



Business Climate Survey among members of American and Nordic Chambers of Commerce in Croatia

September 2011

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Introduction

Methodology

- Business to business survey, conducted in the period from 19 April to 14 September 2011

Sample

- 141 members of American Chamber of Commerce in Croatia were contacted, 61 member completed survey
- 44 members of Nordic Chamber of Commerce in Croatia were contacted, 26 members completed survey

Due to the small sample of participants, results should be interpreted cautiously.

Purpose of survey

- General business climate in Croatia
- General experience with doing business in Croatia
- Comparison of Croatia with other CEE countries
- Main advantages and disadvantages of doing business in Croatia
- Main improvements and deteriorations in business conditions

Executive Summary

- It is important to note that due to the small number of participants, results should be interpreted cautiously. Also, it is important to emphasize that the survey was performed in two waves and that the respondents are referring to different time frame.
- Majority of participants (51%) have seen neither improvement nor deterioration in their business situation in the past three months. However, more of them have seen improvement (34%) than deterioration (15%).
- When we look at the past change of demand for goods and services, and future expectations regarding demand – we can see similar levels of optimism. About 39% have seen improvement in demand, and 40% expect further improvements in demand.
- With the three indicators mentioned above (general business situation in the past three months, change of demand in the past three months, and expectations regarding demand in the next three months) index of optimism was constructed for 87 companies in our sample. When we compare it with the same index for 440 companies in Croatian service sector, we can see that there is no significant difference.
- More than half of the participants said that there hasn't been change in number of employees in the past three months. More of them reported growth (21%) than decline (16%) in the number of employees. Also, more of them expect further increase of workforce than decline (21% vs. 9%). Even more of them (76%) expect no change in their prices in the next three months.
- Insufficient demand and financial constraints are the two main limiting factors in business.

- About 2/5 of respondents rate their overall business experience in Croatia as good or very good, 2/5 of them rate it as average, and less than 1/5 rate it as bad or very bad.
- Three biggest problems that participants' companies were faced with in the last three years were illiquidity (33%), legislation and bureaucracy (26%).
- Compared to the other countries in the region, the biggest shortcomings are slow administration (54%), insolvency (53%), small market (37%) and corruption (33%).
- Tourism is seen as the biggest advantage (62%), followed by geo-strategic position (61%) and infrastructure (40%). Natural resources (38%) and quality of workforce (31%) were also seen as advantage.
- The last three years of crisis have been hard for Chambers' members – 64% of them claim that business conditions in Croatia deteriorated during this time. Less than third claim that conditions remained the same, and only 8% think that there was improvement in business conditions in the last three years.
- Out of total 56 participants in the survey which have seen deterioration in business conditions, 77% think that one of the biggest deteriorations have been in the field of payment terms. Financing conditions and small demand have been problem for half of them. Despite anticorruption campaign, 36% of respondents have seen deterioration in this field. About the same percent of them have seen deterioration in judicial sector. Only seven participants stated that there have been improvements in business conditions.
- Only small minority of participants think that state or local administration improves business conditions (6 and 3 percent, respectively). State administration is somewhat lower rated than local

administration. About 80% of respondents think that state administration deteriorates or significantly deteriorates business conditions, while in the case of local administration, proportion is 65%.

- About 2/3 of companies operate in other CEE countries. About 2/5 of them rate overall business conditions in Croatia as among the worst, when compared to those CEE countries in which their company operates. About 2/5 rate them as average, while 16% think that the overall business conditions in Croatia are among the better. Only 3% think that Croatia has the best business conditions.

Survey results

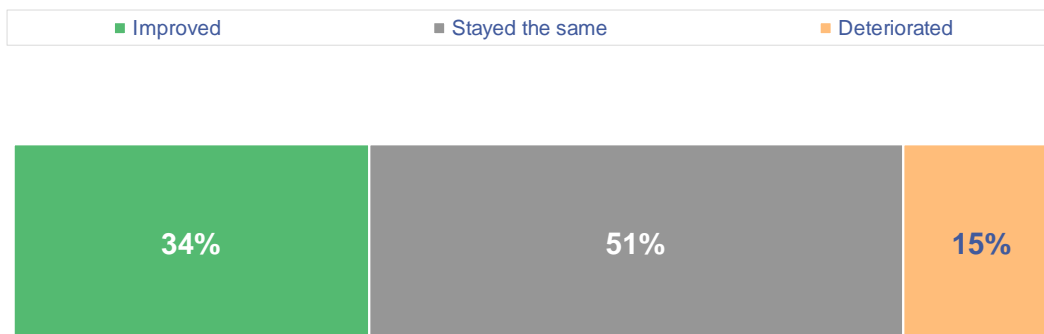
Sample – demography

		N	%
Sample		87	100%
Gender	Male	68	78%
	Female	19	22%
Age	Less than 35	14	16%
	36-45	40	46%
	46-55	24	28%
	More than 55	9	10%
Position	CEO, General manager	62	71%
	Senior Management	17	20%
	Middle Management	3	3%
	Lower Management	3	3%
	Other	2	2%
Number of employees	Less than 10	29	33%
	10-49	28	32%
	50-249	16	18%
	250 and more	14	16%
Main activity	Production	7	8%
	Trade, retail or wholesales	17	20%
	Other non-financial services	22	25%
	Financial services	4	5%
	Construction	2	2%
	Other	35	40%
Ownership	The Croatian majority-owned	36	41%
	Majority foreign owned	48	55%
	Mixed ownership (50:50)	3	3%

