

# Training of SMEs in Croatia

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**Abstract**— The staff training is becoming one of the main brakes on SMEs development. The modern era is characterized by the constant need for expertise and training in all areas of business activities. Companies must organize their knowledge, actively manage it and develop the ability to constantly evolve the organizational knowledge. While large companies increasingly recognize the necessity of building their own knowledge database, small and medium sized enterprises (SMEs) are often doomed to outsourcing - the use of existing knowledge outside the company, where they often encounter difficulties estimating external sources of knowledge, and articulating their needs for knowledge. This makes their quest for knowledge difficult, and minimizes the application of knowledge in the development of their business. In this section, the author examines how it can support the awareness of the need for training and proactive approach to knowledge (knowledge-based view) as a driving force for innovation, growth and development of enterprises in SMEs, on a Croatian example.

**Keywords**—SMEs, Training System, Croatia

## I. Introduction

One of the most important problem in modern economy is how to improve the entrepreneurship of the small and medium sized enterprises (SMEs). One of the prerequisites is systematic training. While big companies have built training systems and methods for their employees, the problem of SMEs is insufficient amount of expertise. Most small firms does not have any Training System or very limited, if any, financial resources for the process of education. Also, there is no support for encouraging a culture of knowledge and ongoing personal development in small firms. In this way, SME's economic power is further weakened in comparison to big companies that make the rules of the world global economy.

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The lack of staff training is more obvious in developing countries, countries in transition, and in regions with insufficient economic infrastructure, insufficiently developed entrepreneurial awareness and insufficient support from public policy on national and local level. Those are the current conditions in the entrepreneur world, which are extremely unfavorable for the development of Training Management (TM) in SMEs.

## II. Background

Based on author's research carried out in a few selected Croatian institutions involved in education for entrepreneurship in the most developed region of Croatia - Istria, as well as on analysis of existing literature and policy documents that deal with this topic, this section provides an overview of the current situation and the possibilities of building TM systems in SMEs in Croatia.

The existing literature abounds with methods, advice and adequate models of building TM systems, but it seems that they are more closely adapted to large companies that have adequate financial, human and organizational resources for building a TM system, as well as the appropriate organizational culture that supports learning and continuing education. We can see the lack of adequate models of TM systems adapted for SMEs, or generally in the field of entrepreneurship.

The basic causes of this situation are shown: [6]

1. Under conditions of inadequate approach to educating process and to building the "culture of knowledge", or knowledge base in small and medium sized enterprises, and no systematic approach to knowledge and technology transfer, the impression is that SMEs are left to themselves. They lack the financial means to finance the Training Management System and the awareness of the need for such a system. SMEs, in the quest for knowledge, seek appropriate ways to acquire knowledge, adequate sources of knowledge and innovation, and appropriate ways to reach sources of knowledge. In these conditions, the demand for knowledge appears in the form of independent, small businesses.

2. SMEs often do not recognize their own need for knowledge, or fail to articulate their needs, regardless of whether the reason is lack of proper awareness, low level of corporate culture and the culture of knowledge, or the reason lies in the lack of education. As a result, a frequent occurrence

of non-recognition of the gap between required and attained level of knowledge in SMEs is noted.

3. Offer of training appears in the form of seminars and education programs organized by private companies and public institutions. In general, high-quality courses, covering the latest scientific and technical knowledge, offer "educational packages" as custom solutions which are «tailor-made» for large companies. Often, for attending such courses and seminars, the appropriate (higher) level of knowledge and university diplomas are needed. Lower levels of education are implemented in the so-called open universities, which generally include common forms of adult education, and generally training and retraining programs aimed at individuals, and only rarely oriented to the business system as a whole.

4. There is an obvious gap between demand and supply of knowledge for SMEs. There is a need for an intermediate level of knowledge that could be offered through appropriate "models of knowledge" that could be "custom tailored" for SMEs. Furthermore, the question of unification of dispersed demand of knowledge, can be partially solved by networking of small and medium-sized enterprises.

5. It is clear that the lack of adequate professional expertise in SMEs is a problem with which entrepreneurs can not solve themselves, so they need help and support from the community, which is especially true for countries in transition. Based on the conclusions of the Lisbon Agenda, adopted at the EU level, Croatia has assumed the obligation to strengthen and support the development of entrepreneurship. For this reason, this chapter includes an overview of the existing system supporting the development of entrepreneurship, especially in the field of education and lifelong training, in Croatian case. The aim of this review is to serve as a basis for further reflection that would accelerate the construction of appropriate KM systems in SME's. This is particularly important for countries in transition and for developing countries in general. Doing so, small and medium enterprises will improve their unequal position in the global economy. [6]

### **III. Training Management System in Small and Medium Sized Enterprises**

Competitive advantage no longer relies just on tangible assets and natural resources, but on how effectively firms manage knowledge. Intensifying global competition forces companies to innovate and improve or upgrade their competence frequently in order to maintain their competitive advantage in the global market. In general, this requires fast exploring and acquiring of critical information and knowledge of the market and of its internal organization.

