

IO1 – A2

Needs Validation Report



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Introduction

The following report aims to provide a general overview of the current situation with regards to financial management practices and smart ICT use among entrepreneurs in Croatia, as one of the partner countries covered by the national B-CAPP project partner, Business School PAR. The survey on the basis of which this report was written is part of IO1 – A2 of the project and was conducted during March 2018 on a sample of 57 respondents. The questionnaire was comprised of 27 questions divided into 5 different sections examining different aspects of the knowledge and level of use of financial concepts and ICT tools.

This report also contains a section on the partner responsible for the National report, information about the project and the partner consortium as well as a summary of the answers to Sections A-E with the accompanying graphs. The last portion of this document provides conclusions about the current state of financial management practices and smart ICT use among Croatian entrepreneurs.

Partner information

Business school PAR (PAR) is the only business school in Primorje-Gorski Kotar Country (NUTS 3 region) of Croatia accredited by the Ministry of Science and Education. PAR offers bachelor degrees in business management with close entrepreneurial sector collaboration and with about 220 present and 150 alumni students. PAR teaching staff is comprised of 25 professors, all experienced professionals from academia and real sector. Its aim is to provide students with the opportunity to gain internationally recognized degree and expert-tailored program of business management and entrepreneurship.

In 2015 Business school PAR was awarded the Erasmus Charter for Higher education (ECHE) as evidence of compliance with all operational and professional requirements in international cooperation activities. PAR's international capacity was hence acknowledged with a general quality framework for mobility and educational programs.

The strength of Business school PAR is evident in its excellent network of international partners with 21 bilateral and 33 Inter-institutional Erasmus agreements signed with HEIs from Eastern and Western Europe. The school is also a member of a number of prestigious international networks such as Businet, NICE Network, EAEC, EAS whose communication channels are used to increase the visibility and disseminating potential of PAR's activities. Business School PAR gives a lot of significance to lifelong learning and professional development through its dedicated Centre by offering various types of non-formal education. The topical offer of trainings, seminars and workshops include: entrepreneurship, management, personal development, branding, sales, marketing, leadership, public relations, finance, and EU project management.

As the only accredited private HEI in the region, emphasis is being put on educating people in close cooperation with the business sector that will help students obtain the skills needed and directly applicable in the labor market. Activities of the Centre for Languages, Centre for lifelong learning, Career Center with summer and winter schools, as well as the newly-formed Digital Innovation Hub DIGIPARC, are only part of the activities which PAR provides to young people and professionals in order to acquire the skills and knowledge that have become essential prerequisites for progressing in all fields of work.

PAR is currently participating in 4 strategic and one collaborative partnership within the Erasmus+ network which is a further testament to its capacity and expertise in international projects.



Project Information and Objectives

The B-CAPP project aims to empower entrepreneurs with the financial management skills and knowledge required in order to help them run and manage their businesses successfully and effectively. As lack of financial knowledge on managing a business is considered to be one of the main reasons of business failure, this project will address this gap so that it can contribute to reducing the rate of entrepreneurial failures. This however is only one aspect of overall financial management. It needs to be complemented by smart use of ICT and not addressed in isolation. The project complements financial management with the adoption of supporting ICT tools and processes (e.g. cash flow tools, e-Procurement, e-invoicing, virtual marketplaces) as we have seen in the last years that more digital SMEs incurred a lesser decrease in turn over (reasons are more cross border activity through e-commerce, reduction in operating costs passed to customers making them more competitive, etc.).

To do so, the project intends to produce a complete training program for financial planning/management of start-ups complemented by smart use of ICT for reduction of operating costs and cross border business activity leading to increase in competitiveness.

The transnational partnership consists of 8 partners from 7 countries: Crystal Clear Soft (Greece), Civic Computing Limited (UK), ECAM-EPMI (France), Eurocrea Merchant (Italy), Business School PAR (Croatia) Fundación General Universidad de Granada-Empresa (Spain), FYG Consultores (Spain), Agentia pentru Dezvoltare Regionala Nord-Est (Romania).

Questionnaire objectives

This questionnaire belongs to the first Intellectual Output (IO) of the B-CAPP Project, the “Financial Check Training Course – FCT Course”. This IO intends to produce a training course in which the modules will address the learning outcomes required by entrepreneurs and individuals involved in the management of start-ups in order to become “Financial Sustainability Managers”.

More concretely, the questionnaire corresponds to the second activity of the IO, “Needs Validation Phase”. Through this activity, partners aim to conceive the envisaged needs of start-ups in relation to financial knowledge and skills, as method for implementing winning practices and progress in order to improve their financial and business performance. These conceived needs will be validated with the results obtained from this questionnaire.

The questionnaire has been produced as a method that will provide additional insight into the target group’s vision on the tools that would support them in relation to the project results. While each partner has been tasked with collecting a minimum of 40 responses from the target group (entrepreneurs and managers of start-ups), the response rate in Croatia was unusually high and yielded a sample of 57 valid entries..

More concretely, the questionnaire consisted on 5 sections: Personal data; Budgeting; Finance; Cash Flow Management; ICT- Enabled Business Development. These sections correspond to the previous analysis done by partners as part of this project. Through the following points, it will be possible to see the outcomes obtained in Croatia regarding the sections.

Most importantly, the language used for this survey was Croatian, meaning that it served as an eliminatory criterion for the respondents as a pre-defined target group.



Summary of Question Results

SECTION A

Section A corresponded to the demographics of the respondents. Out of the 57 respondents targeted by Business School PAR, and the most relevant information was the following:

- Age ranged from 17 to 60 years old, with a median of 40 and a mean age of 40,95 years, meaning that the sample distribution is not skewed and fairly correctly presents the data gathered.
- There were more female respondents (54,39%) as opposed to male (45,61%).
- All answers came from Croatia, although 7% of respondents reported an additional country of origin (UK, USA, UAE, and Iran).
- Only 5,26% of respondents are new entrepreneurs who have been running their business for less than a year. Interestingly, 19,3% had been running their business for 1-2 years, while only 10,53% had done it for 3-4 years. A majority of the respondents, 64,91%, have been entrepreneurs for more than 4 years.
- A significant portion of the respondents, 70,18% from the total, reported having between 1 and 5 employees. The rest was divided as follows: 10,53% had 6-10 employees, 12,28% had 11-20 employees and one respondent each (1,75%) reported having 50-100 and above 100 employees, respectively.
- The answers to the question related to the business area of operations, although rather fragmented, revealed that 17,54% of the respondents worked in Tourism. Interestingly, this sector was not even given as an option but was inferred as the most popular choice through the open option 'other' included in the answers. Business & consultancy was chosen by 10,53% of the respondents, while only 8,77% of them reported working in Technology. Other country-specific sectors which emerged were Maritime & shipbuilding, Cosmetics & beauty, Sport & recreation, Medicinal & health services, as well as Real estate, each with 2 respondents (3,51%), respectively.