Survey questions & results

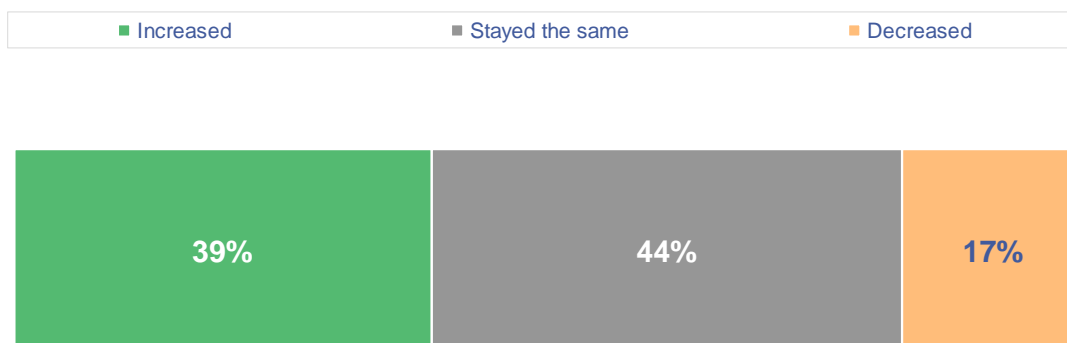
1. If you put aside usual seasonal changes, how has your business situation developed in the past 3 months?

Most respondents do not see either improvement or deterioration in their business situation



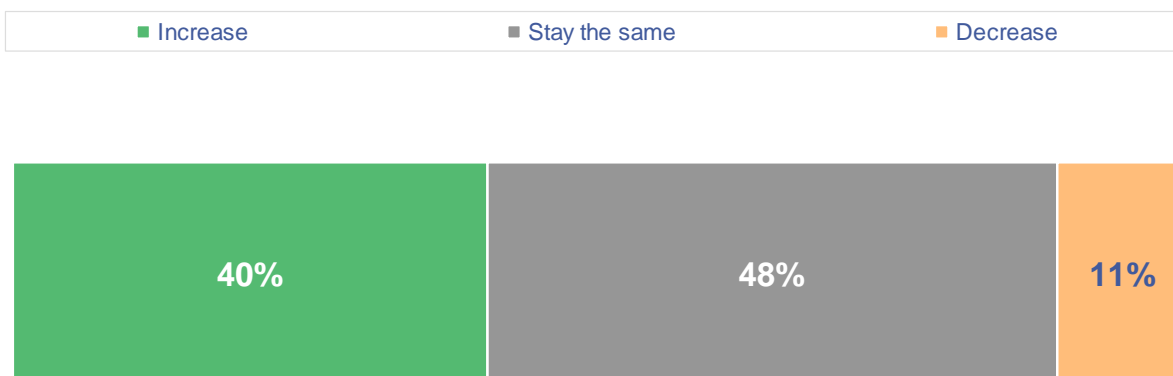
2. If you put aside usual seasonal changes how has the demand for your company's products and services changed in the past 3 months?

Almost 2/5 of respondents have seen increase of demand in the past three months ...



3. If you put aside usual seasonal changes, in your opinion, how will the demand for your company's products and services change in the next 3 months?

... and about a same number of respondents expect further increase of demand in the next three months



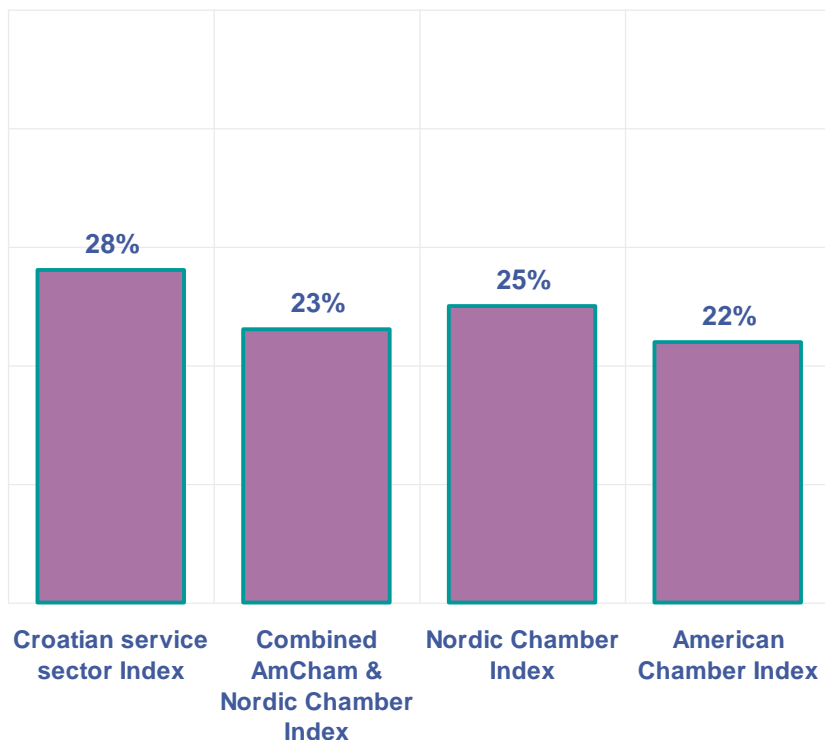
4. It is important to note that the sample for Nordic and American Chamber, respectively, are small, so we must be cautious in comparison.

