

Crisis Phenomena in the Republic of Croatia – as a Social, Economic and Political Process

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Abstract

Since 2008 national economies of certain countries around the world successfully confronted the global economic crisis and its consequences. They managed to do this in a greater or lesser extent or with greater or lesser effects. Stable and stronger national economies, although seriously shaken by the crisis, overcame it relatively easy due to functional social, economic and politically shaped strategies. However, Croatia, as a country whose development unwind during a long period of time, in extremely transitional environment, approached to this crisis insufficiently engaged, with no strategic focus, politically and legally inconsistent – practically irresponsible. All this led to inconsistent and discouraging relationships with potential partners and their investment derogations leaving room for a pretty pale perception of Croatian investment and business environment. Strategies for crisis management in Croatia are mostly based on theory principles, often politically inconsistent and unenforceable, even legally questionable. This has also led to discouraging investor's climate that weakened the status of Croatian business subjects within the competitive EU and even global market. In this paper authors are focusing on crisis "derivatives" within Croatian scientific and economically practical environment, to zoom in on Croatian economy in the global crisis context and to imply effects of the crisis through relevant indicators. Based on this, the aim is to define certain suggestions, recommendations and conclusions regarding stability and strengthening Croatian economy in the broader EU and global competition context. Above all, the phenomenon of the crisis in the Republic of Croatia, as a "controversial" social, economic, and even political process is a basis of entrepreneurial and moral "attributes" defined within this paper.

Keywords: economic crisis, crisis implications, crisis phenomenon, Croatia

1. Introduction

Numerous crisis through out the history effected particular economies differently, from the one regarding the monetary expansion in Great Britain during 1825 to the oil shocks during 1970s and 1980s. Each one of them represents a contraction, a downward trend in a business cycle that by its features is never the same. With every crisis, especially the last one (since 2008 until today), it was noted that business cycles are appearing more frequently, last longer and have more severe consequences for economies. Therefore, analyzing the movements of business cycles and creating a fitting business strategy and financial structures is of special interest for financial markets and companies. Preparedness of a company for downward business cycles, followed by changes in the financial sector, should be defined by a fitting business strategy (Kutnjak, Miljenović, Radović, 2014, 553).

The last, current economic crisis that started in 2008 in the real estate market and financial sector in USA resulted in a large drop in aggregate consumption all over the world, especially because of a high globalization process spread. After the collapse of public housing-credit institutions in USA it produced the biggest global economic crisis after the World War II. In human history, such big crises were usually generated due to a lack of resources, energy, natural disasters or big social inequalities. Crisis of 2008 was created by a system which, unfortunately, encouraged creation of social and environmental inequalities that are unsustainable in the short and long time period. The most important economic goal of stable economic growth was stopped and its sustainability came under serious question.

One could say that an economic crisis is one of the best examples of an unstable business environment. Following the introduction, the economics crisis, that over time defined the character of a global crisis, spread to the economy (entrepreneurship) of the EU, which was mostly implied in business activities of small and medium entrepreneurship.

Small end medium enterprises (SMEs) are more than 99% of all business subjects in the EU, representing two thirds of jobs in the private sector, and more than half of added value. Above all, SMEs confront with certain, very highlighted difficulties that arise from the character of their size. SMEs have limited financial and time resources, and insufficient investments in education and development of employees. They are also very influenced on factors such as high levels of bureaucracy and late payments of wages, as a result of late payments from business partners and buyers. The newest factor that significantly destabilizes operations of SMEs is the current economic crisis that decimated SMEs in almost all EU member countries, leaving permanent consequences on manufacturing (service), capacitive and development perspectives of these business subjects. The fact is most of these will never recover from implications of crisis and a large portion of them will be forced into bankruptcy. Even though that the EU is a large unified market based on free products and services movements, as well as of production factors, it does not mean that business conditions of SMEs are ideal. Even on such market, entrepreneurs are faced with certain barriers where well known limitations stand out, and this also affects Croatian entrepreneurs. However, with those limitations, certain additional difficulties are characteristic for the Croatian market and they partially arise from the transition era. Other part of this comes from insufficiently developed system of tracking and supporting developments of such small economies (Kersan-Škabić, Banković, 2008, 58-63).