Training Management is fundamentally a systematic approach for optimizing the access, for individual and teams within an organization, to relevant actionable advice,

knowledge, and experience form elsewhere. Organizations which are not yet applying Training Management may be aware that they don't capture and reuse good or best practices, that they risk repeating the same mistakes, and that they are likely to lose what employees learn about suppliers, customers and competitors, but never share. The primary business problem that Training Management is designed to solve is that teams and individuals are performing sub-optimally, because they do not have access to knowledge acquired through experience elsewhere.

By managing trainings as a continuous process, organizations are able to meet existing and emerging needs, identify, exploit existing and acquired knowledge assets in order to develop new opportunities. Organizations should focus on innovation and developing their competence intensively to differentiate themselves from competitors. This condition should be based on managing knowledge effectively, by integrating existing knowledge and new information in order to develop new knowledge that will improve innovation. Knowledge that is unique and specific to an organization is now viewed as a key asset that can lead to a sustainable competitive advantage. Information and knowledge are recognized as driving forces behind the creation of organizational value.

### **IV. The Skills Needed to Entrepreneurs**

What kind of knowledge is necessary to SMEs it is difficult to specify, while looking for the answer to that question many will come to different answers. Peter Drucker stressed the entrepreneur's ability to investigate and change making challenge of it and creating innovative contribution to his work. Taking into account that the entrepreneur must understand the essence of his business, be able to take creative risks and explore the opportunities and threats from the environment, and be capable of social communication, including the computer one, it is evident that the education for entrepreneurship must be varied and comprehensive. Education of experts in entrepreneurship must include technical and technological knowledge, as well as many other types of knowledge in social sciences, but must also develop the social and ethical personality traits. All this points to the need for lengthy and diverse contemporary business education. The development of creativity and courage must be encouraged from an early age, while the technical knowledge can be built later. [6]

Being a successful entrepreneur is the result of courage and creativity, natural talent often substitutes the lack of formal education. However, only the entrepreneurial talent has never been sufficient. Starting from the previously mentioned concepts by which the entrepreneur meets the three dimensions: economic, managerial and innovative. For each of these dimensions it is possible to define specific forms of education which will promote the strengthening of certain

dimensions. A broad definition of entrepreneurship education is as follows: «All activities aiming to foster entrepreneurial mindsets, attitudes and skills covering a range of aspects such as idea generation, start-up, growth and innovation.» [24]

## v. The Preconditions for the Development of Training Management Process for SMEs – Croatian Example

Key dimensions to develop entrepreneurship education are as follows: [6]

- Strategy – commitment of top-management, written policies, level of integration,
- Infrastructures - department/centre, chairs, professorships, cross-disciplines, structures or activities etc.
- Resources - budget, types of funding, internal/external lecturers etc.
- Teaching and Learning - courses, degrees, pedagogical methods, part of curriculum etc.
- Outreach - alumni, stakeholders, community engagement, networks etc.
- Development - evaluation, improvements, research etc.

In the last 20 years, the development of the de novo private enterprise sector in Croatia has served as one of the main policy instruments underpinning economic growth in many post-socialist emerging market economies. The particular focus within that policy has been on the development of small and medium-sized enterprises (SMEs), which remains one of the main avenues for building a vibrant and competitive private sector in Croatia. Support for the SME sector has also become an increasingly important part of the industrial policy of the European Union (EU) over the last decade. The development of SMEs is a central pillar of the Lisbon Agenda to create the world's most dynamic and competitive European economy. [4]

Although this ambition has recently been scaled back in favour of an emphasis on reducing unemployment, the role of the SME sector has, if anything, gained in prominence as it is increasingly recognised that the failure of the Euro zone economies to exhibit the desired dynamism, in contrast to the more successful Anglo-Saxon model, is closely linked to the insufficient support given to entrepreneurial activity and to the development of the SME sector.