Also, indices for AmCham and Nordic Chamber are compared only with Index of Croatian companies from service sector, because this is the only available index that incorporates the same components. Index was constructed on the basis of the first three questions:

- Development of business situation in the past 3 months,
- Change of demand in the past 3 months, and
- Demand forecast in the next 3 months.

Index of business optimism for American and Nordic Chamber is on the similar level as indices for Croatian service sector

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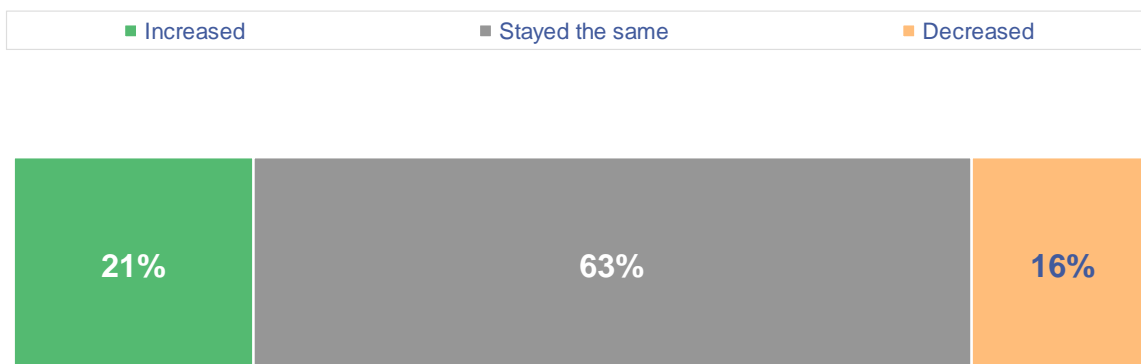
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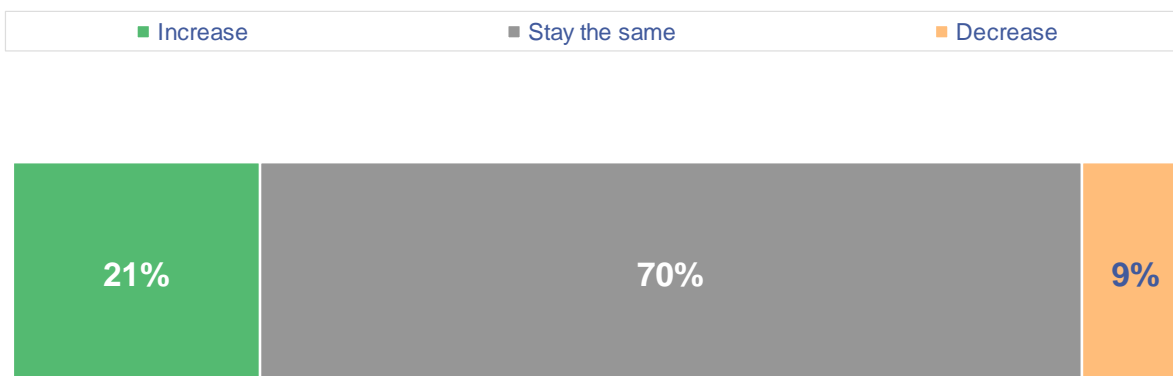
5. If you put aside usual seasonal changes, how has the total number of employees in your company changed in the past 3 months?

About 2/3 of respondents stated that the number of employees had stayed the same in the past three months...



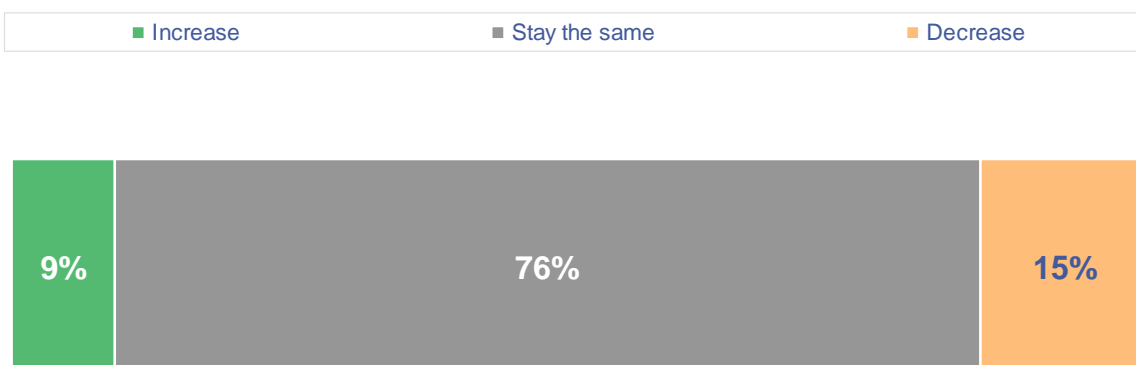
6. If you put aside usual seasonal changes, in your opinion, how will the total number of employees in your company change in the next 3 months?

