Contemporary Forms of Financing for Small and Medium-sized Enterprise: Country Case Study of Croatia

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Abstract **- The paper analyzes the financing of small and medium enterprises (SMEs) in the Republic of Croatia. The fundamental goal of the paper is to determine the most common forms of funding sources used by entrepreneurs classified as SMEs, as well as the advantages and disadvantages that each financing model brings. The article pays special attention to financing methods that are less known to the average Croatian entrepreneur, such as peer-to-peer lending, initial coin offering, and security token offering. Unlike the banking system, which serves as an indirect financial system, modern forms of financing allow SMEs to raise funds directly from borrowers. To obtain the most relevant information from practice, the article presents the results of conducted research on financing models for SMEs in Croatia, with a particular focus on the awareness of entrepreneurs about new and contemporary forms of financing. Research was carried out in the form of a survey questionnaire created using Google Forms.**

The sample for the research consisted of 145 SMEs companies, selected to represent the population from various sectors of activity according to the national categorization of activities, from which 14.48% responded to the survey questionnaire. Research showed a higher rate of awerenes and the utilization of traditional forms of financing compared to modern ones. However, it also indicates a certain readiness to embrace the latter. Although the share of modern forms of financing remains small, research revealed that they constitute an appropriate alternative to traditional banking systems, both as a relatively solid investment channel and as a way to obtain loans with convenient terms.

Keywords - Financing, small and medium-sized enterprises, blockchain, crypto.

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1. Introduction

In today's dynamic market, small and medium-sized enterprises represent engines of progress in both economic and business terms. By market representation, they constitute over 99% of total businesses in the European Union, as well as in Croatia. The significance of SMEs is demonstrated by data showing that the majority of the population is employed in small and medium-sized enterprises, while a slightly smaller number is employed in large enterprises. The dominant number of innovations originates from small businesses, which serve as idea incubators that form the basis for their lifespan and economic growth. For their active and adequate growth, small and medium-sized enterprises require financial resources to provide financial support and become market competitive. SMEs largely turn to traditional forms of financing, such as loans, leasing, or the entrepreneur's own capital investment. With globalization, newer, more contemporary forms of financing emerge, offering Croatian entrepreneurs the possibility of alternative funding for their entrepreneurial ventures.

Since these forms of financing are relatively new to the Croatian market and entrepreneurs, the aim of this work is to attempt to familiarize themselves with these new forms of financing, outline their advantages and disadvantages, and provide a broader view on financing or capitalization.

2. Small and Medium-Sized Enterprises

Small and medium-sized enterprises (SMEs) are key drivers of economic and business development in Croatia and the European Union. According to EU data, SMEs make up 99% of all businesses in the EU and provide two-thirds of private sector employment. Furthermore, they are responsible for more than half of the total value added by companies in the EU. Various action programs have been adopted to improve the competitiveness of SMEs through research and innovations [1]. The mentioned category of companies is considered an innovation incubator, as the majority of inventions and new patents originate from them. Innovations are acknowledged as a key element of competitiveness, and their significance becomes even more pronounced due to modern processes such as increased technological capabilities, rapidly changing customer demands, increased global competitiveness, and shorter product life cycles [2]. SMEs in Croatia have an equally important status as in the EU, with more than 99% of Croatian companies belonging to this category. In addition to employment, generating economic development, and fostering innovation, SMEs also play a crucial role in networking. Since SMEs employ fewer employees, they are inherently connected to their surroundings, customer needs, and the community. This means that SMEs are directly linked to the communities in which they operate and provide jobs at the local level, primarily employing local residents. They have a stronger connection with local suppliers and consumers than large entrepreneurs and demonstrate greater social responsibility. Due to this community connection and their understanding of it, SMEs almost always have an advantage in investment, career development, infrastructure improvement, job protection, and have the opportunity to directly and actively influence overall quality of life in the communities where they operate [3].

2.2. Definition of the Term SMEs and its Categorization

There is no single definition that applies to the concept of small and medium enterprises (SMEs). Instead, it is expressed through categorization, which defines the criteria that SMEs must meet. In Croatia, categorization is regulated by several laws, and in this paper, the Law on the Promotion of Small Business Development will be presented. The Law on the Promotion of Small Business Development has been in effect since December 31, 2016, and according to it, small businesses in Croatia are classified into three categories: micro, small, and medium enterprises [4]. This classification is observed through indicators that are determined on the last day of the business year, which in turn precedes the financial year for which financial statements are prepared and based on which the size of the enterprise will be defined. This is determined in relation to three indicators:

- number of employees/workers,
- business revenue,
- total assets.

The smallest business entities according to these indicators are microenterprises. Microentities of small businesses are natural and legal persons that, on average annually, employ fewer than 10 workers and, according to financial statements, generate annual business revenue equivalent to 2 million euros or have a total asset or long-term asset value equivalent to 2 million euros. Small business entities are natural and legal persons from Article 2 of the mentioned law who, on average annually, employ fewer than 50 workers and, according to financial statements for the previous year, achieve annual business revenue equivalent to 10 million euros or have a total asset value equivalent to 10 million euros if they are subject to corporate income tax. In addition, if they are subject to personal income tax and have long-term assets of the same value, they are classified in this group. The third group of SMEs in this classification is a medium-sized enterprises, which is also the largest in this division. According to the aforementioned law, medium-sized entities of small businesses are natural and legal persons whose annual average number of employees, total annual turnover, or sum of balance sheets, i.e. long-term assets, exceed the defined thresholds.