As part of its drive to develop an EU-wide policy to promote entrepreneurship, the European Commission has encouraged the adoption of the European Charter for Small Enterprises, which sets out indicators of best practice for

policy in this field. Croatia endorsed the Charter at the Thessaloniki summit in 2003, indicating the important place of support for SMEs in Croatia's industrial policy. Yet this ambition to promote an entrepreneurial and competitive economy in Croatia is beset by multiple obstacles and policy inconsistencies. [4]

## VI. R&D and SMEs in Croatia

Croatia's rank within the group of EU countries involved in the GEM research clearly illustrates the weak points of Croatia's entrepreneurial capacity and can provide insights for government policies and programmes. The difference in Croatia's ranking according to the quality of primary and secondary education (15th place) in relation to the tertiary level of education (19th place). Ongoing reforms in the field of education in Croatia (such as cataloguing of knowledge and skills and the Bologna higher education reform) indicate the existence of political will, but the efficiency with which these mechanisms are applied depends on the consistency and successful implementation of education policy. It is especially significant that among the lowest graded statements there are two that indicate there is a considerable problem of transfer of R&D to the business sector (SME). Experts believe that there is no adequate support available to engineers and scientists which would facilitate commercialisation of their ideas through new and growing enterprises, and that new and growing enterprises do not have the same access to new technology and research as large enterprises. Although perceptions of quality of protection of intellectual property significantly improved this field is still a significant low point of entrepreneurial environment in Croatia.

## VII. Solution and Recommendations

Croatia has not achieved a satisfactory level of development of small and medium enterprises, and thus the necessary conditions to create a satisfactory development of Training Management systems in SMEs are not met. Shortcomings and problems of Croatian entrepreneurship that are directly linked, or incurred as a result of insufficient investment in Training Management System in SMEs are as follows: [6]

- Despite the relatively favorable indicators of computer and information technology per capita, low levels of use of the internet for payment and trade in goods and services, speaks of the still under-developed Internet business proposal, and lack of computer literacy.
- In sectors with significant resources for growth, including technology-based entrepreneurship, there has been insufficient entrepreneurial activity and business relationship with the research and development sector,

both through business relationships with scientific institutions and with business entities in the sectors of new technologies, research and development is missing.

- In the small and medium enterprises sector there is low productivity, lack of product quality, innovation and an unwillingness for export orientation.
- Despite the improving indicators in favor of entering into entrepreneurship because of the perceived opportunities, there is a significant gap in the GEM motivational indices.

Deviation from the level of motivation index of GEM countries suggests the need for improving action at the level of government policies and programs, primarily in areas that are key to strengthening the entrepreneurial activity: education, regulatory framework, business environment and consistency of government policies.

The problems of promoting entrepreneurship are administrative barriers and a lack of coordination of government policies in creating an enabling environment for entrepreneurial activity - a large number of institutions at national and regional level, encouraging entrepreneurship without coordination, and performance measurement of incentive programs and implementation of policies consistent with regional development needs (Croatian Chamber of Economy – Hrvatska gospodarska komora).

All the key issues of Croatian SMEs directly or indirectly related to or caused by a lack of training bases, and generally insufficient investment in knowledge and education of entrepreneurs.

After EU accession, Croatia committed itself to accept not only the *acquis*, but also to harmonise its policies with EU programmes and strategic documents. Primarily, these “soft” obligations start with the need to accept horizontally the Lisbon Agenda instruments, in order to be able practically to implement policy measures.

The Lisbon Agenda has two main objectives: a higher and more stable economic growth and creation of high quality jobs. The Action Plan (EC Working Document SEC, 2005) contains ten most important goals, collectively called Knowledge for growth, among which are stated: [6]

- to increase and improve investments in science, research and development,
- to encourage innovation, expand the use of information and communication technology, and sustainable use of resources,
- knowledge-based society must strive to achieve a healthy economy.

There is an urgent need in Croatia to develop action plans and other implementation instruments with clear obligations, deadlines and a reporting system, in order to converge on and implement specific Lisbon Strategy goals. The 3% target is far

for being realistic for Croatia – current investment in R&D in Croatia is 1.14% of GDP, while the EU average is 1.9%. In spite of the fact that Croatia has not prepared action plan comparable with the EU 3% Action Plan, there are initiatives which are in line with the target to raise overall R&D investment to 3% of GDP by 2020, two thirds of which will come from the private sector”. Some progress has been made in approaching the Lisbon goals, although a coherent approach is lacking and the coverage is insufficient. It is clear that Croatia needs to prioritise the Lisbon goals, having in mind its specific situation, starting position and real possibilities of implementation. It is also necessary to raise the awareness and level of understanding of the Lisbon Agenda implementation mechanisms.

