participants/members	Very varied depending on the amount of funds needed.

	Explanation
performance based features	
evolution	<p>Typically a survey is carried out annually from among the participants in the programmes. Their opinions are sought to improve the subsidies and to monitor the effects on the various elements. This survey lacks an independent evaluation of the effectiveness of the measures.</p> <p>There are many new institutions which support SME development in Croatia. The most prominent are the regional development agencies, incubators, centres of entrepreneurship, technological parks, etc. There is also the Agency for implementing the measures HAMAG and the Croatian Bank for Reconstruction and Development HBOR.</p> <p>The new contact point for registering new business entities based on the one-stop-shop principle called HITRO.hr has been introduced across the country, greatly reducing the registration time</p> <p>There are also two new IPA components of preaccession assistance to Croatia which will target SME's: The IPA regional competitiveness and the IPA rural development. These programmes will be implemented over the next couple of years but there is no explicit mention of family businesses.</p>

6 Future issues

The biggest challenge to the family businesses in the medium term in Croatia will be the economic integration into the single market of the EU. Most of the threat is related to competitive pressure in the sector of agriculture and tourism where family businesses in the traditional sense are the norm. Their ability to transform themselves from dominantly subsistence endeavours to market oriented businesses will determine the level of damage which will have to be sustained. On the other hand, family businesses outside these sectors which are growing in importance partly due to the growing share of services in the economy and partly due to ICT technology which makes even small family firms able to integrate into more sophisticated production/ logistic systems dislocated in the global economy. This global/local dimension will be important in the future as tiny but unique services and products are offered to a global market over the internet. This may change the face of family business in the future.

The socio-demographic picture of Croatia is that of drastic population ageing. With pay-as-you-go pension systems slowly reforming in the direction of more individualized responsibility for age and sickness related risks it will make sense to distribute risk among family members both in real time and in an inter-generational time frame. This is particularly pertinent when the number of children per family hovers below 2 and is likely to decrease, which makes inheritance much more clear-cut.

In line with the above arguments, it makes sense for the national governments and even for the EU policy makers to encourage growth of family businesses as they are not only safer in the ever more volatile business environment but also they ensure sustainability due to multipronged family related features: ownership, decision-making and sustainability through dispersion of risk and support in a risk laden environment. Eventually, as the traditional nuclear family continues to weaken, it is likely to become a social and economic entity which no longer entails blood ties.

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