2.3. Financing Small and Medium-Sized Entreprises in Croatia

Small and medium-sized enterprises (SMEs) often face challenges and difficulties in obtaining financing or financial resources. Many traditional lenders hesitate to provide loans or consider certain financial resources to smaller businesses as riskier, leaving SMEs with limited access to initial or additional capital.

Consequently, financing becomes a crucial issue for SMEs, as their lack of it can jeopardize or slow down the company's growth and hinder them from realizing their full potential. Sources of funding are very important for SMEs, as companies that do not follow financing trends lag behind competitors in the market and struggle to meet the modern demands of dynamic business. Relatively easy access to sources of funding has a multiple impact on SMEs' operations, primarily showing that companies that more easily and inexpensively obtain funding will gain an advantage over the competition. On the other hand, access to financing is crucial in crisis situations where companies face liquidity problems and have difficulty meeting obligations, as well as problems with overall business operations. Sources of funding are also significant in terms of innovation and progress, as every innovation requires certain financial investments and support in order to be adequately developed, and thus create a sustainable competitive advantage. Therefore, it is possible to conclude that the financing of SMEs is one of the most important elements that depends on the entrepreneurial climate developed by the state with the help of its legal and regulatory framework, which ultimately contributes to general economic growth. This will be evident as economies with better access to funding sources achieve better results. Historically, the most common form of financing for SMEs in Croatia has been loans that companies have used to finance their operations, settle debts, and enable further growth and development. This form of financing falls into the category of traditional forms of financing, in which banks play a central role in financing the SME sector in Croatia. Bank loans have become increasingly accessible to the SME sector due to a reduction in interest rates, and special programs for small entrepreneurs have been created through state institutions such as HAMAG BICRO, as well as various co-financing lines available from EU funds.

3. Contemporary Forms of Financing SMEs

With the development of global markets and economies, newer forms of financing have emerged that provide SMEs with access to capital. The need for more contemporary forms of financing arose due to the inaccessibility of traditional methods and the increasing legal barriers that hindered small businesses from easily obtaining funding. Increased bureaucracy, credit ratings, and financial credibility assessments are conditions that SMEs often struggle to meet to secure loans.

One of the driving factors for the need for newer forms of financing is the applicable nature of the economy and the growing complexity of business operations. Companies operate on a global scale and are increasingly driven by technology, requiring more sophisticated forms of financing to support their operations. The evolving regulatory environment is another factor that prompts the need for more modern forms of financing. Financial regulations have become stricter, especially after the global financial crisis of 2008. This has led to the need for new forms of financing that can comply with these regulations while providing companies with access to the capital needed for growth. The most significant difference that modern forms of financing bring is on the side of the creditor. Increasingly, these are individuals, or private persons, who lend their surplus capital to small businesses in exchange for a certain return. This form of financing allows individuals to directly lend money to SMEs, often at lower interest rates than those offered by traditional banks. There are several reasons why individuals become creditors of SMEs, with the main one being the potential for higher returns compared to traditional savings or investment funds. By providing loans directly to small and medium-sized enterprises, individuals can earn interest on their investment that is often higher than what they could earn through savings accounts or other investment options. With the development of the Internet and increased IT literacy among entrepreneurs, networks are emerging that facilitate the connection between entrepreneurs and potential investors, or individuals willing to invest their money in the development projects of companies. The most well-known method is Crowdfunding, which raises money to transform a business idea into a realized project or to support the growth of an existing functional business [5]. Furthermore, a very similar concept based on lending specifically is peer-to-peer lending (P2P), which will be further described below.

3.1. Peer-to-Peer Lending (P2P)

In recent years, peer-to-peer lending (P2P) has become increasingly popular as it offers several advantages over traditional lending models. P2P lending can be defined as direct financing between individuals without the involvement of financial institutions. The intermediary is only the website or one of the platforms that directly connect borrowers with investors [6]. The investment side of the model allows for a faster and more transparent process of accessing financial resources, while on the investment side, it provides the opportunity for higher returns (interest) compared to a bank deposit.

The benefits it offers lenders include portfolio diversification and the opportunity to diversify their investment portfolio and potentially achieve higher returns than traditional savings accounts or investments. P2P lending platforms typically offer a transparent and user-friendly borrowing process, with clear loan terms and repayment schedules, along with the ability to monitor loan performance and returns in real time [7]. However, P2P lending also comes with certain risks and challenges. Lenders are exposed to higher credit risk as borrowers often have lower credit ratings compared to loans obtained from banks. This means that borrowers may be subject to higher interest rates if they have poor creditworthiness or other risk factors, and lenders may face a greater risk of nonpayment or loss if borrowers cannot repay their loans. Furthermore, P2P lending platforms are typically not insured by governments or government agencies, which can increase the risk of financial loss for both borrowers and lenders. For these reasons, P2P financing may not be possible in some countries [8]. For small and medium enterprises, P2P lending provides an alternative approach to financing that is easier to access than traditional bank loans, which can be difficult to secure due to strict lending requirements. It also offers faster funding compared to traditional sources, as investors can review and approve loan requests more quickly than banks. It enables them to diversify their sources of funding, reducing their reliance on a single source, and potentially lowering risk. By participating in P2P financing, small and medium companies can increase their visibility and credibility, as they can showcase their business and attract investors through online platforms. However, P2P financing for small and medium enterprises also comes with risks and challenges. SMEs must have a valid business plan and credit history to attract investors, and investors may face a higher risk of non-compliance or loss if the company cannot repay the loan. Furthermore, P2P financing platforms are not insured by government agencies, which can increase the risk of financial loss for both SMEs and investors [9]. In Croatia, peer-to-peer lending is allowed, providing a benefit that Croatian entrepreneurs can enjoy. The P2P platform was launched in Croatia with the aim of providing support through which investors can easily and transparently invest in quality receivables. The first peer-to-peer financing platform in Croatia is P2P Finance. Breitenberger, [6] emphasizes that the goal is to enable the smooth operation of an alternative financial market that seeks to complement the unfavorable banking system and facilitate access to financial resources.