SECTION B

The focus of Section B was on budgeting practices, consisting of a total of 4 questions of different types aimed at discovering the general budgeting techniques performed by the respondents.

B.1 asked to the respondents to identify the person in charge of creating the cash budget in each company. The majority of respondents – 44 of them, or 77,19% – stated that they did the work, which is only logical considering how most of the respondents belong to micro-enterprises with a reduced level of employees and incomes. Only 5,26% respondents answered that they use an internal accountant, while even less, 3,51% said they use an external accountant. Almost 15% of the respondents selected 'other' as answer, where some combinations of the above answers were used, involving joint decision-making by the partners and the internal/external accountants, with one respondent even conferring such decision to the management at the EU-level.

These answers reveal a trend among Croatian entrepreneurs where more than 4/5^{ths} of the budgeting work is performed internally within the company, meaning that in order for their companies to grow, the entrepreneurs would have to educate their employees about budget-related

concepts and delegate such tasks at the operational level so that they are able to focus on overall strategy and growth.

B.2 further examined the methods used for the creation of the company's cash budget. This question allowed for multiple answers so as not to force respondents to choose only one method in case they were relying on more when creating the cash budget. Overall, 62 answers were collected, 40,32% of which pointed to Excel as the go-to tool for budgeting. A significant portion, 29,03% reported using a fully computerized system, while 9,68% said that they managed their cash book manually. Only 6,45% admitted to only creating copies of invoices and receipts. Interestingly, 12,9% reported that they don't create the cash budget at all. This is a relatively major cause for concern as it demonstrates that there exists a major knowledge and skills gap among entrepreneurs – on the one hand, there are the advanced users who both know and utilize budgeting concepts, while on the other end of the spectrum there are those who simply do not bother at all. It would have been interesting to delve deeper into this issue and attempt to identify the reasons for such a large percentage of the respondents – whether this is because of their lack of knowledge so they don't know where to start from, or is it due to their lack of interest, which though plausible, is more difficult to explain since they would not have become entrepreneurs in the first place had they not been committed.

B.3 asked the respondents to identify the exact tools they used for cash budgeting. This question, too, allowed for multiple answers, so in total 68 responses were collected. Due to the phrasing of the questions, it cannot be inferred with complete certainty whether the entrepreneurs were using some of the tools, or were simply familiar with them. Nevertheless, 60,29% or 41 answers total chose Excel as a cash budgeting tool. ERP and SAP were chosen by 7,35% and 5,88%, respectively, while no respondents were familiar with either Skiouraki or Cougar Mountain Software. A fairly significant portion of 16,18% stated that they did not know any of the tools included as possible answers. 4D wand and Pantheon were suggested as some regional variants used by Croatian companies by 4,41% of the respondents.

B.4 as the last question in this section, inquired about the dynamics of the updating of the budget. The collected responses showed that most of the respondents updated their budgets either monthly (29,82%) or quarterly (28,07%). Some respondents reported impressive punctuality - 21,05% said they updated their cash budgets weekly, while 8,77% reported daily cash budgeting for their company. Another interesting revelation comes from the 'other' section, where 5 respondents admitted that they do not update their budget at all.

In conclusion from the data obtained in this section of the questionnaire, it can be inferred that as far as Budgeting is concerned, Croatian entrepreneurs spend a significant amount of time on cash budgeting themselves, are mainly familiar with Excel and some proprietary accounting programs, and update their budget regularly. There is a significant minority, however, which is not concerned with the cash budget, they don't create it, nor do they update it regularly or at all, which is the exact target group which B-CAPP should focus its efforts on in order to raise their level of awareness and knowledge about the importance of cash budgeting for the overall success of their companies.

SECTION C

Section C was focused on identifying and allocating financial resources within start-ups. It is comprised of only two questions.



C.1 inquired about the type of financial resources used by the respondents for financing their companies. Due to the nature of the inquiry and the potential existence of more than one correct answer, it was structured as a multiple-choice question returning a total of 81 entries. The biggest portion of the respondents, 51,85% , asserted that they used their own, their family's or friends' money for financing their activities. Bank loans were second most popular, with 28,40% of respondents saying that they used them as financial resources. Interestingly, 8,64% asserted that they used some form of financial assistance given in the form of funds/grants through various EU instruments. The rest of the answers were scattered few and far between, but also included 3,7% of the answers which referred to (self-employment) subsidies given to entrepreneurs. Business Angels, Crowdfunding, and Business Incubators received one response each, demonstrating how traditional the financial system is in Croatia. To further this claim, not a single respondent selected Accelerators or Venture capital.

C.2 asked whether the respondents had obtained any advice before getting their financial resources. The respondents' answers were evenly split on this matter, with 50,88% responding that they received external advice, while the remaining 49,12% said that they obtained no advice whatsoever.

These answers reveal that Croatian entrepreneurs are mainly left to their own devices when deciding to start a business. They are open for receiving advice, however, other support in terms of financing – apart from banks – is rarely available or they are simply not sufficiently informed or trained to identify and use it.

SECTION D

Consisting of 8 questions total, this section examined Cash Flow Management knowledge and practices among Croatian entrepreneurs.

D.1 examined the methods used for cash flow estimation; 36,84% of the respondents answered that they were basing them on management's subjective estimates. Accountants and bookkeepers were also regularly cited as sources for cash inflow/outflow estimation, amounting to 22,81% and 21,05%, respectively. A consensus of expert opinion was relatively rarely used – only 7,02% of the time, while computer simulations/platforms/tools/applications were used by 8,77% of survey participants. No mathematical models were reported as used methods by Croatian entrepreneurs.

D.2 gave a series of statements for which respondents had to choose the one more similar to their company's procedures. The answers were almost evenly divided: 42,11% answered that there exists a standard procedure for item estimation, while 40,35% gave the contrary statement, that there is no standard procedure for generating cash flow information. Only 14,04% entrepreneurs reported having standard forms to collect cash flow data and other investment information, while 3,51% asserted that the company required the use of a standard model for forecasting cash flows. The most interesting target group for the purposes of the B-CAPP project is the one reporting no standard procedures who stand to benefit from improved financial knowledge and enhanced skills for cash flow estimation.