Global crisis that hit the world in 2008 moved to Croatia during 2009 and over the years left an indelible mark and unforeseeable consequences for domestic economy. The global crisis reflected to Croatian economy which in 2009 noted the biggest drop in GDP since 1993. Except of GDP drops, a great increase in unemployment rates, and the public and foreign debt started to rose year by year. Even though Croatian economy did not recorded an economic downturn during 2008, a great lag in economic activities was noted. The global crisis in Croatia left a painful mark on the economy and did not spare small and medium entrepreneurship. The number of enterprises and employees was downsized in certain sectors for more than 20%, and in many areas numerous indicators are far lower than in pre-crisis years. Trough the crisis year's small entrepreneurship was affected the most, since small and medium business entities could not bear the challenges of the crisis and extremely intensive competition provided by larger companies. In two years of crisis tens of thousands of workers were dismissed, which gave a serious blow to Croatian economy. The consequences multiplied in operations of SMEs that registered a drop in revenue up to 30% compared to pre-crisis years. With the spread of financial crisis on the real sector, in developed countries there was a reduction of final demand. Therefore, from mid-2008 there was a reduction of demand for Croatian export and exported goods. That additionally influenced previously weakened demand for final and intermediate goods, and the import of goods decreased. As was expected, the crisis strongly effected economic movements in Croatia. Finally, after 2008 a drop in GDP was noted, as well as a reduction of industrial manufacturing, a drop in export of goods, increase in unemployment, growth of public and foreign debt, and a rise of business illiquidity. Especially significant segment, or one of the most important factors in potential crisis management was money management. According to Gulini (2009:329) money management is one of the most important functions in crisis situations. Naturally, it is largely tied to the strategy of financing business activities, but it depends on realization models and strategy. In crisis situations it is impossible to completely give this strategy to the CFOs. The question of financing and money management is the responsibility of the complete management team. From the complete deriving of these and other relationships, it is possible, with certain constructive and content-adequate treated restructuring and rationalization, numerous renunciations, savings and compromise "processes", to influence the duration and character of the crisis, or rather the measurability and reduction of negative effects of the crisis.

2. Crisis – Defining the Term and Type

Generally speaking, a crisis is an unforeseeable and surprising event that by its content impairs activities of an individual, organization, social groups, and even state. Big and sudden crisis cause stress with immediate participants, which is often expressed as insecurity that changes the usual behavior of people, managers, and companies. In majority, crisis is generated from these systems, by the people or the nature. It is often said that crisis caused by human actions can be predicted, but those caused by forces of nature are always hard to predict. But, numerous post-hoc analyses of crisis situations in organizations show that most managers do not recognize first signs of crisis. According to the so called "linear model" of behavior under pressure, every individual in a crisis or some unusual and extreme situations that completely contrasts the "normal one", needs a certain amount of time to recognize that such unusual situation has really occurred and only then he reacts on it (Butigan et al., 2011, 9).

Crises today hit economic subjects, political and government institutions, as well as other organizations, but also in individual as a person. Some crises cause huge and irreparable damage, while some can result in better credibility (crisis as a convenience). Because of a huge importance of crisis, today in modern management a large attention is given to

crisis communication. Crises have, or should always have, a strategic place in lives of business subjects.

According to some authors (Töpfer, 2006, 353) crisis can generally be defined as an occurring risk. It is already prior known or graded or not even observed and therefore it occurred suddenly. Crisis means a break, a temporary plight in every natural, social, or taught process. With regard to the implications of crisis, it is adequate to claim that a crisis is a main event with potentially negative outcome that affects an organization, their public, services, and products (Fearn-Banks, 2001, 480). It disrupts normal operations of an organization and, in worst case, threatens its survival. But, not all crisis mean complete doom. Crisis is a chance to implement changes that a company desperately needs and remove weaknesses that would not be recognized in normal working conditions (Kutnjak, Miljenović, Radović, 2014, 561). Besides the crisis, as a general term, the term "business crisis" can be inspected, and it defines an unplanned and unwanted process of limited duration and possible influence, that harms primary goals, with an ambivalent outcome (Osmanagić Bedenik, 2003, 12).

Regarding the differences and structural layers of each crisis, coverage (segmentation), implication, causality, etc. there are different interpretations, or measurements of its effects. Therefore, the financial crisis means the collapse of economy in a situation when a government can no longer finance its obligations, such as servicing debt, financing public needs, etc. (Dalić, 2008). Economic crisis, as it is often taught, does not have to be complete chaos. It always has a memorable monetary and financial external reflection because market transactions are always represented in monetary terms, but its content and dynamics is determined by real economic and social processes (Balentić, 2009, 102). Microeconomic effects of the current crisis mainly reflect consumption of individuals and business activities from companies. The problem of liquidity and insufficient financial funds are caused by reduced consumption and reduced access to bank funds, significantly contributing to the financial crisis of a company. In such conditions finding new sources of financing is redirected from external sources to sources within the company. Financial crisis does not only require financial structure changes, but the change of the complete organization-business system and operational business policies.

