

Survey of the Business Environment in Croatia

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American Chamber of Commerce in Croatia *Američka gospodarska komora u Hrvatskoj*

Contents

- Survey of the business environment..... 3**
 - Introduction 3**
 - Methodology, sample, and purpose of the survey 3**
- Survey results..... 4**
 - Business results in 2021 4**
 - Business environment 6**
 - Impact of institutions on the business environment 9**
 - Comparison with the region 11**
 - Business expectations 14**
 - Flexible work model (work from home) 16**
- Conclusion 17**

Survey of the business environment

Introduction

AmCham Croatia brings together more than 270 American, Croatian, and other international companies employing more than 91,000 people in Croatia. As the oldest international chamber in Croatia, AmCham has been making a strong contribution to business improvement for over 20 years, through advocacy of best business practices and a series of recommendations with the aim of positioning Croatia as an attractive investment destination.

As a Chamber that attracts mostly foreign investors in Croatia, as well as a significant number of Croatian companies focussed on the international market, AmCham Croatia carried out a survey of the business environment at the end of 2021. The survey carried out among members of companies' management boards has provided an insight into business results for 2021, as well as the mood of investors regarding future activities.

Methodology, sample, and purpose of the survey

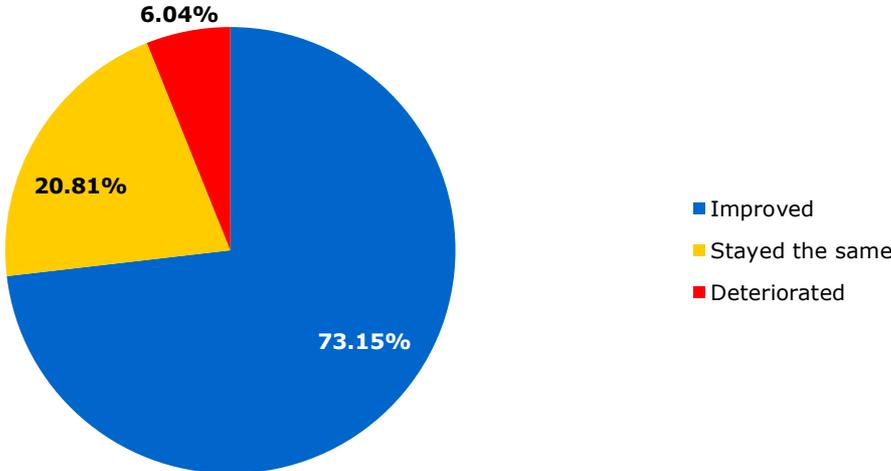
The survey was carried out in the period from December 16, 2021, until February 2, 2022, on a sample of 149 members of management boards of domestic and international companies in Croatia. 38% of companies that participated in the survey belong to the category of large companies, according to the number of employees. 21% were medium-sized companies, 29% were small enterprises, while 12% were companies with up to 9 employees. The companies that participated in the survey were majority domestically owned, 50%, followed by 48% of majority foreign-owned companies. Only 2% of participating companies were those with mixed ownership. The purpose of the survey was to determine participants' attitudes on the general business environment in Croatia.

Survey results

Business results in 2021

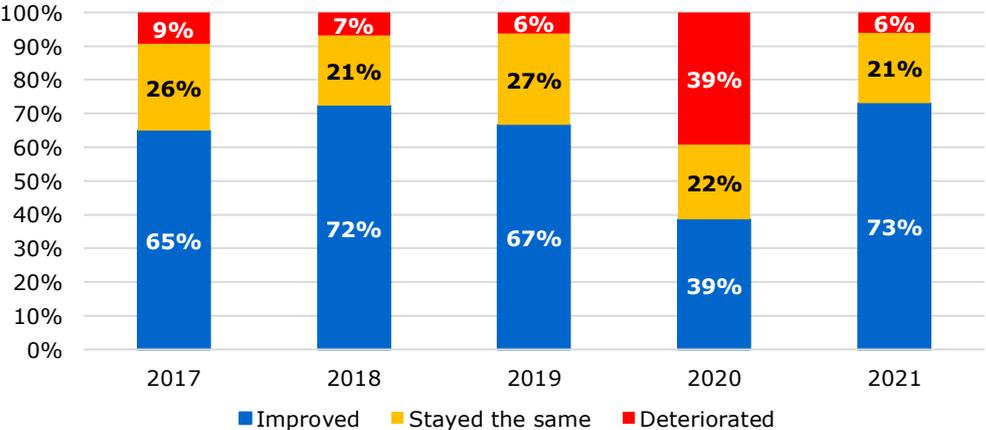
In 2021 73% of respondents reported improved business results in comparison to the previous year. Only 6% of companies noted a deterioration in business results, while for 21% of companies the results were the same as in the previous year.

How has your business situation developed in 2021?