D.3 looked into the methods used for creating the cash flow statement. Most of the respondents, 66,67% of them cited the indirect method, while 19,30% preferred the direct method. Some of them (14,04%) were not very familiar with the meaning of the question and preferred to give their answer as 'other'.



D.4 Cash flow ratios can also shed light on the knowledge and liquidity practices among entrepreneurs, which was examined in further detail with this question. Again, most of the respondents relied on Excel to calculate their liquidity ratios (31,58%), while 21,05% used some form of an automated tool/system/or application. A significant portion of the survey participants (43,86%) reported not using any cash flow ratios for liquidity management, thus demonstrating a big pool of startups that require further support and education in mastering these concepts and leveraging them for their companies' advancement.

D.5 inquired about the cash flow automation tools used by the entrepreneurs and the overwhelming portion of the respondents, 89,47% reported using none of the provided answers (Float, Cushion, Pulse, or Quickbooks) while 10,53% gave their answers under the option 'other'. This question reveals that Croatian entrepreneurs are not familiar at all with the most popular cash automation tools in the world, however, it is impossible to deduce from this question whether that is due to them using some alternative program adjusted for the Croatian market or are completely unfamiliar with the concept and tool themselves.

In D.6, respondents had to answer how much money they had invested in their companies. Since the questionnaire was translated into Croatian without having explicitly stated the currency in which the answers were to be given, a lot of responses cited various currencies. Therefore, first the answers had to be divided into quantitative and qualitative. According to this criterion, 85,96% of the respondents provided a figure, while the remaining 14,04% only gave a qualitative answer which could not be quantified. From the available figures, all of them had to be converted into a single currency in order to ensure comparison. The euro was chosen as the point of reference. The reported figures hence ranged from 0 to 2.000.000 EUR invested into Stockholder's equity, where the median figure was 13.333,33 EUR, while the mean was much higher and amounted to 136.365,36 EUR, which is a rather high and possibly misleading figure for a county like Croatia, as much lower sums are needed in order to start a company.

D.7 revealed that 63,16% of the respondents have fully electronic invoicing, while 22,81% do not have electronic invoices at all. The remaining 14,04% only use electronic invoices occasionally, but are not fully committed to completely eradicating the traditional way of invoicing yet.

Overall, Section D answers pinpoint two important facts, that liquidity management is not very high on the agenda of Croatian entrepreneurs and that there is a significant lack of knowledge on their part about the importance of cash flows, a void which B-CAPP can help fulfill.

SECTION E

The last part of the questionnaire, Section E, was devoted to ICT – Enabled Business Development and consists of 6 questions/.

E.1 asked participants to name the e-procurement systems they used. Most of them, 56,14% said that they didn't use any procurement systems, while the rest, 42,11%, were relying on traditional systems, with only one answer stating 'unknown'. This is a very important finding as it reveals the extent to which entrepreneurs in Croatia are unaware of the possibilities offered to them through smart ICT tools and the education they would require through the B-CAPP project in order to both understand the concept and apply the tool to increase their competitiveness.

E.2 asked the respondents to answer, in a qualitative way, to what extent they agreed with the claim that the integration of e-commerce can help the development of the company. The answers were measured on a Likert scale and ranged from 'strongly disagree' to 'strongly agree'. Interestingly, 10,53% of the respondents strongly disagreed, while 8,77% disagreed with the above statement, revealing that almost 1/5th of the participants were negatively inclined towards digitisation of their business. The largest part, 31,58% were undecided, while almost a half of the respondents agreed with the statement in various intensity – 22,81% positively, and 26,32% strongly. All of these responses show that there exists a gap in both awareness and understanding of ICT tools for business use which B-CAPP can help reduce by educating the entrepreneurs about the opportunities available through smart ICT use.

E.3, inquired about the respondents' preferences when using, or opting to use, the various available e-commerce platforms for selling or buying products. This question also allowed multiple-choice answers. Taking into consideration the above answers, it should come as no surprise that 66,67% of the respondents admitted to not using any e-platforms. Shopify received 9,52% of the answers, while Magento and WooCommerce each received 4,76%, of the responses. Sellr was only chosen by 1 respondent, while 12,70% of the respondents answered with 'other', with 5 of the responses stating that they simply didn't know the answer to this question. Only 2 of the respondents suggested other platforms that they were using. This question shows a tremendous potential for improvement among Croatian entrepreneurs as most of them have not yet made the switch from traditional to digital operations and processes.

E.4 asked the survey participants to reveal how often their products were sold online. As expected, 57,89% admitted never having, while those selling less than once a month and between 1 and 4 times were evenly divided at 10,53% each. From the 21,05% who answered with 'other', very interesting findings emerged - 6 respondents answered that they sold online more than 5 times a month, while one of them admitted to selling 24/7. This question shows that the conversion process to digitisation has already started since a critical mass of users regularly relying on ICT tools has emerged, but the bulk of participants still needs a final push, which can be provided through B-CAPP.

E.5 asked about purchasing habits and revealed that only 22,81% had never bought anything online, while the remaining 77,19% have done so in varying degrees. This question also shows that entrepreneurs found buying to be easier done than selling online, and demonstrates that they acknowledge the benefits of doing business online as the other party to a transaction, however unknowingly

E.6. was final question both in the section and in the questionnaire, asking about the specific e-shop from which respondents bought the most. E-bay was the most popular with 22,81% respondents picking it over Amazon with 19,30% and 'other' with 8,77%, which included answers such as Aliexpress and even Croatian shops such as Mall.hr. Nevertheless, 38,6% still admitted to using none of the platforms, which leaves plenty of room for improvement in terms of awareness creation.

The main conclusion from Section E is that entrepreneurs in Croatia have a long way to go in order to catch up with their counterparts from other EU countries, as limited ICT use in their day-to-day business operations significantly reduces their competitive edge. It is exactly for this reason that a project such as B-CAPP is both necessary and pioneering as it will contribute to the raising of the overall level of functioning in an ICT-enabled business environment.