On the other hand, an economic crisis is what is called a period of significant negative development in the economy. Also, an economic crisis is represented by the existence of negative development and other macroeconomic indicators (eg. price levels, unemployment, capital flows). An economic crisis can affect the economy of a single country or more of them; it can affect one economic branch around the world, the economy of a few countries or the global economy. The causes of an economic crisis differ. It can be caused by dissonance between supply and demand within a national economy, generally when demand falls below the supply level of goods, so one portion of goods remains unsold, and does not find its way to the customers. Equally, deficiency of raw materials (eg. oil price shock) can cause abstinence of customers from consuming (Galović, Kovačević, Podobnik, 2008, 115).

Even though public communication often labels signs of negative trends and slowdown of economic activities with the term crisis, economists have developed a different professional terminology that tries to signal differences of intensity from economic events (Dalić, 2008). In regard to economic movements there are three unwanted forms (Kumalić, 2011, 2):

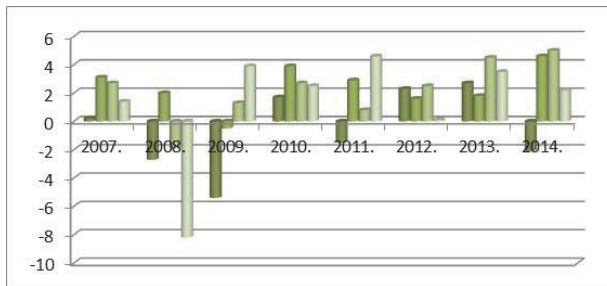
1. **Stagnation** – a period (or a phase) in which the economy is not growing, meaning the output of the economy within a certain period holds the same level (Kumalić, 2011, 2). These are, also, short oscillations of economic activity when the economy records growth lower than realized in the previous period. (Dalić, 2008).
2. **Recession** – cycle phase in which output of the national economy is shrinking during two consecutive periods (Kumalić, 2011, 2). Global recession is felt within the global economy. Even though there is no generally accepted definition, the economists of the IMF consider a global recession as the slowdown of the growth rate of the world economy to less than 3%. In the last thirty years, three such periods have been recorded (Dalić, 2008).
3. **Depression** – occurs when reduction of national economy output lasts longer than two consecutive quarters (Kumalić, 2011, 2). Heavy recession that lasts long and includes a drop in GDP for more than 10% is called an economic recession (Dalić, 2008).

Further text analyses the presence and representation of global crisis in certain global areas, determines the intensity and causality of the crisis with an emphasis on basic economic indicators and parameters that can be used to define and determine the distinctiveness, or rather the crisis phenomenon; analyses the state of small and medium entrepreneurship in USA, EU and Republic of Croatia before the great economic crisis. It also investigates how this crisis manifested on SMEs and the employment level after 2009. Authors try to answer what are the implications of crisis in the "post-crisis" period, or rather in the period when USA is experiencing evident economic recovery, generating development, opening new enterprises, and producing new employment.

3. Implications of Crisis on Small and Medium Entrepreneurship in USA

USA is known as one of the economic powers that dictated many changes in the whole world from history of humanity until today. One of the biggest problems of numerous countries are the consequences of the global crisis of 2007, which also began in USA and affected the world economy. It is evident that US economy is moving social changes, and that is also evident in the segment of entrepreneurship, which, in the US, is significantly above the average of European countries. Financial crisis in the US was marked by the doom of the investment bank Lehman Brothers on September 15th, 2008 (Obadić, 2011, 4). The consequences of this event manifested in other parts of the world, which implied a reduction of manufacturing and employment levels. The areas in the US that mostly felt the negative consequences of the economic crisis are the financial sector and the real estate market sector, whose most business subjects were closed.

The following graph shows consequences of the crisis on US GDP, the drop in GDP after the economic crisis and a mild recovery after 2010. The graph shows growth of GDP in the years prior to the crisis and after crisis by quarters of each year. Since the 2nd quarter of 2007 a drop in GDP is evident, after which the drop continued in 2008, especially in the last quarter where a drop of 8,2% was recorded. Such trend continued in the first two quarters of 2009 after which there is a slight growth in the next few years, with exceptions of drops in certain quarters. A decline of GDP after 2007 up to 2009 is just one of the indicators that marked negative signs in crisis years, and the same is with the employment numbers that also represent one of the mayor problems.