... and even more of them expect that there will be no change in number of employees.



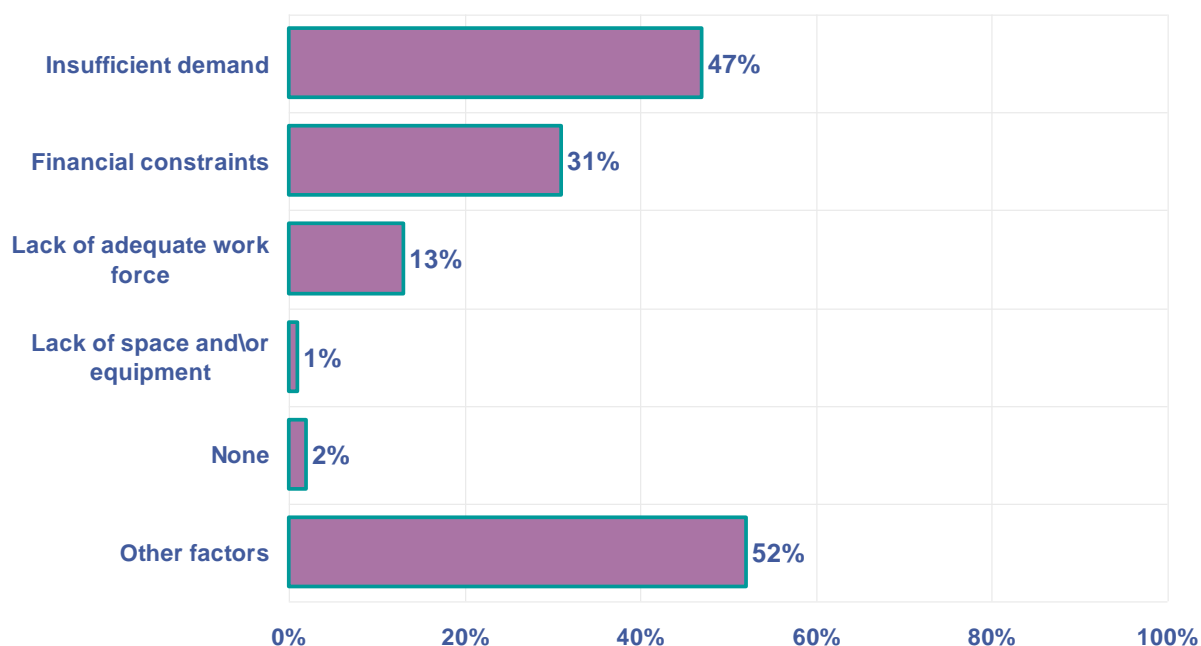
7. If you put aside usual seasonal changes, in your opinion, how will your prices change in the next 3 months?

A large majority of respondents stated that in the next three months there will be no changes in their prices.



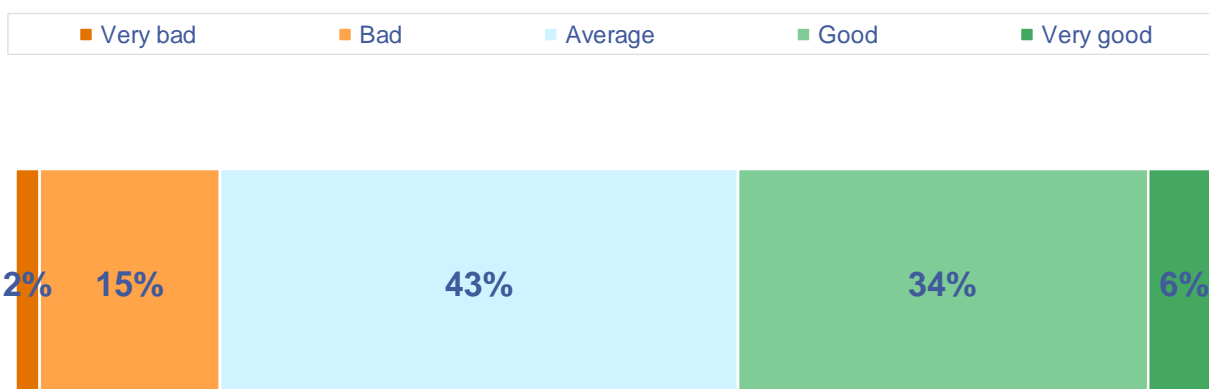
8. What are currently the main limiting factors of your business?
You can choose multiple answers.