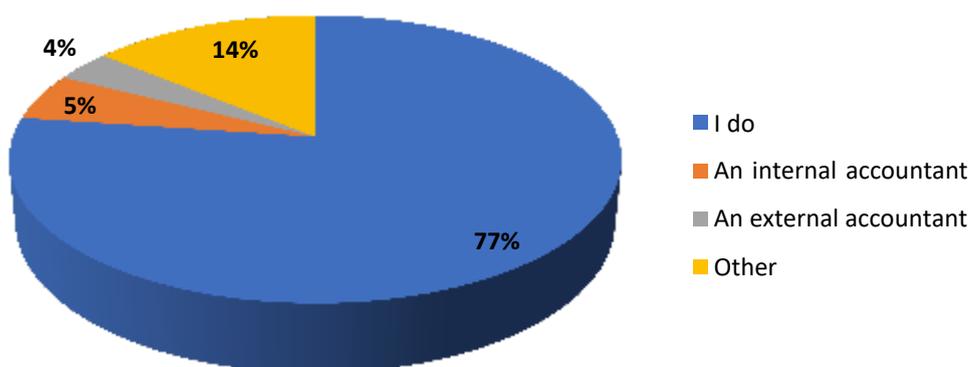
Graphics

SECTION A

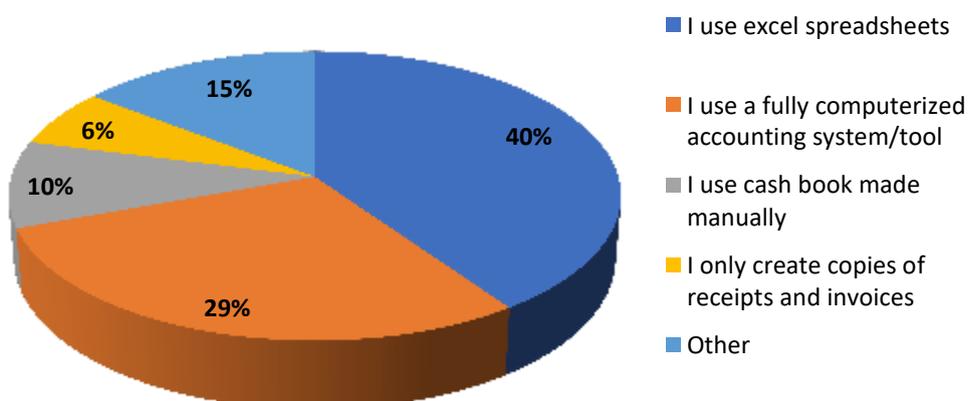
No graphs available for this section of the questionnaire.

SECTION B

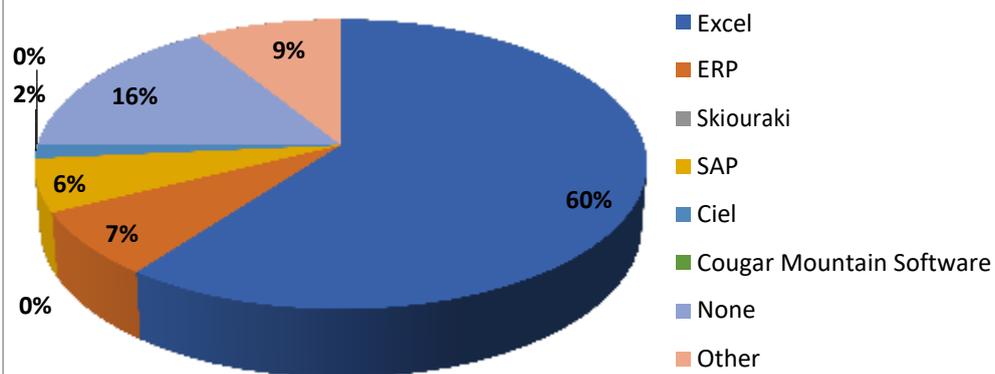
B.1. Who is creating the cash budget in your company?



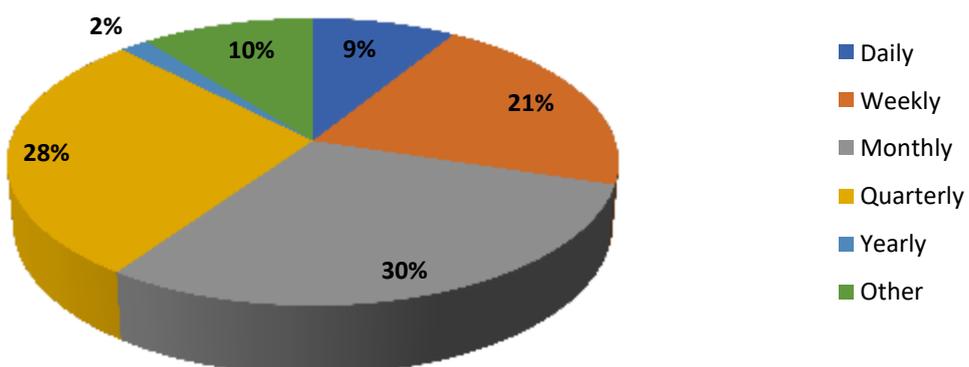
B.2 How do you create your cash budget?



B.3. Which of the following tools do you know / use for cash budgeting?

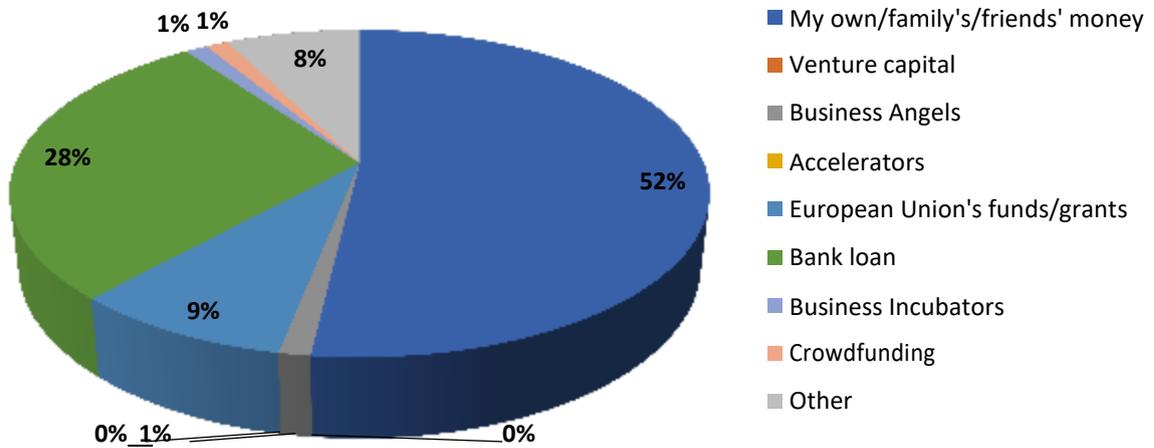


B.4. How often do you update your cash budget?