On the other hand, it aims to become the most profitable investment in the fixed income investment segment. The platform brings together companies in need of short-term financing for their operations and companies with surplus liquidity looking to invest their money. It offers financing recipients loans and receivables purchases with a simple click of a mouse, and provides buyers with a profitable investment opportunity [10].

3.2. Blockchain and DeFi

DeFi, or Decentralized Finance, is one of the systems that can assist SMEs in financing. This term refers to a new financial system built on blockchain technology that aims to provide decentralized and open access to financial services. In other words, it is an application that performs various types of financial transactions traditionally handled by banks or brokerage firms. DeFi eliminates intermediaries, potentially giving users greater control, flexibility, faster transactions, and lower costs [11]. The idea and motivation behind the application are similar to Bitcoin: as an alternative and improvement to the current financial system. The services currently offered through DeFi are the same as those of the traditional economy (savings, borrowing, lending, and insurance). These services are more transparent, accessible to everyone, more efficient, and not controlled by large centralized entities such as banks [12]. Anyone with the Internet access can use DeFi applications, provided they have an Ethereum wallet and Ethereum cryptocurrency. The application is built on blockchain technology, which is decentralized and permissionless, which means that anyone can access and use them without the need for an intermediary. However, it is important to note that some DeFi applications may have specific requirements or limitations depending on the platform or protocol. For example, some DeFi applications may require users to have a minimum amount of cryptocurrency or meet certain criteria to participate in a specific transaction or feature [13]. In addition to interoperability, DeFi is characterized by openness and transparency. All transactions on the DeFi network are transparent and publicly visible on the blockchain, providing users with complete visibility into the financial system. They are also highly programmable, allowing developers to create complex financial instruments and smart contracts that can automate the execution of financial transactions. Regardless of geographical location, financial status, or identity, DeFi applications are accessible to everyone.

Universal accessibility implies that DeFi applications can provide a financial services advantage to people who do not have access to banking services. According to research conducted by the World Bank's Global Partnership for Financial Inclusion, in 2021, 1.7 billion people in developing countries did not have adequate access to financial resources, and these are precisely the social segments that DeFi aims to "cover" [11]. The negative side of DeFi arises from the use of blockchain networks and applications that do not require intermediaries. This primarily results in greater responsibility for each investor and user, as once transactions are conducted, they cannot be reversed. Potential dangers lurk due to user ignorance or technical errors, such as sending the wrong amount or to the wrong recipient. Wallet breaches often occur because people handle their own private keys carelessly, which essentially constitute the wallet itself [13]. Problems arise with scalability, manifesting as slow transaction processing and transactions requiring an incredibly long confirmation time, which is not the case with other applications. A critical factor in DeFi-based projects is liquidity. The market has not yet been fully recognized as traditional forms of financing, and individuals find it difficult to place their trust in a sector that does not have as much history as conventional financial sectors [14]. Decentralized Finance (DeFi) presents a unique opportunity for entrepreneurs to build innovative financial applications that can disrupt traditional finance. It enables entrepreneurs to create financial products and services without the need for costly licenses, regulatory approvals, or partnerships with traditional financial institutions. Since DeFi is built on blockchain technology, entrepreneurs can reach a global audience with their products and services without the need for a physical presence or local infrastructure. Furthermore, DeFi protocols allow entrepreneurs to create financial products and services that can be programmed with smart contracts, enabling automation and reducing the need for intermediaries. As a result, companies become more transparent, which can increase trust between parties and reduce the risk of fraud or disputes [15]. Ultimately, it is important to note that DeFi is still a relatively new and rapidly evolving field, with many technical, regulatory, and security challenges to overcome. Entrepreneurs looking to enter the DeFi space should thoroughly research the market and carefully consider risks and opportunities before investing time and resources in their projects.