Insufficient demand and financial constraints are the two main limiting factors in business. But about a half of respondents put forward some other problem(s)



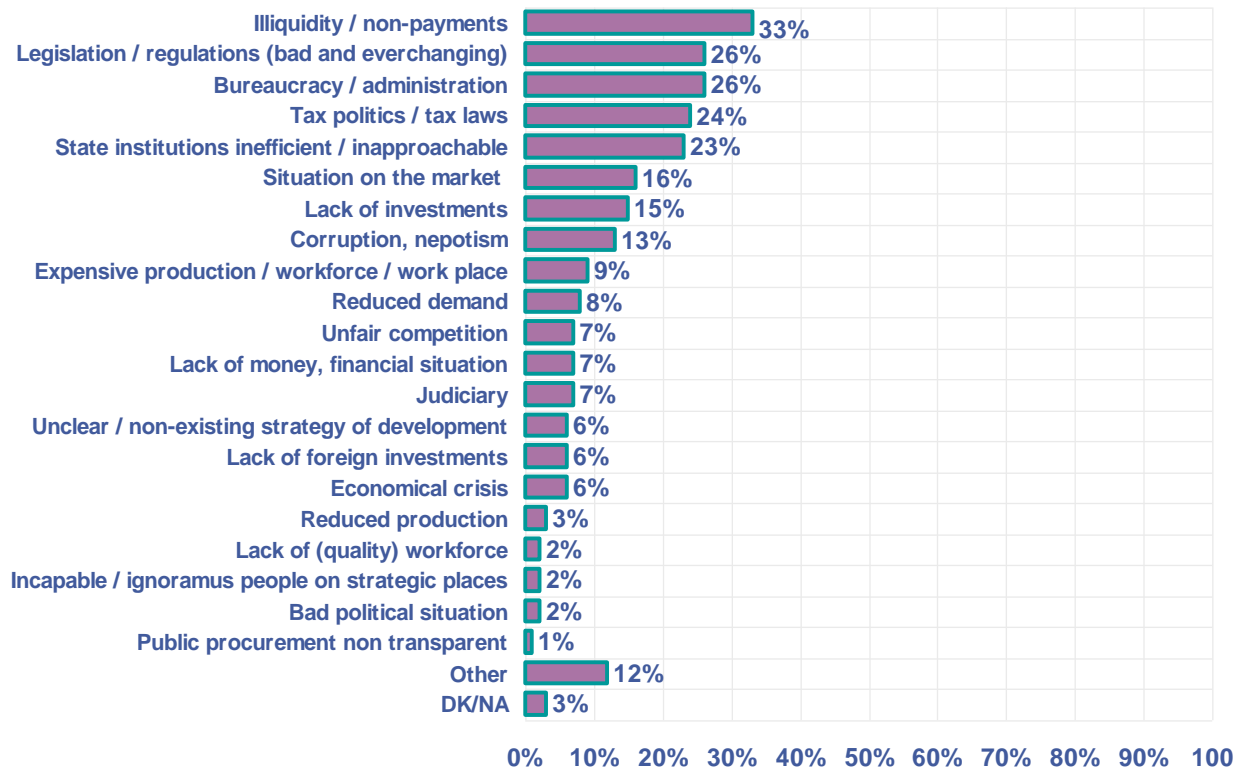
9. How would you rate the overall experience with your company's business in Croatia?

About 40% respondents rate their overall experience as good or very good while about 17% rate it as bad.



10. Specify the three biggest problems that your company has been faced with in Croatia in the past 3 years?

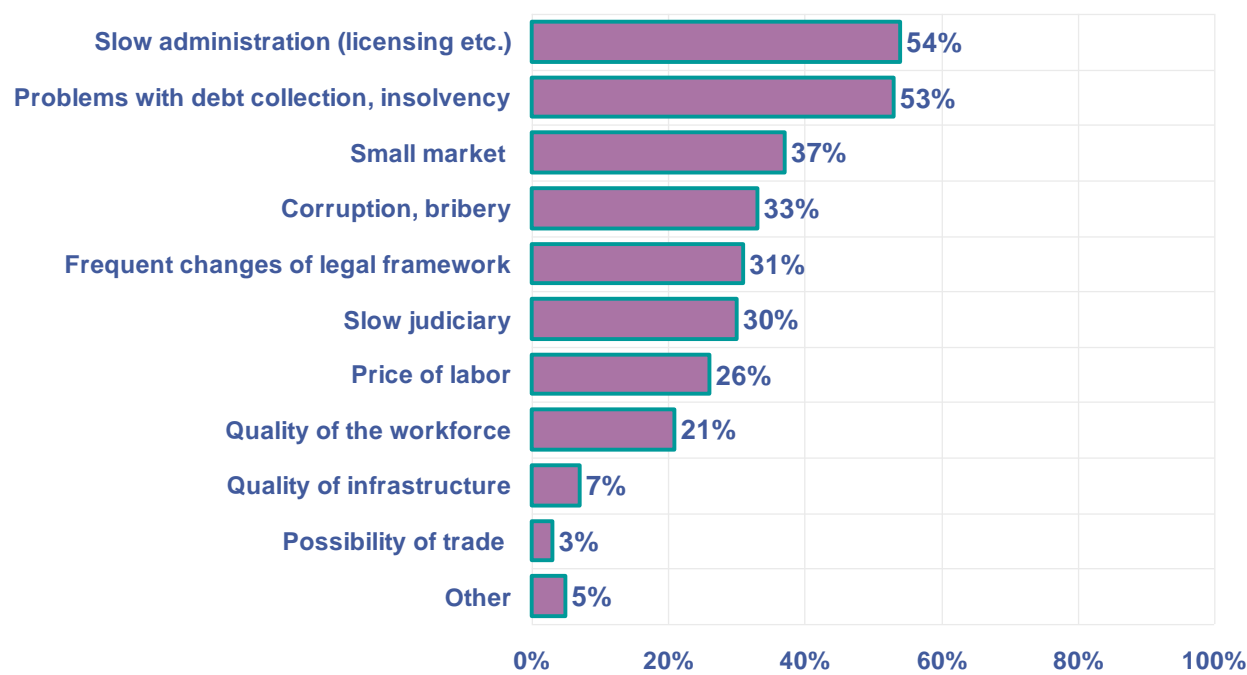
Three biggest problems in the last three years have been illiquidity, legislation and bureaucracy