Graph 1. GDP rate in USA from 2007 – 2014

Source: Trading Economics (from: <http://www.tradingeconomics.com/united-states/gdp>)

The influence of crisis left consequences on small and medium entrepreneurship in the US, where a lot of enterprises closed and unemployment rose in the observed years. But, despite, small and medium entrepreneurship played a big role in the US economy since more than 50% of all people work in SMEs. The following table shows the frequency of small and medium entrepreneurship before the big economic crisis in the US and after 2008.

Table 1. Number of companies and employed in USA

	No. of companies 2007.	No. of employees 2007.	No. of companies 2012.	No. of employees 2012.
< 20	5.410.367	21.770.236	5.130.348	20.408.789
20-99	532.391	20.922.960	494.170	19.387.249
100-499	88.586	17.173.928	83.423	16.266.855
<500	6.031.344	59.866.924	5.707.941	56.062.893
500+	18.311	60.737.341	18.219	59.875.575
TOTAL	6.049.655	120.604.265	5.726.160	115.938.468

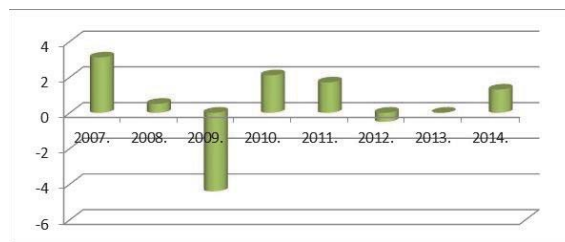
Source: Statistics of U. S. Businesses (from: <http://www.census.gov/content/dam/Census/library/publications/2015/econ/g12-susb.pdf>)

As it is evident from data in Table 1 (based on the comparison of data from 2007 and 2012) after 2007 and manifestation of causalities of the big crisis there is a decline in the number of enterprises and a decline in employment, present in all enterprises. However, small and medium enterprises still make the largest portion in the total entrepreneurship sector of the US. What is significant for US SMEs is that a large number of single employee (owner) enterprises are started every

year, and the number in 2012 was over 20 million. However, not all manage to sustain, and most of them are deregistered. In spite, SMEs in USA represent incubators for innovation and employment growth after 2008. Small enterprises still play a key role in US economy. Since 1993 until 2013 SMEs have created over 65% of new jobs. It is also significant that after the great economic crisis this sector is recognized as key for increasing employment and in the period after 2009 until 2013 small enterprises produced 60% of new jobs (SBE Council). Small enterprises in the 20-499 employee category in this period have created the largest number of new jobs. In regard to a constant growth of employment and opening new enterprises it is to be expected that small enterprises will generate numerous advances and create great benefits for US economy.

4. EU Member Countries in the Timeframe of Global Crisis

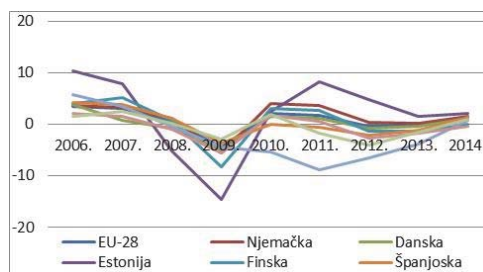
The economic crisis started in the US, but it swiftly spread to European Union where large problems also occurred in the banking sector resulting in financial problems for EU countries. The greatest consequences were for Greece, Spain, Ireland, Portugal, Italy as well as many other countries that had large government debt and growing unemployment. Also, there is a decline in EU member countries GDP, shown by the next graph. It can also be compared with the situation where USA recorded a growth in GDP and recovered from turmoil in which was caught between 2008 – 2009.