3.3. Initial Coin Offering

The form of financing used by small and medium-sized enterprises, especially start-ups, to raise funds for their projects or products is called Initial Coin Offering (ICO). ICO is the cryptocurrency industry's equivalent to an Initial Public Offering (IPO) in traditional finance. A company seeking to raise funds to create a new coin, application, or service can initiate an ICO as a means of fundraising [16]. The rapid rise of Ethereum, a blockchain platform that facilitated the creation of new tokens and smart contracts, greatly contributed to the widespread use of ICOs [17]. Ivanković [18] emphasizes that ICO often (but not always) resembles crowdfunding. This is suggested by the word "coin" in the acronym. It functions on the principle of collecting small contributions from a large number of people. With increasing interest in digital currency and more experimentation with it, the number of digital currency owners is growing. As the number of digital currency owners grows, so does the desire to invest a small amount in an uncertain innovation or startup, as the loss is not significant, but the potential gain, if successful, can be substantial. An ICO is also associated with an initial public offering (IPO), but it is important to note key differences. In an IPO, shares of a company are bought, while in an ICO, tokens representing various elements within the project's ecosystem are purchased (e.g., utility, value, stake, voting, etc.). In an IPO, founders have to give up capital, while in an ICO, they do not have to, and IPOs are legally regulated while ICOs are not, which opens up the possibility of fraud due to the absence of legal regulation. Furthermore, for financing, IPOs require an intermediary, while in an ICO, an investor can directly contribute to the project through a nominal cryptocurrency, such as Ether [17]. According to Frankenfield [16], some characteristics of ICOs include a limited timeframe, high risk, and ownership rights. ICOs have a time frame for investor participation, after which the token sale closes and no more tokens are issued. Furthermore, they do not confer ownership rights; instead, investors receive tokens representing a share in the project's ecosystem. This characteristic also involves high risk. Since projects are often unproven and there is no influence on them due to the lack of ownership rights, ICOs are risky and tokens may have no real utility or value. Furthermore, there is no legal regulation, which adds to the uncertainty of investments. However, there are initiatives in individual countries to promote the popularization of the ICO funding model. A positive characteristic that stands out is liquidity.

Tokens issued through ICOs can be traded on cryptocurrency exchanges, providing investors with liquidity and the ability to exit their positions. The straightforward funding procedure allows every project to obtain funds and financial assistance [19].
On the negative side, regulatory uncertainty and lack of transparency are emphasized. The regulatory landscape for ICOs is currently uncertain and many countries are struggling to define the legal status of tokens and the responsibilities of ICO issuers, increasing apprehension about investing in tokens or using this form of funding to achieve company goals. Some ICOs have been criticized for their lack of transparency, with inadequate disclosure of project goals, technical specifications, and fund allocation, leading to certain consequences. Primarily, these are frauds and manipulations. The ICO market is also affected by fake projects, where some issuers exploit the hype to raise funds without any intention of fulfilling their promises. It is also important to highlight market volatility, where the value of the token can vary greatly, resulting in significant losses for investors [16]. ICO can be an attractive form of funding for small and medium-sized enterprises, as they provide an opportunity to raise capital without the need for traditional intermediaries, such as banks. Due to weak or nonexistent regulation within the legal framework of this funding model, ICO experienced a significant decrease in activity in the second half of 2018 and throughout 2019. Regulatory uncertainty and increased oversight by regulators worldwide made it difficult for ICOs to operate in many countries. Some countries, such as China and South Korea, completely banned ICOs, while others imposed stricter regulations. Additionally, the market became overwhelmed with a large number of scams and false offers, which eroded investor trust and made it difficult for legitimate ICO projects to raise funds [16]. Although the ICO market has experienced a downturn in recent years, it is still possible that it experiences a resurgence in the future if regulatory frameworks become clearer and investor confidence is restored.

3.4. Security Token Offering

With the weakening of the ICO market, a new opportunity has emerged for online investors who deal with tokens and cryptocurrencies. A similar funding method to an ICO, enabling digital financing while complying with state regulations, is called Security Token Offering (STO). STO is a unique token issued on a blockchain, either permissioned or nonpermission, representing a share in external assets or a company.

Entities such as organizations and companies can issue security tokens that serve the same purpose as stocks, bonds, or other securities [20]. Therefore, STO was created in response to the bursting of the ICO bubble, after the capitalization of the crypto market fell by more than 750 billion dollars. Regulatory bodies began to emphasize safer laws for tokens, and STO was created as a token that complies with relevant laws and regulations for securities [22]. Tokens are registered with securities regulators and are subject to the same rules and regulations as traditional securities offerings, such as initial public offerings (IPOs) or private placements. Burchfiel [21] emphasizes the security of security tokens through issued share certificates. For stocks, ownership data is recorded in a document as an official ownership certificate, while with STOs, similar transactions are recorded on the blockchain and represented as tokens. This is also the biggest difference between an initial public offering (IPO) and a STO. Both represent an investment in a company, but STO offers greater flexibility in presenting assets compared to IPOs. Additionally, STO is more cost-effective due to lower fees, and the company offering tokens does not need to be fully accessible to the public, making it ideal for companies looking to secure investors for specific projects. STO has several characteristics that distinguish it from other fundraising methods in the cryptocurrency and blockchain space. First, there is the aforementioned compliance with securities regulations, meaning that tokens are subject to regulatory bodies. Supported by real assets, unlike many Initial Coin Offerings (ICOs), which can be based on speculative concepts or ideas, STO is backed by real assets such as a company's capital, profit, or other property. This makes them less speculative and potentially more attractive to investors [22]. Furthermore, they are characterized by access to a global base of investors. Since security tokens are issued on the blockchain, investors around the world can access them, potentially increasing the pool of investors for a particular offering. This, in turn, increases transparency. Some of the advantages of security tokens over traditional financial instruments include access to trading and partial ownership. Trading, that is, investing, is possible 24 hours a day. On traditional securities exchanges, trading occurs during sessions in different regions, and, moreover, there is no trading on weekends and holidays. STO allows you to purchase tokens at any time frame and from anywhere in the world. From a company's perspective, security tokens make investment more accessible to small investors.