11. Which of the three following problems would you say are the biggest shortcomings when it comes to business conditions in Croatia compared to the countries in the region?

Four biggest shortcomings are slow administration, insolvency, small market and corruption.

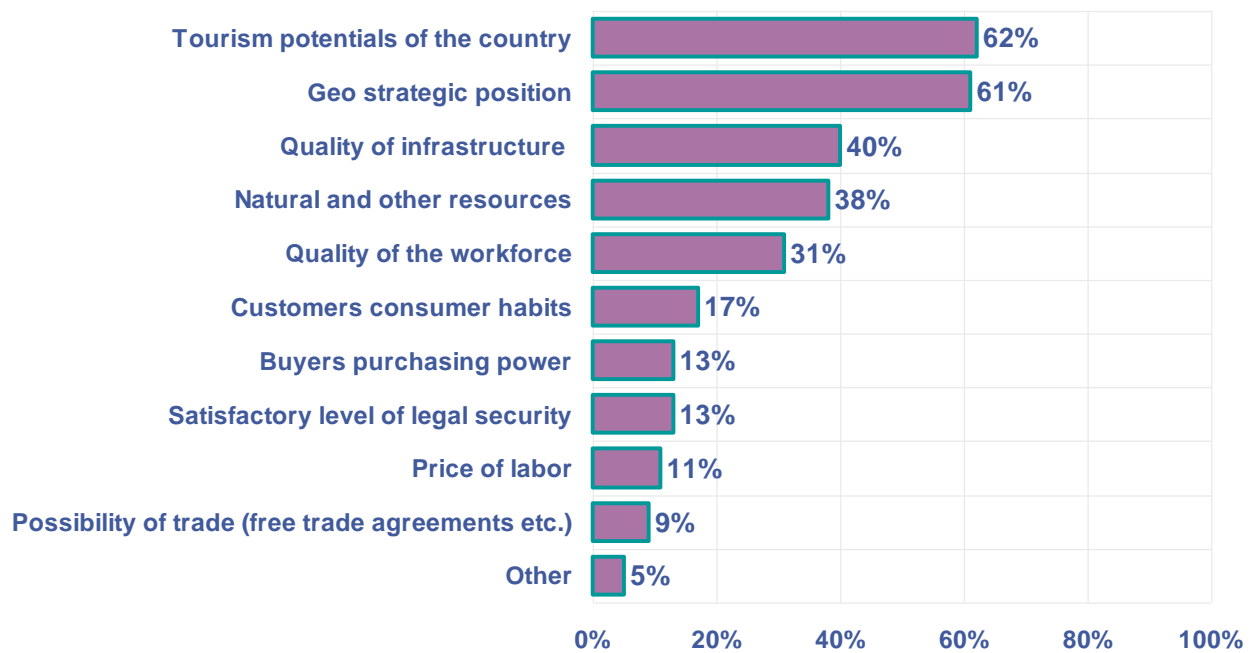
More so, judiciary is often seen as a big shortcoming, while a possibility for trade and quality of infrastructure are not.



12. What are the three things you see as an advantage when it comes to business conditions in Croatia compared to the countries in the region?

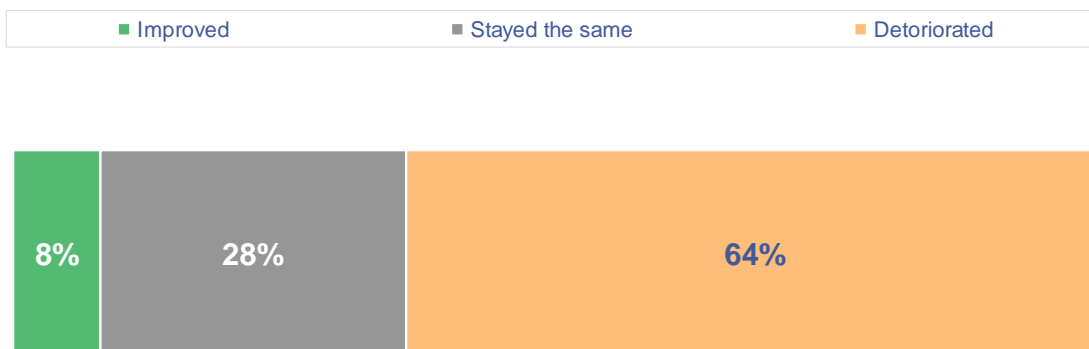
Tourism is seen as the biggest advantage, followed by geostrategic position and infrastructure.