Graph 2. GDP rate in EU from 2007 – 2014

Source: Eurostat (from: <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec,-00115&plugin=1>)

It is obvious that GDP rates of EU28 after 2007 started to drop, which cumulated in a large decline in 2009, when GDP rate fell from 3,1% in 2007 to -4,4% in 2009. After this recovery started, but it is significantly slower than in the case of USA where 3rd quartal of 2009 already saw GDP growth that continued through 2010. Recovery of US economy is far stronger and faster than in the EU, which is mostly the result of EU financial system that became too big, dependent and riskier than in the US (Benić, 2012: 849). During the crisis there is was increase in unemployment, and the consequences of crisis are still evident in some countries today. The reason is the big differences in national economies, and the developed countries reduced the consequences of crisis far more rapidly than others, such as eg. Germany that was first out of the crisis and on the way to economic recovery. Reasons for a rapid recovery of Germany in contrast to other countries were modernization of fiscal sector, encouraging investments in private sector, research and innovation, and also sustainable development. It all resulted in a rise in competitiveness on the global market and economic recovery after the crisis. Germany managed to reach its state before the crisis, and the next graph shows how it achieved GDP growth, and relations to certain EU countries in which the crisis left serious consequences for the economy.



Graph 3. GDP rates in certain countries from 2006 – 2014

Source: Eurostat (from: <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec,-00115&plugin=1>)

Most noticeable changes in GDP rates from 2008 where in Estonia that had pre-crisis GDP rate of 10,4% in 2006. In 2009 there is a major drop when a decline is recorded and the GDP rate was -14,7%. Also, after 2008 Greece recorded a constant decline of GDP rates, which is present up to today, there have not been any significant movements, and the country is in a major crisis. Besides Greece, Spain and Portugal, Italy also had negative GDP rates after 2008. Germany is a country that managed to swiftly encourage economic growth and overcame the crisis after 2008.

With the example of Germany the oscillations in GDP rates are also less visible after 2008, or rather in 2009 when the rate was -5,6% after which it generated growth of 4,1% in 2010. Regarding the crisis that affected EU member countries, it is factual that it also reflected on small and medium entrepreneurship. A drop in GDP rates and employment reflected on the sector of small and medium entrepreneurship, regardless of that it represents a potential for developing the national economy. During the crisis European SMEs hold their position in the economy and they still remained the outline of European economy representing over 90% of all EU companies. The following table presents the number of companies before the crisis and in the following years, as well as employment in these years.

Table 2. Number of companies and employment in SMEs 2006 – 2012

	Micro	Small	Medium	Large	Total
No. of companies					
2006.	18.505.812	1.388.756	219.956	42.245	20.156.779
2008	19.143.521	1.357.533	226.573	43.654	20.771.281
2010.	19.198.539	1.378.401	219.252	43.034	20.839.226
2012.	18.783.480	1.349.730	222.628	43.454	20.399.291
No. of employees					
2006.	38.428.189	26.938.777	22.027.425	42.360.134	129.754.720
2008.	38.395.819	26.771.287	22.310.205	42.318.854	129.796.165
2010.	38.905.519	26.605.166	21.950.107	43.257.098	130.717.890
2012.	37.494.458	26.704.352	22.615.906	43.787.013	130.601.730

Source: Eurostat; Yearly reports of Eurostat for small and medium entrepreneurship, (from: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2013/annual-report-smes-2013_en.pdf; http://first.aster.it/publicazioni/dgentr_annual_report2010_100511.pdf)

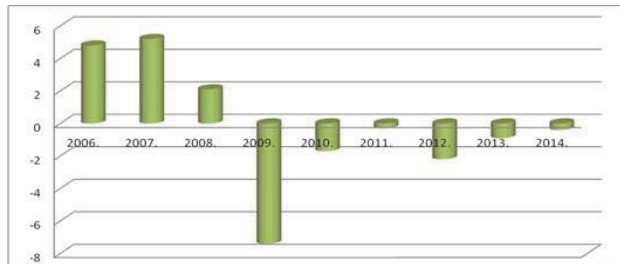
Table 2 has shown the state of small and medium entrepreneurship since the financial crisis began in 2007 in USA and left post-consequences for the European Union. Since small and medium entrepreneurship represents the main promoter of economic development, the table shows that in spite there is a reduction of companies and employment, especially after 2010 where significant effects of the crisis in the European Union can be determined. It is also evident that micro companies have the main share in the total structure of EU companies through all the reviewed years, and the number of companies and employment rose until 2010. After this there was a decline in all companies, which is a visible consequence of the entrepreneurship crisis. After 2010 a rise in medium and large companies is obvious, as well as employment in such companies, in contrast to micro and small companies that in 2012 recorded deregistering of companies and a reduction of employment.

Indicators show that European Union is focused towards encouraging small and medium entrepreneurship since it represents a driving force of economic development and a possibility of greater employment, which are key issues in many countries of the EU. One of the ways of encouraging countries to develop entrepreneurship are EU funds that offer great options of financing different activities, primarily focused on encouraging innovation, sustainable growth and entrepreneurship as key components of future development within the European Union. Current economic crisis has significantly aggravated the development of small and medium companies and therefore EU has emphasized the importance of giving support and funds through different programs.