All transactions on security tokens do not require intermediaries, brokers, or similar financial entities, reducing investment costs that undoubtedly benefit investors and companies. In addition, a significant advantage is the high liquidity compared to traditional forms of financing. Tokenization makes assets more accessible to small investors, increasing liquidity. Tokens are easy to sell and buy because there is always demand and supply for them, and according to some statistics, the value of a company using tokens increases by 40%. Ultimately, as an advantage, it is necessary to highlight the creation of an ecosystem of interconnected services that are aligned and fully automated [23]. The negative aspects of this form of financing are related to the relatively new market. As such, nothing has been extensively tested, increasing the risk to investor operations. Additionally, experience and experts in this field are required to introduce individuals to this form, as STO requires technical expertise to design, develop and issuing tokens, which can be a challenge. As a disadvantage, there is a demand for investors in security tokens that is still relatively small compared to traditional securities, which can limit the issuer's ability to raise funds through STO. Furthermore, the value of security tokens can be subject to market volatility, which can lead to fluctuations in the value of the underlying assets and impact investor confidence in the tokens. Creating a secure and suitable platform is a complex process, which means bringing in intermediaries to manage the platform and tokens. This also entails a higher cost. However, the advantage of using a reliable partner is that it can avoid dealing with a complex technological framework and continue to create value through its business operations [24].

4. Research

Research was carried out in the form of a survey questionnaire created using Google Forms. Through this tool, data and information about entrepreneurs was collected, which were later graphically represented and analyzed. The primary objective of the research was to examine the forms of financing that entrepreneurs use in their business and to what extent they are familiar with the contemporary forms discussed in the paper. The sample for the research was defined before the study was conducted. Of the total number of companies in Croatia, 145 were selected to represent the population on the basis of which conclusions could be drawn. The selected companies were from various sectors of activity according to the national categorization of activities, in order to obtain a broader picture of the population of Croatian entrepreneurs and to include different sizes of companies based on the criteria of company size.

The target group consisted of small and medium-sized enterprises registered in Croatia. The desired response rate through the survey questionnaire was 12%, which means that responses were expected from at least 18 companies. In the end, 21 companies, or 14.48% of entrepreneurs, responded to the survey questionnaire. The research was conducted from June 3 to July 1, 2023, as previously mentioned, using Google Forms. After creating the questionnaire, an invitation was sent to complete the survey to the entrepreneurs whose companies were included in the list. The list was compiled with the help of the official FOI (Faculty of Organization and Informatics) website, which featured companies collaborating with the Faculty in order to potentially increase the number of responses. Additionally, companies not affiliated with the faculty were included in the list to provide a wider range of responses and enhance the diversity of participating companies in the research. The questionnaire was sent to the companies' representatives by email and before they began responding, the respondents were briefed on the research. At the beginning of the survey, there was an introductory section that presented the research topic, the reasons for conducting it, and the research objectives. The respondents were informed that their participation was voluntary and not obligatory and that the questionnaire was completely anonymous, which means that they would not have to provide any private or confidential information about their company. Furthermore, respondents were assured of the security of their data, and it was clearly stated for what purposes the data would be used and processed. Additionally, there was an option to send the research results to all respondents who were interested in knowing the survey findings after the data was analyzed.

4.1. Research Results

All companies that completed the questionnaire fall into the category of small and medium enterprises. Of the total, 13 of them are classified as micro-enterprises, 5 as small, and 3 as medium-sized enterprises (Figure 1.)

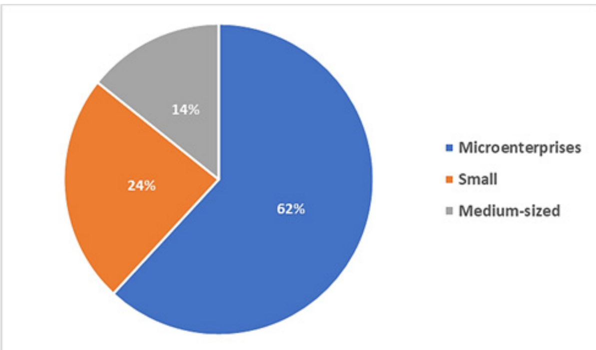

Figure 1. Company size

The first part of the research focused on basic company information to roughly define the criteria for later filtering of responses. Initially, the respondents provided information about the size of the company, the industry group to which they belong, the age of the company, and how the establishment of the company was financed. The size of the company was discussed in the previous section and the results of the responses regarding the industry group are shown in Figure 2.