Natural resources and quality of workforce are seen as an advantage by about one third of respondents.



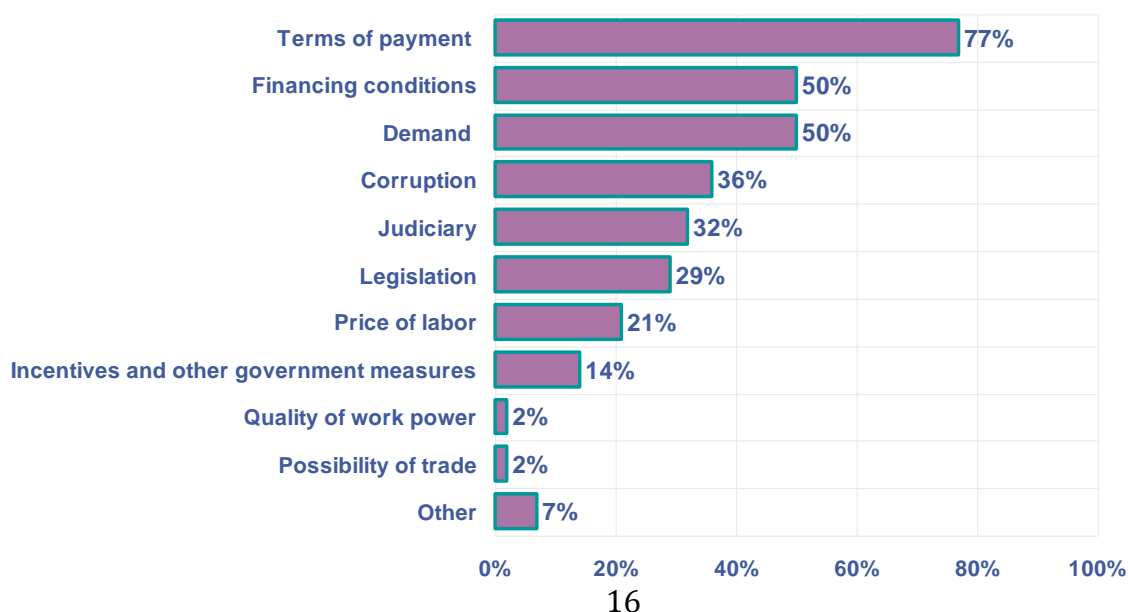
13. Would you say that business conditions in Croatia have improved, stayed the same or deteriorated in the past three years?

Almost 2/3 of respondents stated that the business conditions deteriorated in the past three years.



14. In which areas have you noticed biggest deteriorations in the past 3 years? Multiple answers.

The biggest deteriorations in the past 3 years were in the fields of payment terms, financing conditions and demand. Despite the anticorruption campaign, about 36% of respondents have seen deterioration in this field. About the same proportion of them have seen deterioration in judiciary sector.



15. In which areas have you noticed the biggest improvements in the past 3 years? Multiple answers.

Only seven participants think that the business conditions improved in the past three years.

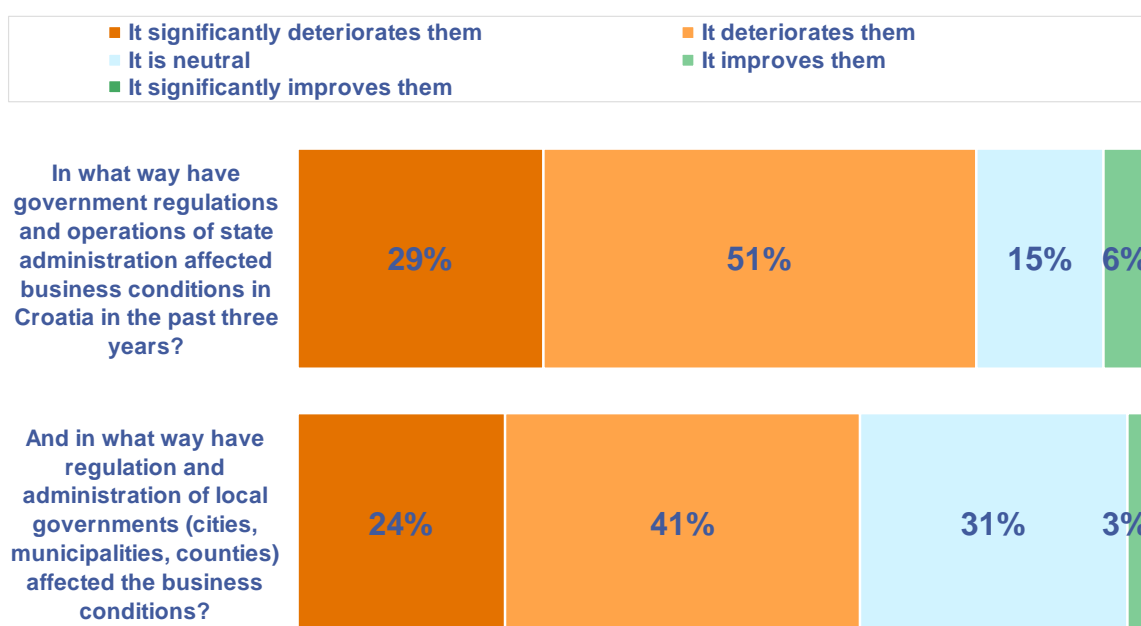
Four of them see the biggest improvement in Government's incentives and measures, and three in the field of (anti)corruption.