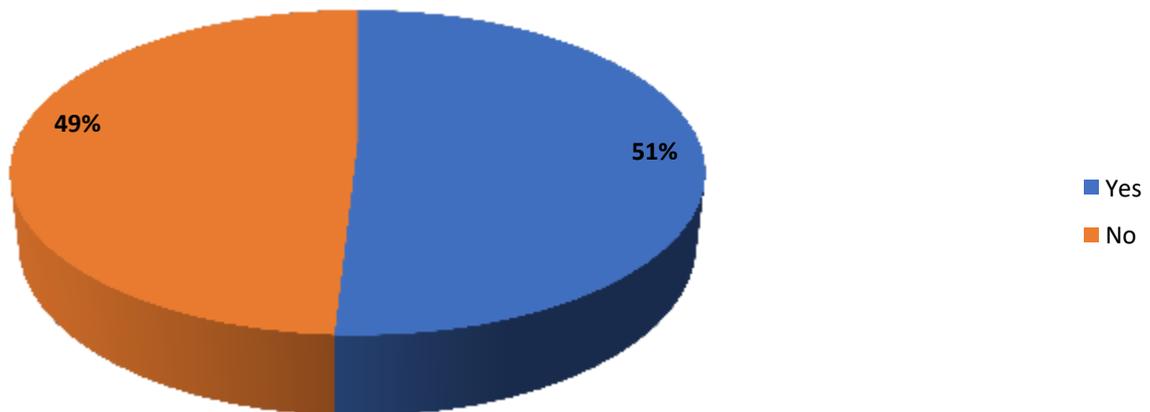


SECTION C

C.1 Have you ever used any of these financial resources?

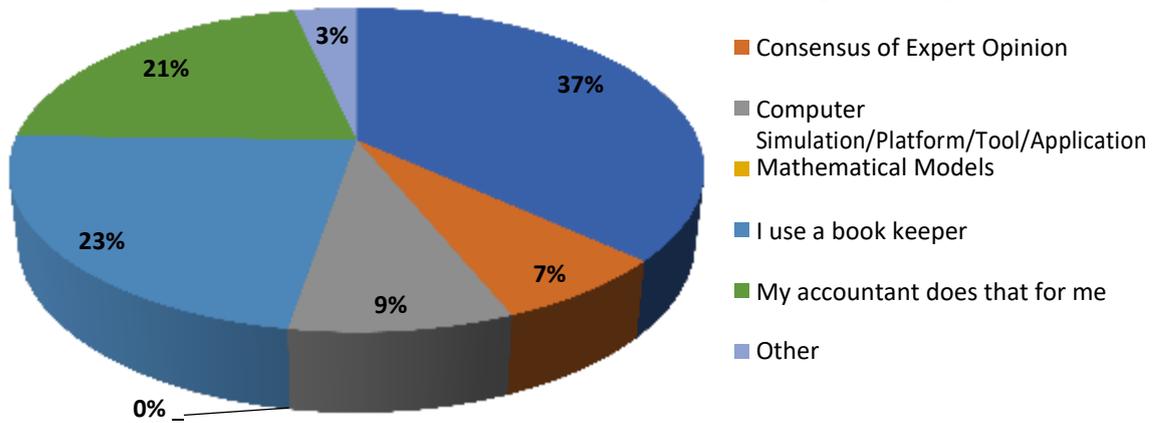


C.2 Did you get any advice from external partners / accountants before getting your financial resources?

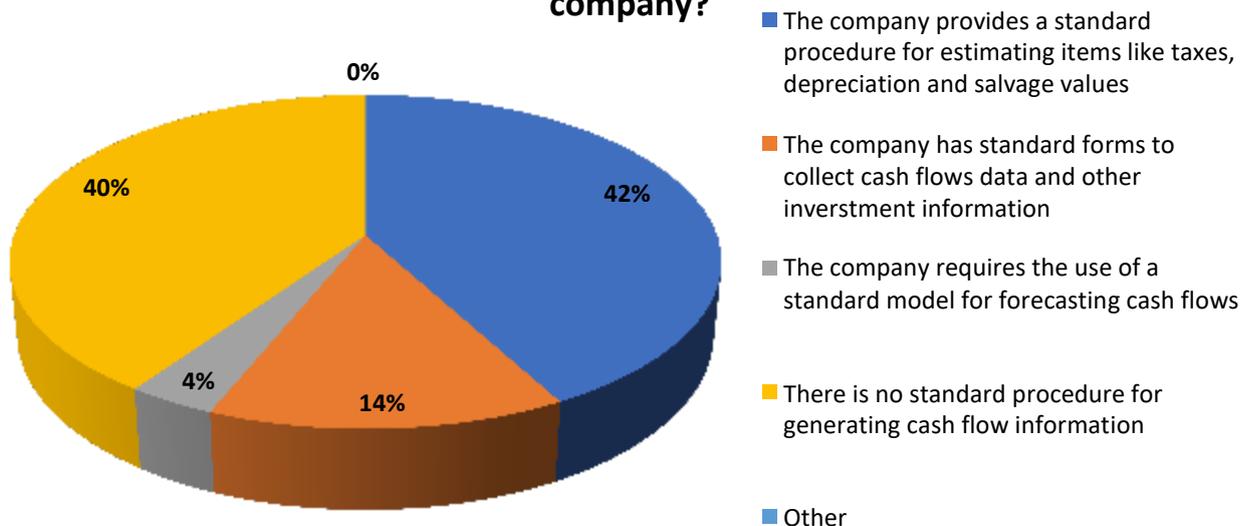


SECTION D

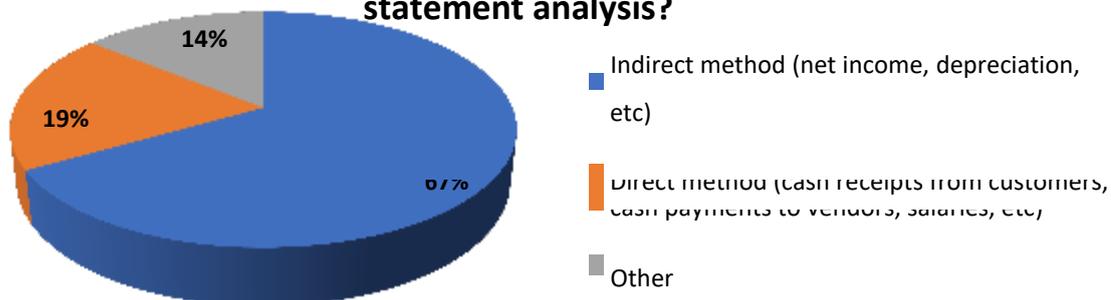
D.1. Which method do you use to estimate your inflows and outflows?