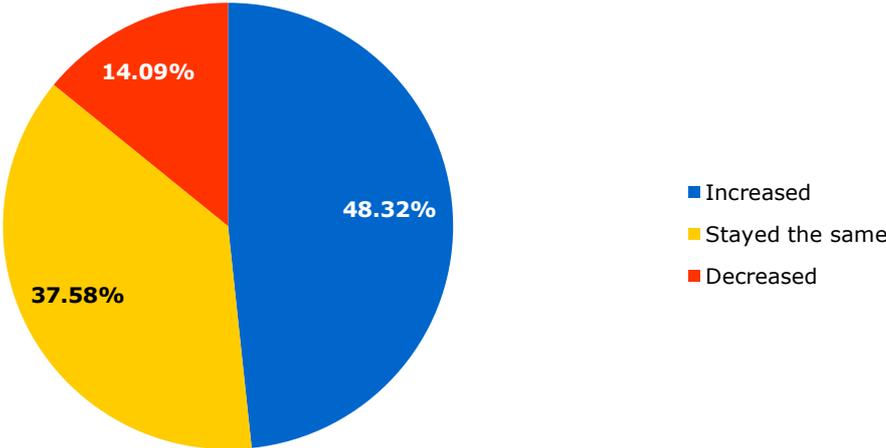
When comparing the past few years, it is clear that AmCham member companies experienced a recovery in 2021. After the uncertain year of 2020, business results show that a pre-pandemic percentage of businesses have experienced growth in comparison to the previous year.

Business situation over the years



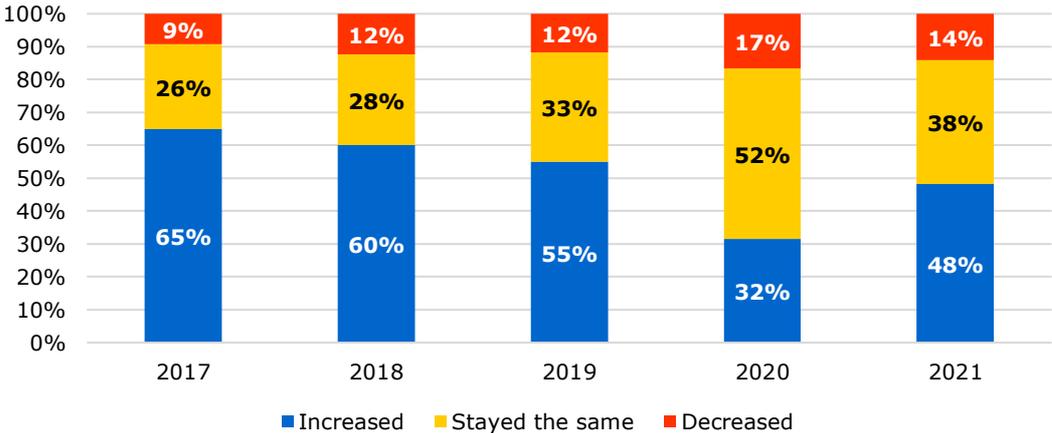
The majority of respondents (48%) increased their number of employees, while 38% maintained the same number.

How has the total number of employees in your company changed in 2021?



In 2021, the number of companies employing additional staff grew in comparison to the previous year.

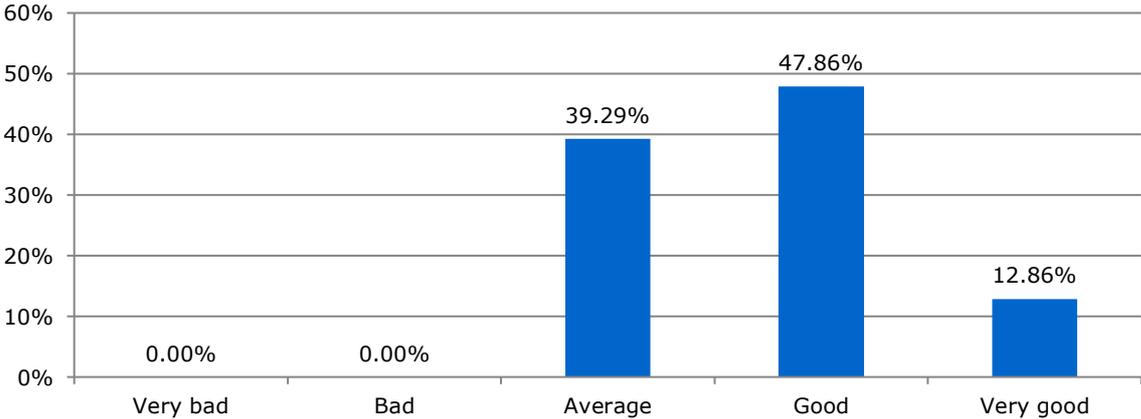
Share of companies according to employment trends in Croatia



Business environment

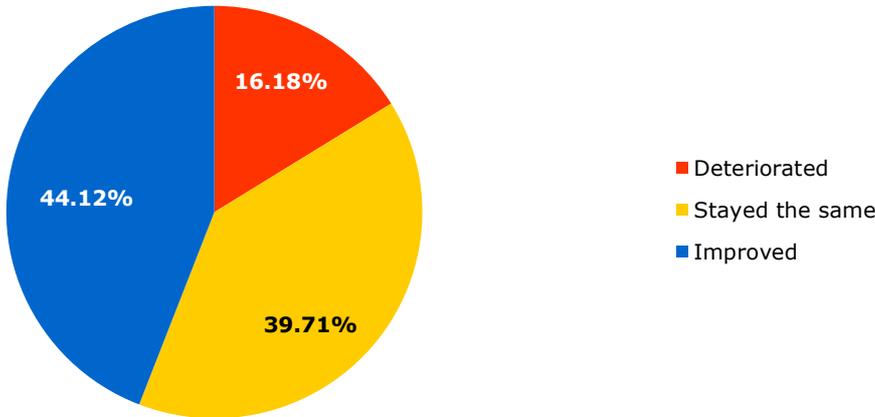
The overall experience of conducting business in Croatia was rated by 61% of respondents as either good or very good. In comparison to the previous years, the ratings slightly increased on the right-hand side of the spectrum.