5. Challenges and Temptations of Global Crisis in Republic of Croatia

After looking at the state before and after the great financial, or economic, crisis in USA and EU, the paper investigates implications of crisis on small and medium entrepreneurship in Republic of Croatia, or rather it defines the negative affects of crisis on its economy. Since Croatia is a relatively fresh member of the European Union (since 2013), previous indicators regard the period in which Croatia wasn't full EU member country. Therefore, the paper only analyses the

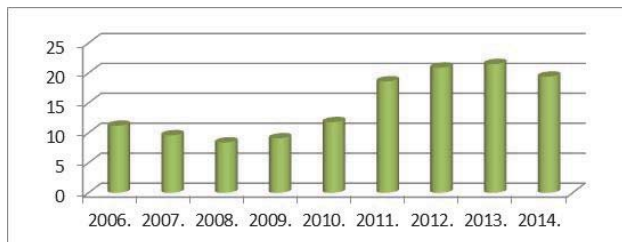
economic state in the period after which other countries of the world were affected by the economic crisis, and the period when USA was overcoming the crisis. In regard to the poor economic and social state seen through current indicators, arguably Croatia still hasn't found the appropriate way of leaving the crisis and neutralizing the negative affects created back in 2008. It was obvious also after this period, which left unforeseen consequences on the aggregate Croatian economy. The following graphs shows GDP rates and unemployment rates in the period from 2006 – until today.



Graph 4. GDP rates in Republic of Croatia 2006 – 2014

Source: Croatian Bureau of Statistics (from: <http://www.dzs.hr>)

As can be seen from the graph, it is evident that after 2007 Croatian GDP rates are falling, which is a consequence of the global crisis. Croatia was severely hit by the global crisis, which is seen by rates in the following years that consistently decline, especially in 2009 when the GDP rate was negative (-7,4%). Crisis left great consequences on Croatian economy, which is especially shown by high unemployment numbers that grow each year, which is definitely not a good indicator for Croatia, which is over 8 years in a serious and very difficult economic situation.



Graph 5. Unemployment rates in Republic of Croatia 2006 – 2014

Source: Croatian Bureau of Statistics (from: <http://www.dzs.hr>)

As seen from the graph Croatia has high unemployment rates after 2008, which is a major problem for the country's economy. Its peak was in 2013 when the unemployment rate reached 21,5%, in contrast to 2008 when it was just 8,4%. The crisis left serious consequences since the unemployment rate in 2014 did not reduce significantly. One of the possible ways for reducing the unemployment rate and focusing the economy towards growth and development in Croatia definitely lies in the segment of small and medium entrepreneurship. It, as well as in USA and EU, represents the main driving force of the country, so Croatian entrepreneurs are being focused on creativity and innovation in their entrepreneurial endeavors in order to compete on the market and create big leaps in development, so needed for exiting the crisis. Main guidelines for managing small and medium entrepreneurship in order to enable Croatia to focus towards future development and leaving downward trends are concentrated towards encouraging and development of entrepreneurship. This leads to rise of employment, affirmation of export orientation as well as converting adjustment to the global market, increasing quality, efficiency, and competitiveness of small entrepreneurs. Such model encourages entrepreneurial enhancement of scientific activity, innovation and use of modern technology together with "clean" activities that will not damage the environment (Kresan-Škabrić, Banković, 2008: 59). The reason for encouraging and investing in the small and medium entrepreneurship sector can be seen from the fact that in spite the crisis in Croatia, it notes serious movements forward. The following table shows an increase in the number of companies in small and medium entrepreneurship over a certain period before and after the global crisis.

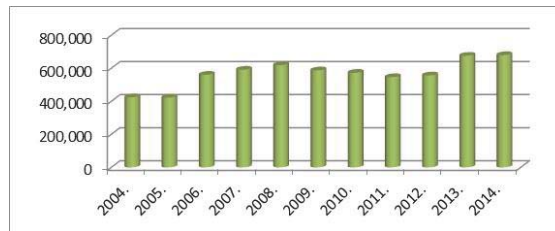
Table 3. Increase of small and medium enterprises in Republic of Croatia