## VIII. Future Research Directions

Based on the analysis of the situation of SMEs in Croatia may be proposed further recommendations for practice and future research:

1. To develop an appropriate model for operationalization of strategic documents into practice, particularly the Lisbon Strategy, through a certain body responsible for planned and systematic approach to educating business owners, and which will thus gradually build up Training Management Systems in SMEs. At this stage of development in Croatia, the closest to that task may be regional offices of Croatian Chamber of Economy and Croatian Chamber of Trades.
2. At the same time, through media, education, marketing, to raise awareness and "to educate entrepreneurs for education." This will develop an "platform" for the possible implementation of the above models.

Certainly, further research should make a deeper analysis of the needs of entrepreneurs for ongoing training, as well as requirements that contractors should have to build an adequate system of Training Management, based on the practice of large companies. Likewise, further comparative analysis of the positive examples of incentives for enterprises in different countries - both those in transition and in developed countries - would be useful. Comparing the benefits of individual models could lead to universal conclusions and unique model of building a TM system for small and medium-sized enterprises.

## IX. Conclusion

The Seventh Framework Programme for Research and Development as an instrument of EU policy in research and development sector aims to provide a new momentum in European research and innovation area, as well as the important participation of Europe in the global exchange of knowledge and to promote research and development in areas



of special interest to European competitiveness. Support measures will be implemented in cooperation on projects and coordination of national research programs and by encouraging the mobility of scientists and ideas.

In the area of innovation and industrial policies, the EU member states, including Croatia, are expected to develop their innovation policies in accordance with their national characteristics and advantages, and the introduction of support mechanisms for SMEs, to support joint research between businesses and the research sector, to create conditions for the establishment and growth of high-technology companies, as well as encourage the development of partnerships for innovation at the regional and local level.

#### Concluding remarks:

1. Knowledge transfer in SMEs takes the form of lifelong learning, and as such are appointed to key documents, where the essential categories are knowledge and technology transfer, and the percentage of investment in R&D sector.
2. Small and medium enterprises are faced with insufficient expertise, professional knowledge, and do not have systematic access to knowledge, as well as systems of technology transfer or knowledge management.
3. The Croatian accession to the EU is an opportunity for strengthening entrepreneurship in general, and thus support entrepreneurship, entrepreneurial momentum, more advanced features and forms, such as transfer of management and technology and lifelong learning for entrepreneurship, as a basis for creating a training management system in the future, based on the conclusions of the Lisbon Agenda.
4. Croatia has adopted a key EU documents on the promotion of entrepreneurial activities and education for entrepreneurs. Numerous public and private entities in Croatia are trying to promote education for entrepreneurship. However, in practice a large gap exists between supply and demand for knowledge among entrepreneurs. This gap is reflected in the following:
  - There is insufficient awareness among small and medium-sized businesses to entrepreneurial education. Entrepreneurs often are not aware that they achieve results below their capabilities because of lack of knowledge. Croatia is still dominated by the belief that education ends with the completion of formal education.
  - Small and medium-sized enterprises, unlike large, typically employ less-educated labor force, which has less need for continuous improvement. That closes the vicious circle. The "momentum" that will reverse the cycle in the desired direction is missing. Obviously, this impulse must come from outside, along with the growing awareness of the need for permanent education and knowledge management in enterprises.
  - Small and medium-sized businesses who feel the need for education, are generally not willing to pay large sums of money for education. They expected it from the supporting institutions of the public sector, or that is at least subsidized.
  - There is no systematic form of «supply of education» for small and medium enterprises, except in cases where certain forms of law imposed retraining, or in cases of retraining when a certificate of completion of education is issued in line with that of regular education. In cases where companies are offered new, optional educational facilities, small businesses do not show enough interest for them. [6]

Based on the research it can be concluded that small and medium-sized enterprises are not able to independently develop their own Training Management Systems. They need public support, which, in the case of Croatia, means the acceptance of the Lisbon Agenda and the membership in the European Union, which will bring the support to national level, ie the adoption of the Action Plan on implementation of the Lisbon Strategy in the field of technology. To achieve the objectives of the Lisbon Strategy in Croatia, the adoption and implementation of an action plan is the essential prerequisite for the implementation of planned and systematic TM in SME's in Croatia. In this way, creating new policy that will support the building of training systems for small and medium sized enterprises, with the aim to collect the knowledge adequately, update it and link it (outward and inward), will enhance the competitive position of SMEs in the global market.

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