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



44% of respondents believe that business conditions have improved in the past five years, 40% believe they have remained the same, while 16% think they have deteriorated.

Would you say that business conditions in Croatia have improved, stayed the same or deteriorated in the past 5 years?



The main limiting business factors in 2020:

- 1) Lack of demand (due to the pandemic or other reasons)
- 2) Lack of adequate workforce
- 3) Taxation of labor

The main limiting business factors in 2021:

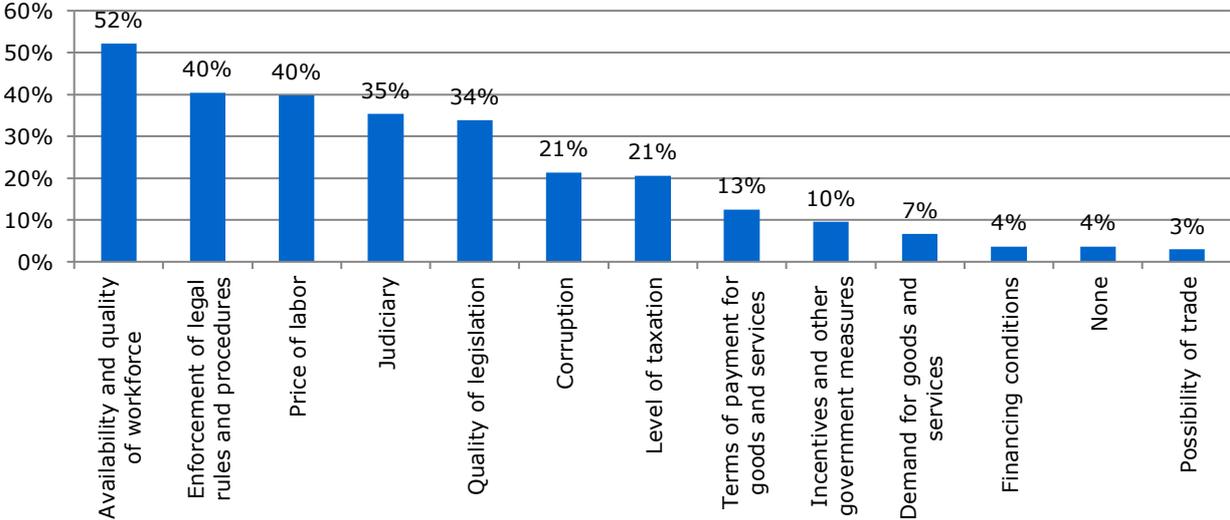
- 1) Lack of adequate workforce
- 2) Taxation of labor
- 3) Disturbance in the supply chain (increased costs, shortages and delays)

The lack of adequate workforce, as well as the taxation of labor, were highlighted as the main limiting business factors in 2020 and in 2021. While in the previous year the lack of demand was highlighted as the number one limiting factor, in 2021 the businesses have also pointed out the disturbance in the supply chain (in third place).

As the three biggest problems their company has faced in the past five years, the respondents reported the lack of adequate workforce, long and complex administrative procedures, and labor taxation. The same challenges were also emphasized in last year's survey.

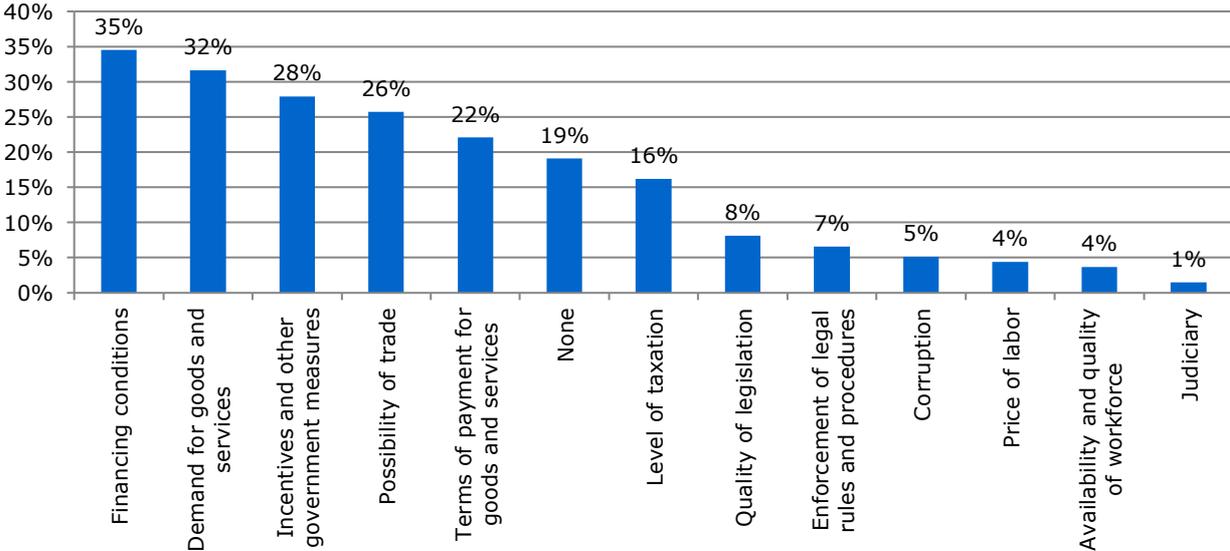
In the past 5 years, the respondents have noticed the biggest deterioration in the availability and the quality of the workforce, as well as the enforcement of legal rules and procedures and the price of labor.