	2001.		2007.		2010.		2013.	
	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%
SME	56.416	99	83.057	99,4	96.386	99,5	100.875	99,7
Small	54.213		81.467		95.004		99.543	
Medium	2.203		1.590		1.379		1.332	
Large	571	1	475	0,6	375	0,5	316	0,3
TOTAL	56.987	100	83.057	100	96.758	100	101.191	100

Source: According to CEPOR, Report of small and medium enterprises in Croatia (from: http://www.cepor.hr/SME%20godisnjak_final.pdf, http://www.cepor.hr/SME%20godisnjak_2013.pdf)

It is evident from the table that small and medium enterprises are recording an increase in number of registered companies, especially between 2001 and 2007 when the number of 56.416 small and medium companies increased to 83.057 and they make out 99,4% of all companies in the Republic of Croatia. Big companies have only a smaller portion in the total structure, and indicators that are seen from the table after 2008 and 2009 imply that the sector of SMEs is a great potential that needs to be focused towards further development, and perfecting and developing entrepreneurial creative ideas and projects. In 2010 the number of SMEs increased to 96.386 companies that make 99,5% share in the total number of companies. In spite the hard economic situation this trend also continued in 2013 when there were over 100 thousand active small and medium entrepreneurs in Republic of Croatia. Therefore, small and medium companies have a big role in employment because they present greater possibility for generating new work places. It is important to emphasize that the sector of small and medium entrepreneurship cannot "pull" Croatia out of crisis, but systematic investments and changes in current business strategies are needed in order to achieve certain changes. In regard to that, it is crucial to invest efforts in order to enable SMEs to achieve easier access to financing their development ideas, and, besides government institutions, a great help comes from the EU through programs and supports provided by EU funds.

Since unemployment in Croatia presents a great problem for economic development and since many people decide to emigrate in order to find better business opportunities, the next graph shows the number of employed in small and medium entrepreneurship, which is growing since 2012.



Graph 6. Number of employed in SMEs in Republic of Croatia

Source: European Commission, SME Performance Review (from: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supportingdocuments/2013/database_en.zip)

The graph shows a period from 2004 when SMEs had over 420 thousand employees. After this there was slow growth rate sustained until 2009 when there was 587.235 employed. After 2009 up to 2011 there was a minor drop in employment, as well as the number of SMEs, and the main reason were the affects of the crisis that didn't bypassed small and medium enterprises. After 2011 there was an increase in number of SMEs and the number of employees in this sector. This represented the possibility for development of activities and developing new, innovative entrepreneurial projects and programs. One of the success indicators, especially with SMEs, is their gross added value, significantly deteriorated during the crisis. Therefore, the next table (cf. infra Table 4) shows the achieved gross added value from 2008 to 2013 in Croatian SMEs.

Besides that in 2009 a portion of companies were deregistered and the employment dropped, there was a decline in gross added value in small and medium entrepreneurship, which was especially highlighted in 2010 and 2011. Small and medium companies created gross added value of 12.740 million euros, after which there was a decline in 2010 by

over a million euros and this trend continued in 2011. In 2012 gross added value of SMEs increased again while decline in large companies was evident. In 2013, gross added value declined again in all sized companies confirming that the crisis still negatively affects business of majority entrepreneurs in Croatia. The big difference (evident in the given data) is that gross added value in SMEs in 2008 was greater than 14 million euros, but until the end of 2013 was reduced to just over 11 million euros.

Table 4. Gross added value of SMEs in Republic of Croatia (in millions of €)

	2008.	2009.	2010.	2011.	2012.	2013.
Micro	4.461	4.093	3.634	3.454	3.704	3.365
Small	5.025	4.334	3.810	3.626	3.758	3.745
Medium	4.930	4.312	4.225	3.977	4.012	3.979
SME total	14.390	12.740	11.669	11.057	11.474	11.381
Large	10.635	9.509	9.326	9.326	9.128	8.849
TOTAL	25.025	22.249	20.383	20.383	20.602	20.229

Source: European Commission, SME Performance Review (from: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supportingdocuments/2013/database_en.zip)

These indicators show that in spite of emphasizing small and medium entrepreneurship as the driver of Croatian economy development, the total state of economy has not improved comparing to pre-crisis era. Therefore, significant investments in small and medium entrepreneurship are needed in order to achieve certain movements, as for the SME sector, as well as for the entire Croatian economy. Croatia has great possibilities to achieve this, but it is important to use the potential and funds that are given, especially within the EU growth incentives. Even though the number of companies and employment have increased in small and medium entrepreneurship, this still is not enough to reduce the influence of crisis on GDP rates and employment. Recovery of the economy cannot be based solely on small and medium enterprises, it is important to focus the efforts to all sectors, and to reduce the frequency of bankruptcy and liquidations of big companies.