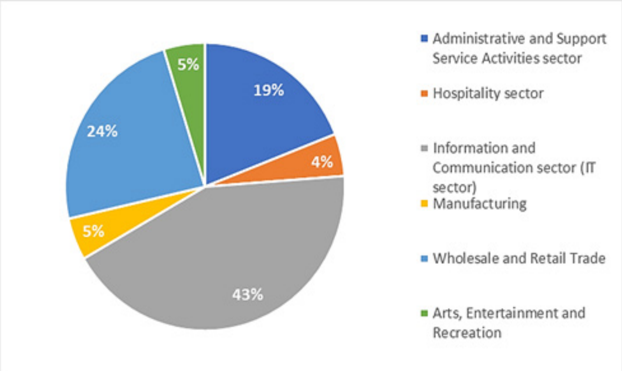

Figure 2. Company activity

Participants in the investigation were offered the option to choose the type of activity they perform according to the sectors of the National Classification of Activities for 2007. The largest number of research participants came from the Information and Communication sector (IT sector), nine of them, which represents 42.9% of the total sample. The second most represented sector is Wholesale and Retail Trade, to which five companies, or 23.8% of the total, belong. The next sector in terms of the number of research participants is the administrative and support service activities sector, which includes 4 participants. Other sectors to which research participants belong are the arts, entertainment and recreation, manufacturing, and hospitality sector. The survey was sent to a relatively equal number of companies/representatives from each sector of activity. It can be concluded that participants in the IT sector provided the highest response rate, while some sectors did not provide feedback. However, the expected response rate was achieved and the research can be considered representative. This question is important for the later results of the research, which will show the readiness of individual companies to use modern forms of financing based on the sector in which they are in. The next question provides answers to the extent to which newer and younger companies are more ready for new financing models compared to older companies, or vice versa. Figure 3 shows the percentage representation of companies within defined age limits.

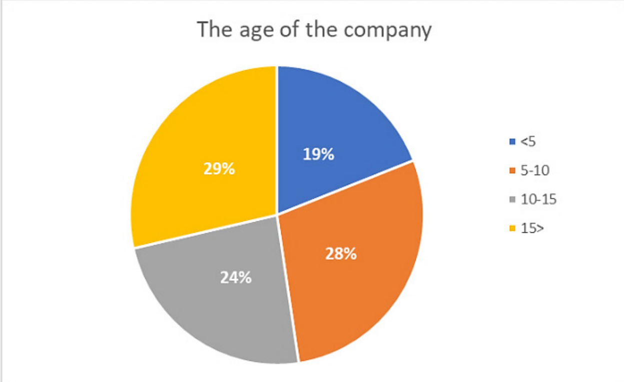

Figure 3. The age of the company

According to Figure 3, the largest number of companies (29%) is older than 15 years or in the range of 5 to 10 years (28%). The third-most represented number of companies falls within the range of 10 to 15 years (24%), while the smallest number is in the range of up to 5 years (19%). These results demonstrate the diversity of companies in terms of year of establishment and age. It is expected that the smallest number of companies is younger than 5 years because these were the years marked by the COVID-19 pandemic and the crisis in the military-political situation in eastern Europe. The next question related to the first part of the investigation inquired about the methods entrepreneurs used to finance the initial development of their companies. Participants were offered several options that represent the most common forms of financing. They were also given the opportunity to make multiple selections to avoid restricting them to only one choice.

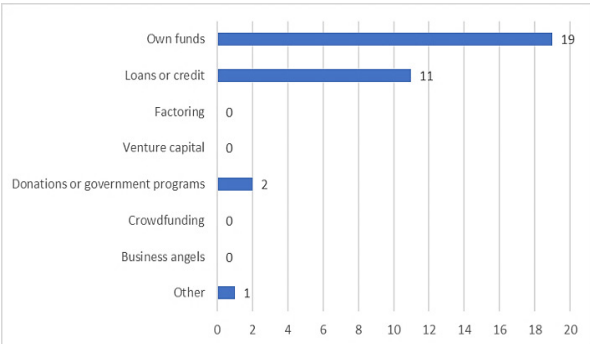

Figure 2. Forms of funding intial developement of their companies

From the data displayed in Figure 4, it is evident that the majority of entrepreneurs financed the start of their business with their own funds. As the second most common form of financing, entrepreneurs used loans or credit. A slightly smaller number (9.5%) of entrepreneurs used donations or government programs to finance their entrepreneurial venture.

In addition to the options mentioned, respondents were also offered other traditional options to finance a business venture, but they were not utilized. Business angels, venture capital funds, and modern campaigns were not the means by which Croatian entrepreneurs started their businesses or financed investments in equipment, for example. This indicates that entrepreneurs rely on their own sources of finance and do not use borrowing extensively, except for loans. Furthermore, the aim was to inquire about entrepreneurs' knowledge of traditional forms of financing and their usage, as well as to make a comparison with contemporary forms mentioned later on. Respondents were given the option of multiple choices to cover all traditional forms of financing they encountered in their business operations and funding endeavors or projects. Figure 5 shows the responses regarding the forms of financing used by entrepreneurs.

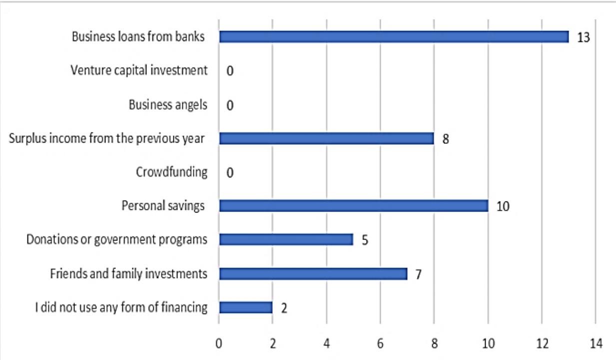

Figure 3. Forms of financing used by Croatian entrepreneurs

The highest number of responses is related to bank business loans (13), and 10 respondents say that they use personal savings as a source of project funding. Surplus income from the previous year as a form of financing ventures or projects is the third most commonly used form, indicated by eight responses, while 7 of them are associated with funding from friends or family. In the last place, the respondents classified donations or government funds as a form of financing a business venture. Financing from business angels or venture capital funds was offered as options to which respondents did not respond positively, indicating that they do not use or use these forms to a small extent. Surplus income from the previous year and personal savings are closely related forms of financing and are very prevalent among entrepreneurs. This indicates that Croatian entrepreneurs are inclined towards internal financing and, to some extent, avoid borrowing. Investments from friends and family, which serve as assistance in financing specific projects, are forms of financing used primarily by microenterprises.