In which areas have you noticed biggest deteriorations in the past 5 years? You can choose multiple answers.



The respondents saw financing conditions, increased demand for goods and services, as well as incentives and other government measures, as the biggest improvements.

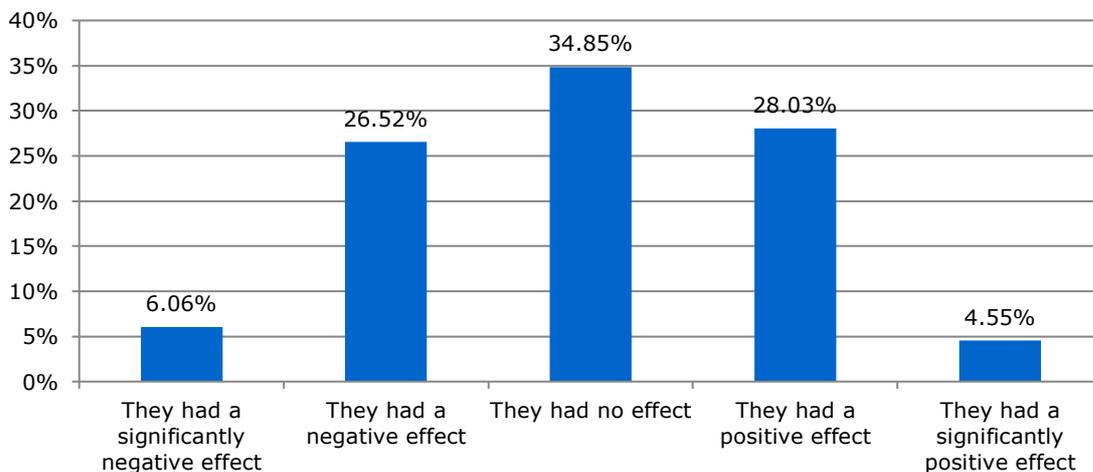
In which areas have you noticed biggest improvements in the past 5 years? You can choose multiple answers.



Impact of institutions on the business environment

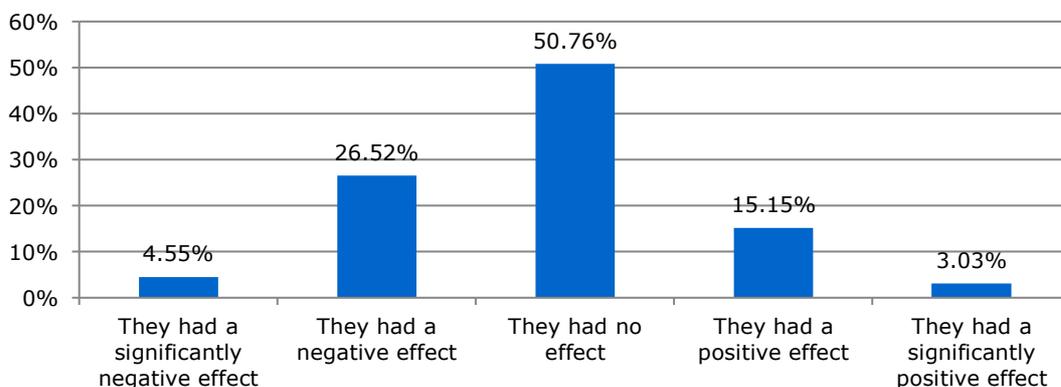
32.5% of respondents believe that the government administration has a negative effect on the business environment. 35% of respondents rated it as neutral. 32.5% of respondents assessed the regulations and the activities of public administration as having a positive impact on business. In relation to the previous year, a part of negative assessments turned positive under the influence of the measures related to COVID-19.

In what way have government regulations and operations of state administration affected business conditions in Croatia in the past 5 years?



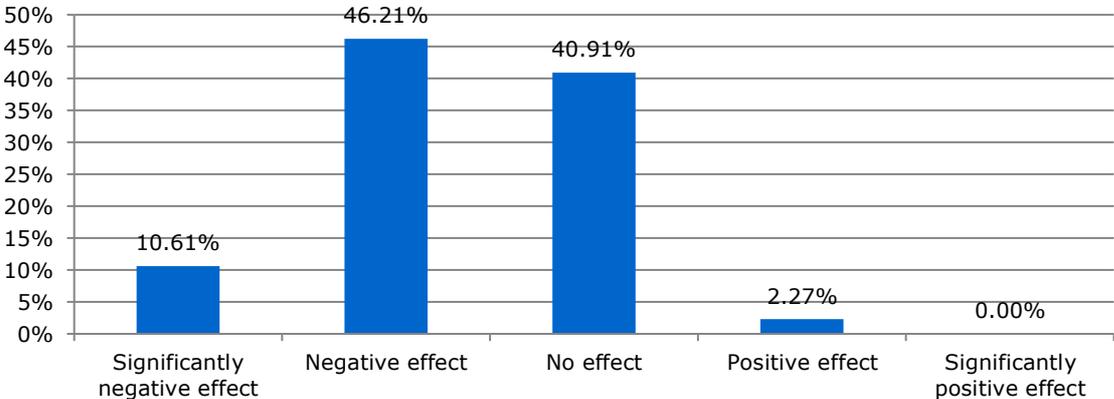
In the opinion of the majority of respondents (51%), the regulations and the administration of the local authorities have not impacted the business environment in Croatia in the past 5 years.