After analyzing the state of small and medium entrepreneurs in USA whose trouble influenced global business, it is evident that Croatia still hasn't left the hard economic state, and this is reflecting on economic activities.. Such state is not good for Croatia, since the US and leading EU countries (such as Germany) have overcome this crisis and moved towards economic recovery. It is important for Croatia to promote investments into innovations and creative ideas of entrepreneurs, since investments and new technology are the key factors of development possibilities and that entrepreneurs by starting new enterprises employ new workers, compete on the market, create new value – open new perspectives.

It will take a lot of time and effort for small entrepreneurship to recover from the blow that was given by the global crisis. Beside entrepreneurs in this the primary role will have the Croatian government and institutions that regulate monetary policy together with Croatian National Bank. To strategically achieve this task Croatian government in April 2010 started a *Plan of economic recovery* in which it emphasized goals and measures by which economic recovery should be achieved and policies crucial to move the economy on the path of sustainable growth. However, to fight the crisis harder in order to achieve a higher level of crisis management and efficiency, and in order to overcome downward trends, it is crucial to systematically measure and determine the influence of the same on the total economic activity of business subjects and the consequences of the same on the entire society.

Correspondingly, it is important to generate and set a proposal of high quality, fast conductive measures of minimizing or even overcoming certain crisis effects. Even now when the crisis end is in sight, Croatian recovery is showing weak results compared to similar nearby countries. Unfortunately, they even government measures have not yielded any concrete results.

It is evident that Croatia has to, in the shortest time possible, work on neutralizing the "syndrome" of the economic crisis and through different, most of all efficient, programs, models, and measures. They should aim at certain concessions and benefits for small and medium entrepreneurship so they became capable to normally exist in this period of economic crisis. Finally, there has to be an awareness that after Croatian EU accession in 2013, these issues of national economy will not be dealt only and solely by the European Union, but on the contrary; the fait and key to solutions are in our own "hands", where it is required to use all available initiatives, chances and financial opportunities of the European Union (Kutnjak, Radović, Miljenović, 2013, 183)

6. Conclusion

A crisis is a result or manifestation of certain confusing, unsettled, unpredictable events that devalues or derogates individual, partial or complete social values and causes a state of serious discomfort or complete stress. It implies the creation of damages taking enormous proportions. Intensity of such crises can manifest and it can develop from financial crisis with certain minor variants to the global economic crisis that by its character and power of eroding social values covers an economy of a single country or more of them and the economy of the entire world. Economists have developed a different professional terminology regarding the crisis that tries to signalize the differences in intensity of economic events, so they diversify stagnation, recession, and depression as three unwanted forms of crisis.

Crisis today hits economic subjects, political and government institutions, other different organizations, as well as individual persons. Because of the destructive force that is produced by the crisis, different manifestation forms, and implications of crisis, the same has to be approached as an individual social phenomenon that produces certain interpretations in the domain of social and economic processes.

Certain countries easily fought negative implications of crisis and exited the crisis period before Republic of Croatia even entered this unfavorable period, which is still lasting today. Germany was the country that was able to exit the crisis and promote its economic development fastest. Countries such as Greece, Spain, Italy and Croatia still feel the consequences of the crisis and are recovering at a slower pace. Crisis period reflected on entrepreneurial activity so it recorded a decrease in companies' number and an increase in unemployment for this period. EU gives its member countries numerous incentives for development of small and medium entrepreneurship through EU funds and programs, which, as of 2013, can also be activated in Croatia as a full EU member. Regardless to the fact that SMEs in Republic of Croatia make more than 99,5% of all companies, this is still not argument strong enough to create any significant economic development, stop the enormous unemployment and decline in industrial manufacturing, curb the deregistration of business subjects, stop GDP decline and decline in life standards, etc., That in a certain way, identifies this issue at the level of the European Union and Republic of Croatia. But, it is doubtful that Croatian SMEs at this moment are still significantly lacking behind the economic efficiency of small entrepreneurship of other EU member countries and USA, what premiums that the anomalies of this sector have to be systematically, timely and engagingly resolved. Indisputably, the Croatian government will have to invest additional efforts to overview all evident, and those less obvious, hidden "Rubicon" in order to neutralize the negative implications of the crisis in a timely manner and on a healthy basis. This will be crucial in revival of Croatian social and economic environment.

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