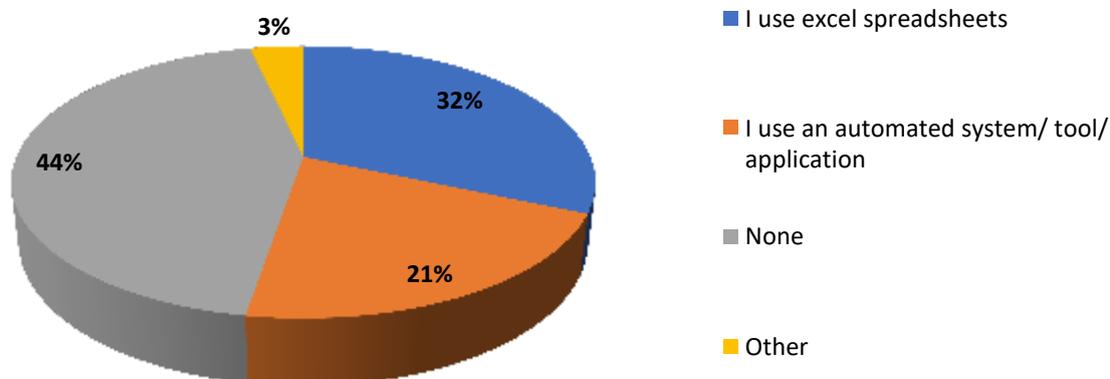
D.2. Which of the following sentences is true for your company?



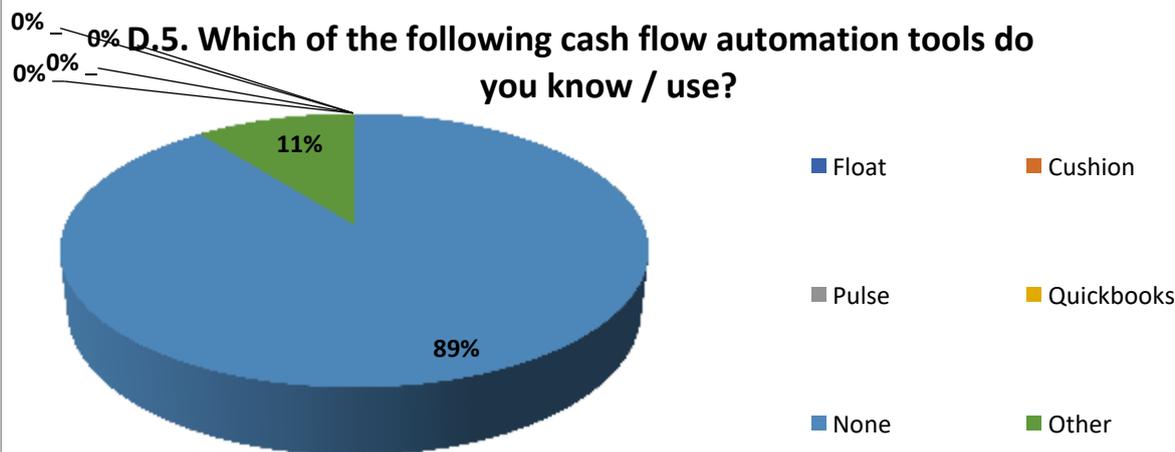
D.3. Which method do you use to deliver your cash flow statement analysis?



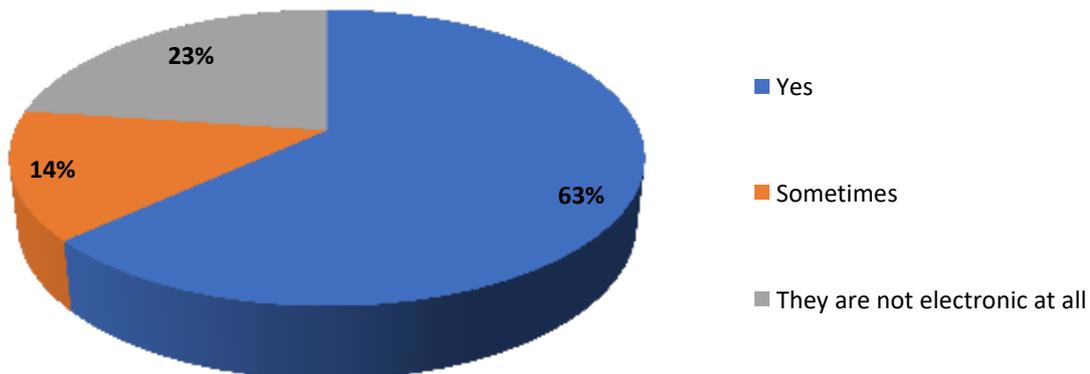
D.4. How do you calculate your cash flow ratios?



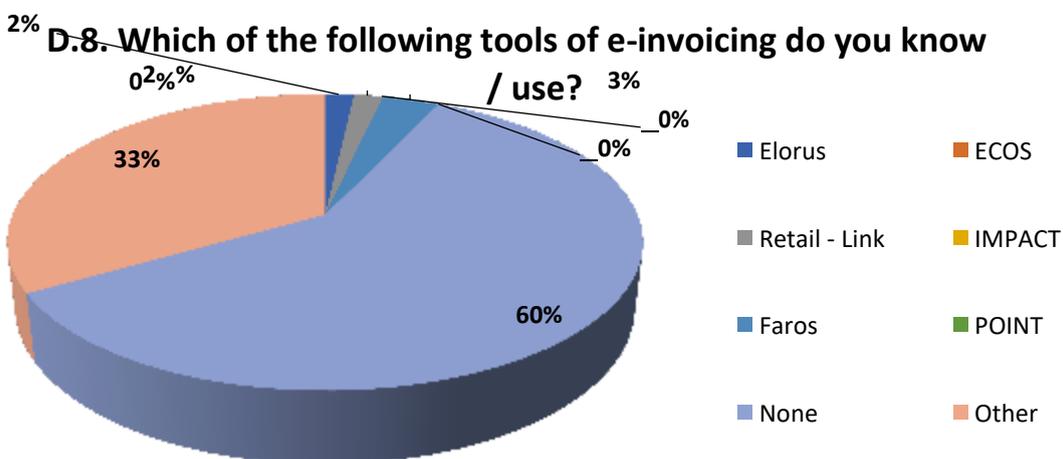
D.5. Which of the following cash flow automation tools do you know / use?