When analyzing the research results in more detail, it is noticed that medium-sized enterprises, according to their size category, use bank loans more, while those in the microcategory use family investments. The assumption is that medium-sized enterprises have more capital, assets, and income than microenterprises, and to some extent, it is assumed that their projects or endeavors will require a larger amount of funding. Family investments or donations from friends are of significantly smaller amounts and are used by microenterprises to achieve a specific goal or project without incurring debt.

4.2. Results of Research on Familiarity with Contemporary Forms of Financing

The second part of the research focuses on analyzing the awareness of Croatian entrepreneurs about the opportunities offered by modern forms of financing. This section of the research aimed to examine the level of awareness and utilization of financing options, as well as their potential benefits or drawbacks. At the beginning, respondents were asked to express their level of familiarity with modern forms of financing. To facilitate the definition of financing methods, Crowdfunding, Blockchain technology, P2P lending, cryptocurrencies, Initial Coin Offering (ICO), and security tokens were listed. Responses are presented graphically in the following sections of the paper.

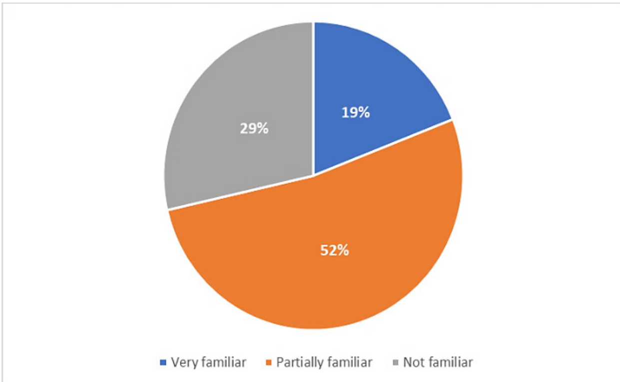

Figure 6. Level of familiarity with modern forms of financing

Of the total number of respondents, 52.4% believe that they are somewhat familiar with modern forms of financing, 28.6% of them stated that they were not familiar with them, while 19% of the respondents considered themselves very familiar with them (Figure 6). The presented results indicate that more than half of entrepreneurs are aware of the emerging forms of financing gradually enter the Croatian financial market. Almost one-third of the respondents are not informed or have never heard of these forms of financing.

When analyzing the research results, the majority of participants who are familiar with these forms come from the IT sector, while the majority of those who are not familiar with them are from the hospitality or manufacturing sectors. Additionally, those who are not familiar with these forms commonly use bank loans or state incentives as their primary means of financing, indicating their significant orientation toward traditional methods.

To the question of whether they have ever considered or used these forms of financing, 66.7% of respondents responded positively, while 33.3% stated that they have never considered them. Furthermore, the research examined which forms of funding the participants have used or intend to use, and the graphical results of the responses are shown in Figure 7.

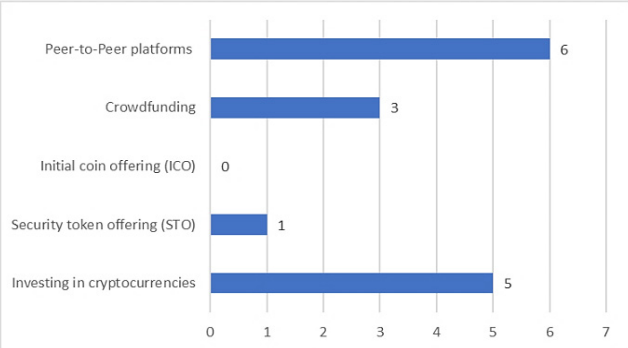

Figure 7. Forms of funding that the participants have used or intend to use

According to Figure 7., among those respondents who have used or considered the use of modern forms, the majority stated that they have considered peer-to-peer platforms and investing in cryptocurrencies. As they were given the option to choose multiple responses, group financing ranks third, chosen by 16.7% of respondents. One response was related to security tokens, while none of the participants indicated an initial coin offering. The responses are expected to some extent because cryptocurrencies are the most talked about topic in the Croatian public, and entrepreneurs are familiar with them, while the other mentioned forms are slightly less represented in the media. P2P platforms are also highly represented in responses, with the answer in P2P Finance, the first Croatian crowdfunding platform, which was advertised at its founding, and its influence in the business community has been popularized. As for the reasons for not using modern forms of financing and reasons for not exploring them, the respondents offered various responses, and the summarized responses are shown in Figure 8.