In what way have regulations and administration of local authorities (cities, municipalities, counties) affected the business conditions in the past 5 years?



57% of respondents rated the influence of the Croatian judiciary on business as negative or significantly negative.

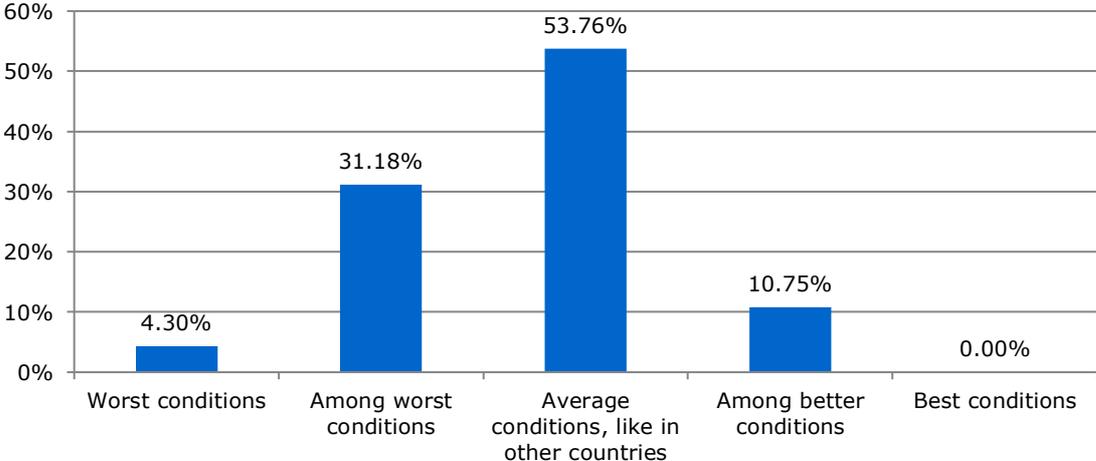
What kind of effect has the Croatian judiciary had on your business in the past 5 years?



Comparison with the region

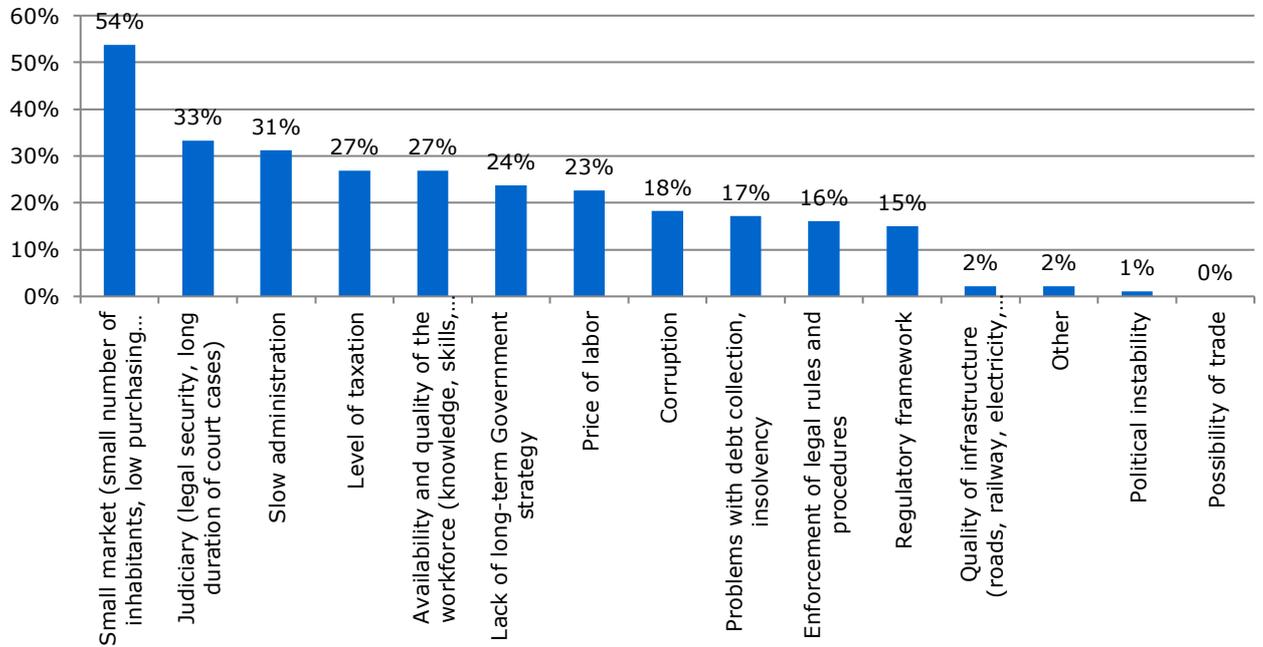
72% of the participating AmCham member companies also conduct business in other countries in Central and Eastern Europe, and 61% of them are active in more than 5 countries in the region.