D.7. Are your invoices fully electronic?

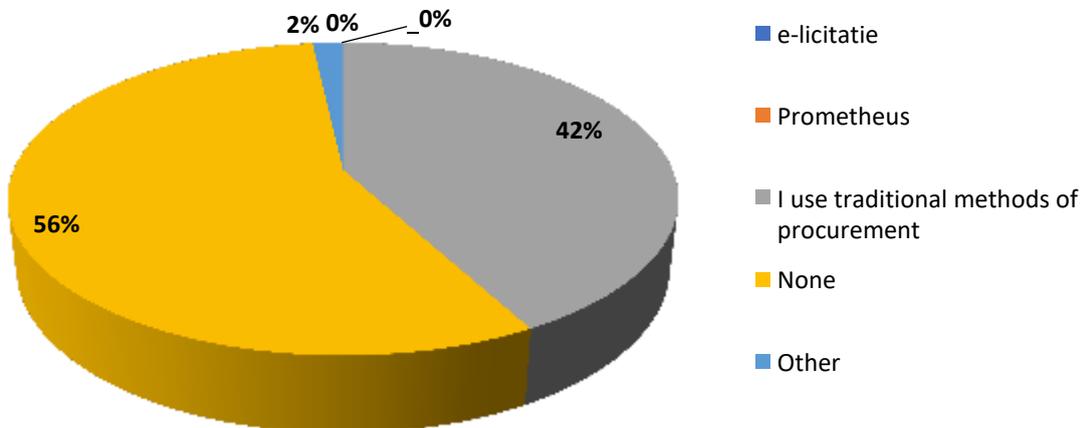


D.8. Which of the following tools of e-invoicing do you know / use?

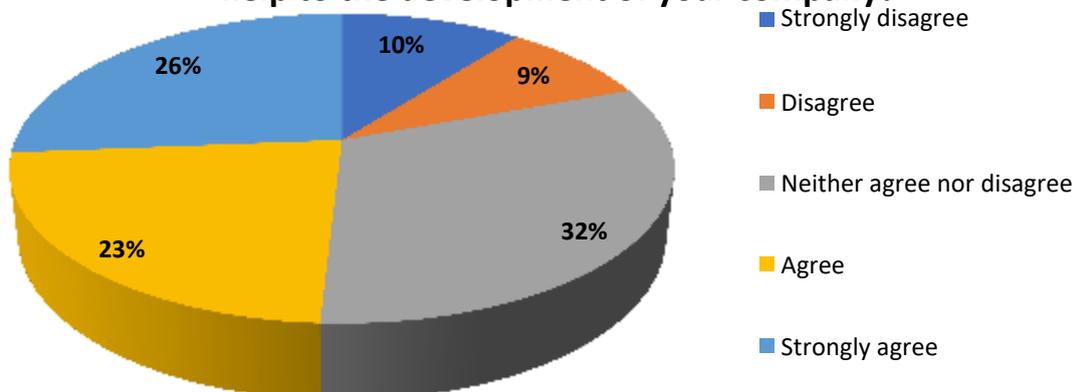


SECTION E

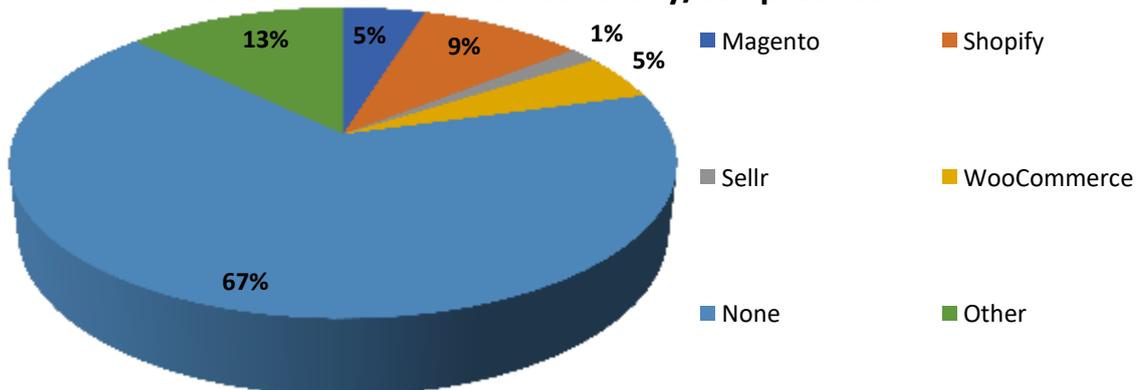
E.1. Which of these e-procurement systems do you use?



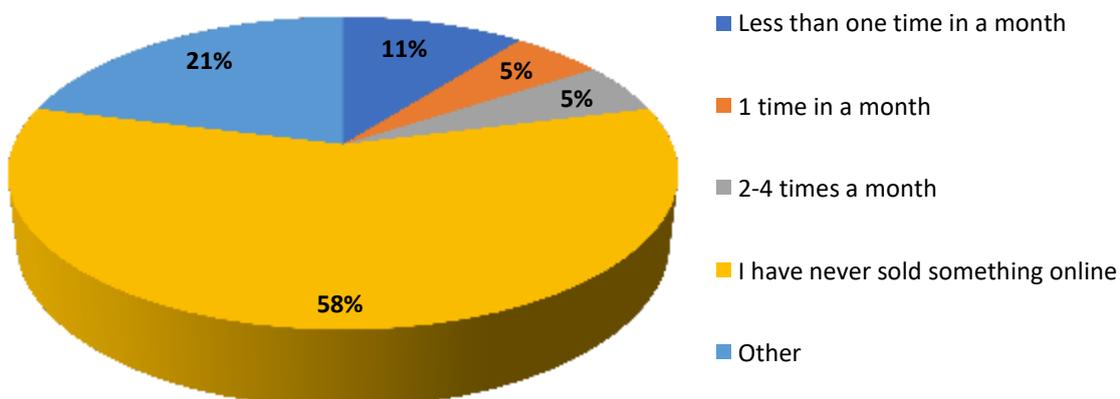
E.2. Do you agree that the integration of e-commerce can help to the development of your company?