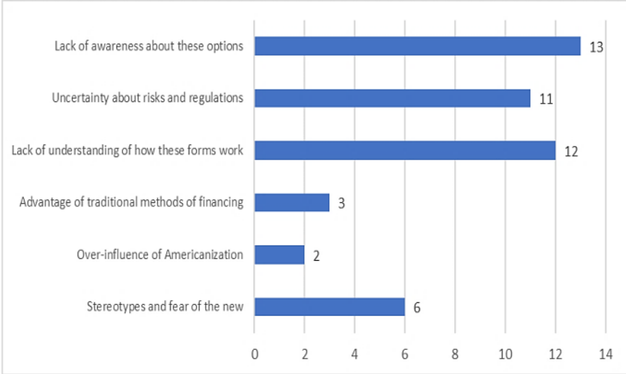

Figure 8. Reasons for not using modern forms of financing

The most common reason that respondents do not explore modern forms of financing is a lack of awareness about these options, indicating inadequate education and information about them. Of the total number of respondents, 12 stated that they do not use modern forms of financing because they do not understand how these forms work, and 11 responses were related to uncertainty about risks and regulations. Six of the responses were based on stereotypes and fear of the new, while a total of 5 responses were rooted in the perceived greater advantages of using traditional forms of financing and a concern about the overinfluence of Americanization, which they consider a drawback of these modern forms. It can be concluded that among Croatian entrepreneurs there is still a prevailing fear of the unknown and a reluctance to use financing models that are not as commonly used among other entrepreneurs. There is a reduced level of awareness, and entrepreneurs do not perceive the potential benefits, but rather hold biases against these more modern forms and, therefore, tend to avoid them. Furthermore, the study examined the willingness of entrepreneurs to adopt these forms of financing in their business. They were presented with a Likert scale ranging from 1 to 5, where a value of 1 represents unwillingness to adopt these forms, while a value of 5 indicates a high readiness to adopt (Figure 9).

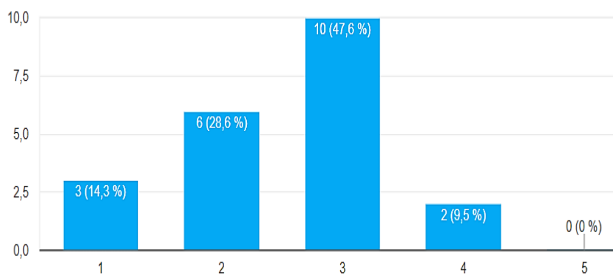

Figure 9. The willingness of entrepreneurs to adopt modern forms of financing in their business

Most of the respondents indicated that they are moderately prepared to use new forms of financing for their business ventures. When analyzing the extremes of this question, 14.3% of them are completely unwilling to adopt new forms, while none of the respondents are fully prepared to use them. Respondents who marked their willingness with a score of 4 emphasized that they are very oriented towards using modern forms of financing, and these are micro-entrepreneurs belonging to the IT sector. The average age of these entities is less than 10 years, and they are primarily funded from their own sources, thus avoiding debt. The potentially new sources of funds that are gradually emerging in the Croatian economic landscape represent a great opportunity for them to gain even more momentum and increase their competitiveness in the increasingly developed IT sector in Europe.

5. Conclusion

Research has revealed a multitude of innovative financing mechanisms that have emerged in response to the growing needs of businesses and individuals. From crowdfunding, peer-to-peer lending, to fundraising through cryptocurrencies and blockchain-based campaigns, modern forms of financing are gradually disrupting traditional financial models and paving the way for greater accessibility, flexibility, and inclusivity. In the first part of the study, which focuses on the theoretical aspect, traditional forms of financing available to entrepreneurs to support their business ventures are briefly outlined. The advantages and disadvantages of each financing model are presented objectively, along with the suitability of the model considering the business's lifecycle. The article offers more attention to the new forms of financing that are entering the Croatian financial market through globalization, offering specific advantages for small and medium companies. Additionally, all drawbacks, risks, and potential dangers that could jeopardize Croatian entrepreneurship are presented, emphasizing caution in their use. The conclusion is that modern forms of financing are undoubtedly making significant strides in the global financial market, which is also reflected in the business climate in Croatia.

The benefits and drawbacks of the analyzed forms of financing are thoroughly outlined in the paper, highlighting their potential significance for small and medium-sized enterprises. Through active and thoughtful use, these forms of financing can give entrepreneurs a competitive edge in the market. The ultimate decision to adopt them or stick to traditional methods lies with business owners or managers.

Research conducted for the purpose of a more comprehensive analysis of Croatian entrepreneurship and financing forms shows a higher rate of utilization of traditional forms of financing compared to modern ones. However, it also indicates a certain readiness to embrace the latter. Regarding financial literacy, half of Croatian entrepreneurs are partially familiar with modern forms of financing, but there is a clear need for their education on this matter. In further research, the results of this paper can serve all existing and future entrepreneurs who want to gain a deeper understanding of the forms of financing that are gradually emerging on the Croatian market. Using these forms, companies can reap significant benefits. Through a comprehensive analysis of research and industry trends, this thesis has highlighted the significant role modern financing plays in stimulating entrepreneurship, driving technological advancement, and addressing social and environmental challenges. The democratization of finance, made possible by digital platforms, has allowed small and medium-sized enterprises to access resources that were once predominantly the domain of established institutions. However, this transformation is not without its complexities, as regulatory, security, and ethical issues are not yet on par with traditional forms. The potential benefits are enormous, but they must be harnessed responsibly and ethically. This article calls for ongoing research, collaboration, and caution to ensure that modern forms of financing continue to strengthen economic growth, innovation, and sustainable development.

Acknowledgements

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