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



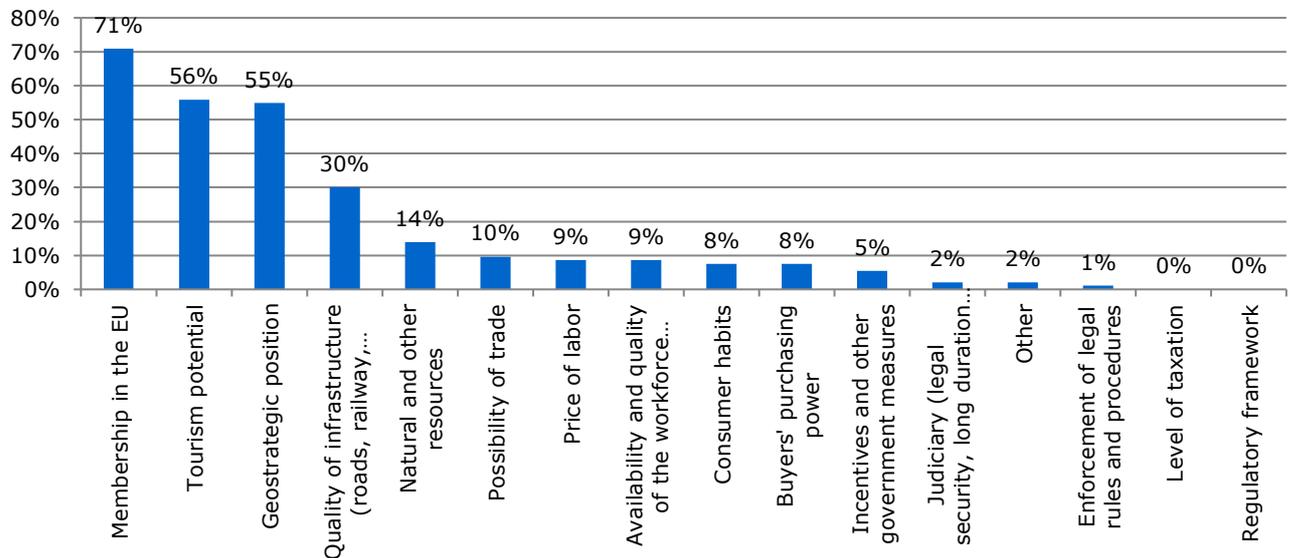
A total of 54% of respondents believe the business conditions in Croatia are comparable to those in other Central and Eastern European countries.

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



The biggest shortcomings in Croatia in comparison to other countries in the region are its small market, judiciary, and slow administration. The level of taxation is listed in fourth place in this survey, as well as in the previous one.

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?



As the biggest advantages of Croatia, the respondents have named membership in the European Union, the country's tourism potential, and its geostrategic position, as in the previous years.

The biggest business shortcomings in Croatia in comparison to other CEE countries

- 1) Small market
- 2) Judiciary
- 3) Slow administration

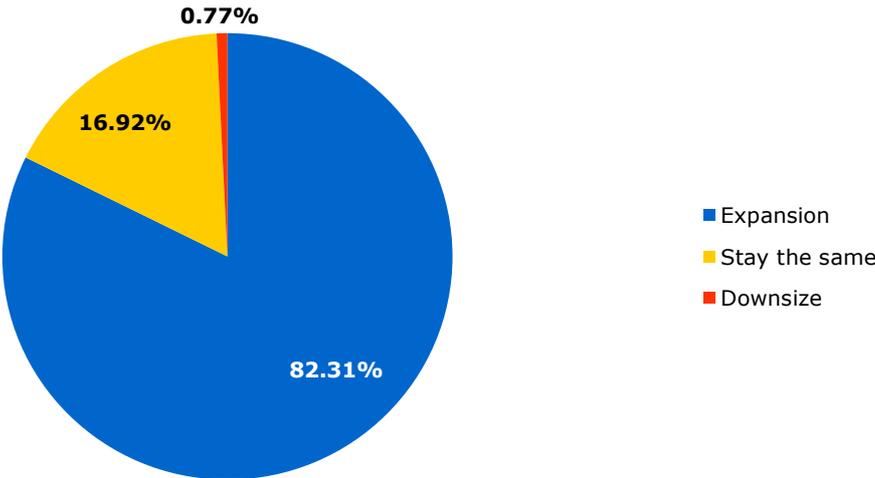
The biggest business advantages in Croatia in comparison to other CEE countries

- 1) European Union membership
- 2) Tourism potential of the country
- 3) Geostrategic position

Business expectations

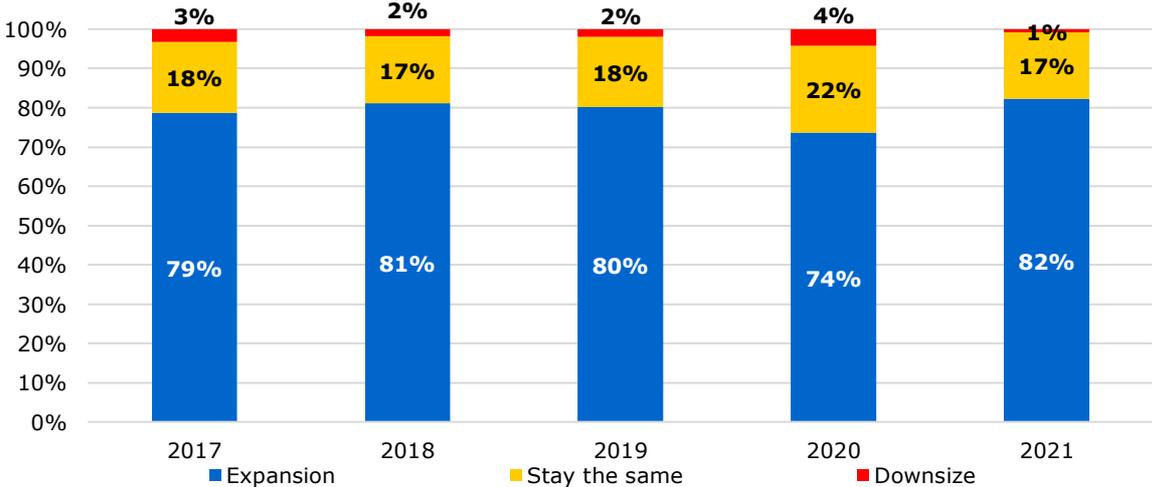
In the upcoming three-year period, around 82% of AmCham member companies plan to expand their business operations in Croatia.