Base: N=7, multiple answers!

- Incentives and other government measures - four respondents
- Corruption – three respondents
- Legislation – two respondents
- Price of labor – one respondent
- Quality of work power – one respondent
- Possibility of trade – one respondent
- Demand for goods and services – one respondent
- Other – one respondent

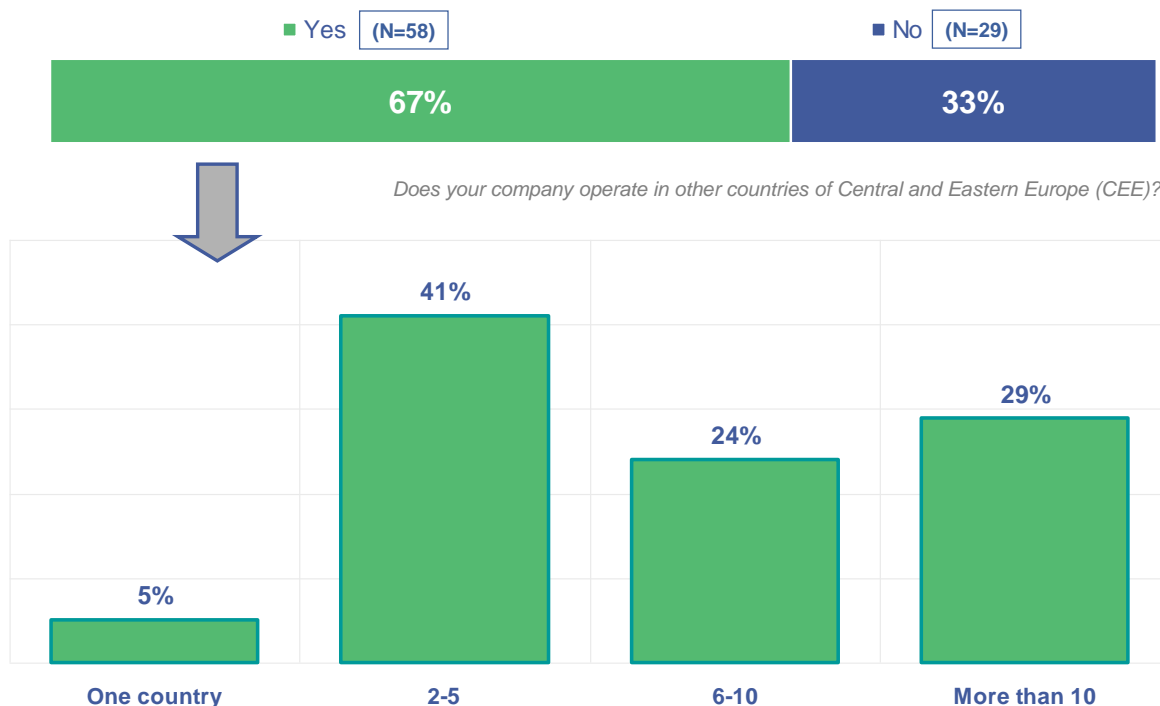
Only small minority of participants think that state and local administration improves business conditions

Base: all, N=61



16. In how many CEE countries does your company operate?

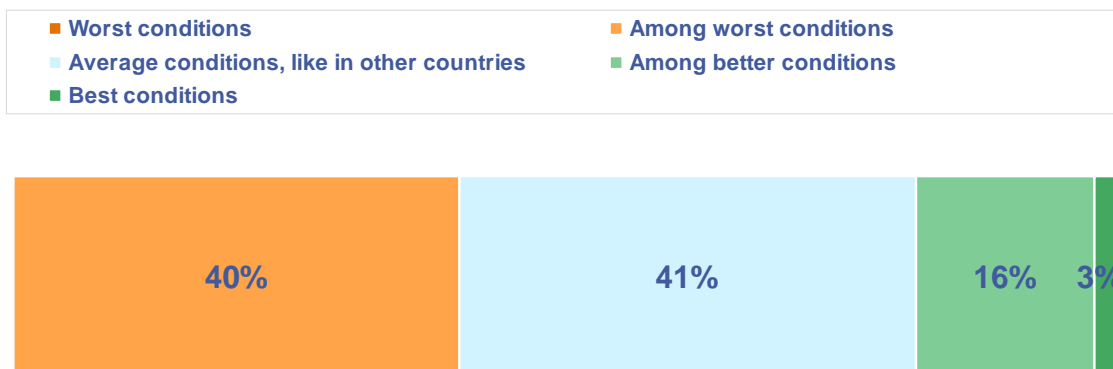
About two-thirds of participants have companies present in other CEE countries.



17. How would you compare the overall business conditions in Croatia with other countries in Central and Eastern Europe in which your company operates?

Among participants that are present in other CEE countries, about 2/5 rate business conditions in Croatia as “among the worst”.

Base: only companies which operate in other countries of CEE, N=58



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