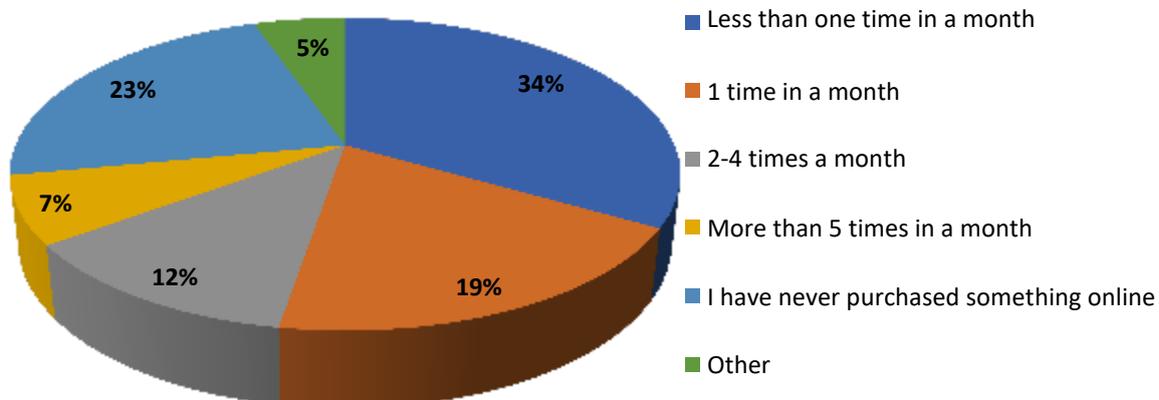
E.3. Which of the following e-commerce platforms do you use or would like to use to buy/sell products?



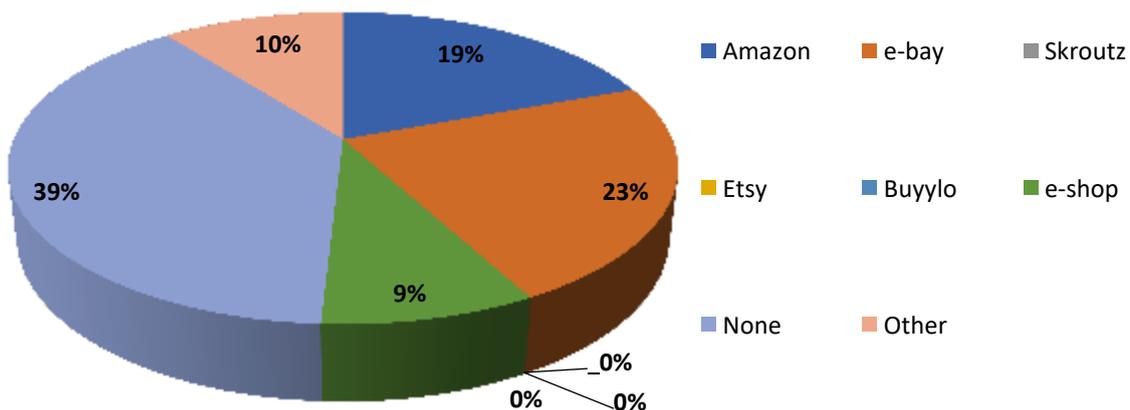
E.4. How often do you sell your products online?



E.5. How often do you purchase online?



E.6. From which e-shop do you buy the most?



Conclusion

The results from the survey reveal several interesting findings from which the following conclusions can be drawn.

From a demographic point of view, the gender balance among Croatian entrepreneurs is tipped in favour of women. Moreover, most of the entrepreneurs are not new to the game but have already been in business for more than 3 years and employ between 1 and 5 people. Business consultancy and Tourism are the most popular sectors, reflecting in part the nature of the Croatian industry which is heavily reliant on Tourism and services.

From a liquidity perspective, Croatian entrepreneurs are usually in charge themselves of creating the cash budget and rarely seek external advice. Their preferred electronic tool remains Excel, although a significant minority does not even bother creating a cash budget at all, which is a telltale sign of how low on the priority list is liquidity as perceived by entrepreneurs in Croatia. This can also be deduced by the frequency of updating the budget, which most often happens monthly or quarterly.

From a financing perspective, it was expected from a traditional and bank-centric system such as Croatia to offer very little opportunities for financing outside of the immediate circle of friends and family in addition to the entrepreneurs' own devices, a finding confirmed by the survey results. Some efforts have been made to receive subsidies from EU sources, but they are few and far between. Interestingly – and in complete contradiction to a previous claim evidenced by the respondents – Croatian entrepreneurs did consult external advisors before obtaining their financial resources.

With regards to Cash flow management, the subjective perceptions of management are still the predominant force influencing the estimation of liquidity. A fragmentation has revealed itself when cash flow management procedures are concerned, as almost half of the companies under scrutiny have a standard estimation procedure, some of them accompanied by forms and models, while the other half reports not having a procedure at all, demonstrating how polarized the situation in effect is. The indirect method is mainly used when creating the cash flow statement, while liquidity ratios are usually just a byproduct of the analysis and not calculated for their own value. Cash automation tools are rarely, if ever, used and present a big potential for efficiency improvement in the upcoming period. Despite all of the above, entrepreneurs in Croatia had no trouble raising significant amount of funds in order to develop their business ideas, meaning that a project such as B-CAPP can significantly improve their awareness levels of alternative sources of financing available to them.

Finally, the ICT-enabled business environment shows signs of still being in its nascent stages with tremendous opportunities for growth. Procurement, as well as both buying and selling are still done in a traditional manner, although a critical mass has already adopted some purchasing habits online and they are the ones leading the ICT adoption trend. Those who have already converted to using smart ICT tools use them frequently, however, a significant number of respondent remains disinterested in the opportunities for growth, increased competitiveness and higher profits such tools offer.

In conclusion, it is exactly for this reason that B-CAPP can fill a large void in Croatia, as entrepreneurs lack both a firm grasp of financial concepts and a commitment to digital transformation, a situation which can be significantly improved by their participation in the remaining activities envisioned as part of the B-CAPP strategic partnership.