What are your company’s plans for its Croatian operations in the next 3 years?

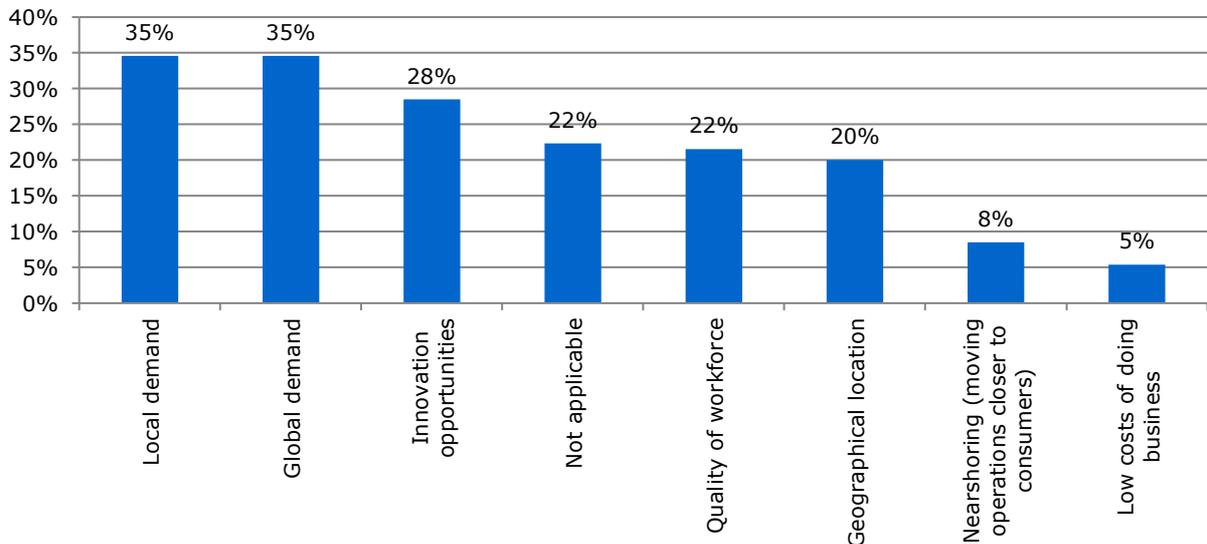


Observing the five-year trend, with a smaller contraction in 2020, AmCham members continuously plan to expand their business operations in Croatia.

Company's plans for Croatian operations over the years

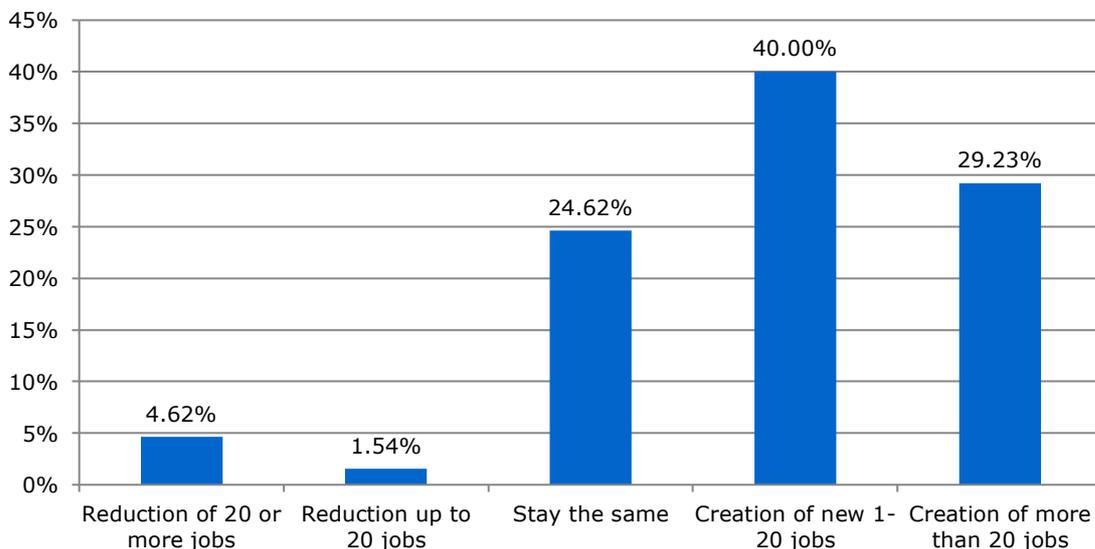


If your company plans to expand/invest in Croatia, what are the key drivers?



Of the companies planning expansion, majority stated local and global demand and innovation opportunities as their key drivers.

Does your company plan a reduction/creation of new jobs in Croatia in the next 3 years?

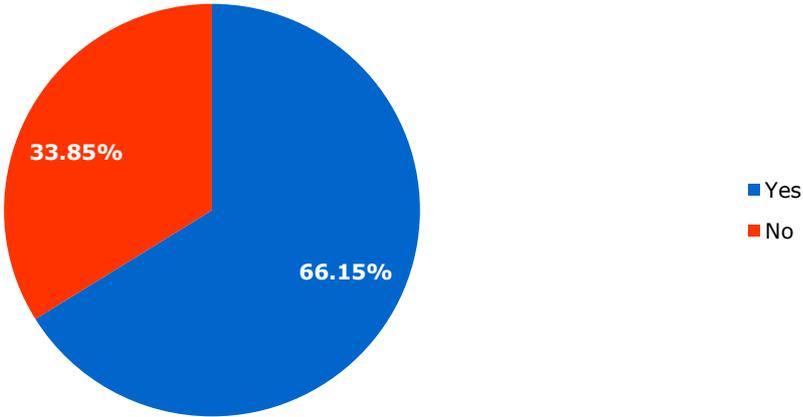


As many as 69% of the companies plan to create new jobs in the next three years, and 29% of them plan to hire more than 20 new employees. Only 6% of companies plan to reduce the number of employees in the next three years.

Flexible work model (work from home)

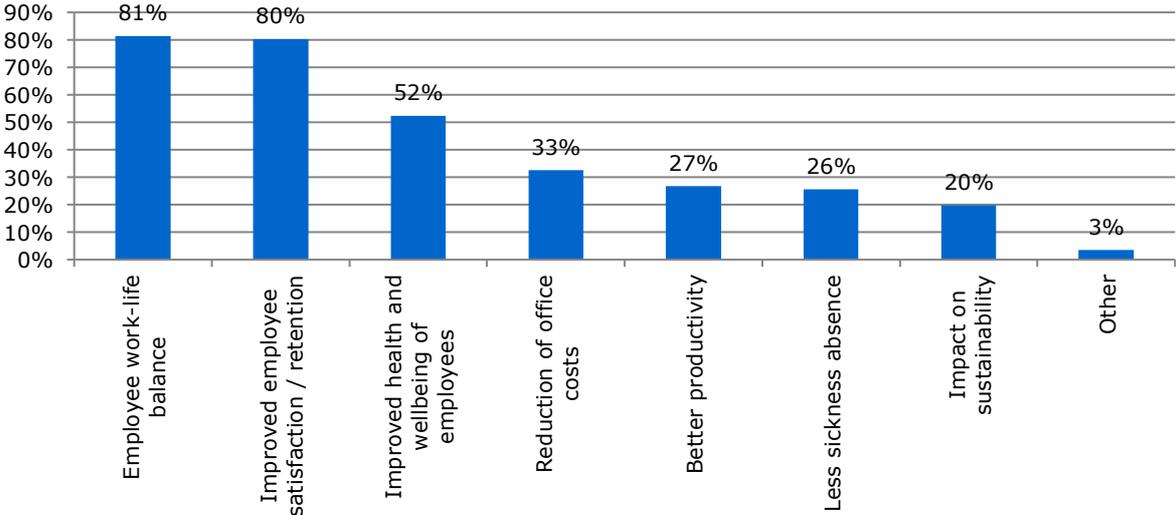
As many as 66% of companies participating in the survey are considering providing a flexible work model (working from home) for their employees after the pandemic is over.

Do you consider providing flexible work model (work from home) for your employees after the pandemic is over?



The main reasons for this decision include supporting a work-life balance, improved employee satisfaction/retention, and the health and wellbeing of employees.

If yes, what are the main reasons for enabling flexible work model? You can choose multiple answers.



Conclusion

In the past year, business results have improved for 73% of respondents. After the 2020 contraction, in 2021 the respondents mainly reported improved business results in comparison to the previous year, but also the pre-pandemic years. In 2021, the number of employees has increased for the majority of respondents (48%), which is an improvement compared to 2020 (31.5%).

The overall experience of conducting business in Croatia was rated by more than 61% of respondents as either good or very good. In comparison to the previous years, a slight increase in the average and positive experience of doing business in Croatia has been recorded.

A total of 44% of respondents have reported an improvement in the business conditions in the past five years. Respondents highlighted the lack of adequate workforce, labor taxation and the disturbance in the supply chain (increased expenses, shortages and delays) as the three main limiting factors in the business activities of their companies in 2021. The lack of adequate workforce, as well as the taxation of labor, were highlighted as the main limiting business factors.

In comparison to other CEE countries, 11% of respondents rated business conditions in Croatia as better, while 35% believe them to be worse, and 54% described them as comparable. The biggest shortcomings of conducting business in Croatia compared to CEE countries are the small market, the judiciary, and the slow administration.

In the next three years, 82% of AmCham members plan to expand their business operations in Croatia, while less than 1% plan on reducing them. Observing the five-year trend, with a smaller contraction in 2020, AmCham members continuously plan to expand their business operations in Croatia. As for creating new jobs, 69% of companies are planning to recruit for new positions in the next three years.

As many as 66% of companies participating in the survey are considering providing a flexible work model (working from home) for their employees after the pandemic is over. The main reasons for this decision include supporting a work-life balance, improved employee satisfaction/retention, and the health and wellbeing of employees.

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