

Implications of a Crisis on Small Businesses in the European Union and Republic of Croatia

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Until the early 1990s Croatia has been neglecting, and even underestimating the significance, the role, the needs, and the results of small businesses (small and medium entrepreneurship). Complete attention was focused on big companies. Relatively late, in 2002, small businesses, within the statutory legislation, have gotten its appropriate legal status and economic relevance. Today it is treated as a “basic necessity” of every society and a generator of economic development. But, economic crisis that has been present since 2008 has manifested all of its negativities, which has reflected on the present state of the economy, the whole society, and it is also shown from the results and some relevant indicators.

Keywords: small- and medium-entrepreneurship, European Union, Republic of Croatia, crisis

Introduction

Today’s modern entrepreneurship is also called as business economy, i.e., a business society and it represents a result of intensive changes in the economy, technology, and politics of the overall environment (Kutnjak, 2010, p. 88). It manifests itself, as on the level of the European Union, on the level of national economies as well, by complete domination of small and mid-sized businesses. An identical relationship is valid for Croatia as well, in which, until the early 1990s, all technological, legal, financial, and also institutional support for small- and mid-sized entrepreneurship was almost completely neglected. Namely, the previous system stressed exclusively the existential and development needs of big economic entities. The changes which followed indicated to structural mismatches, especially regarding the size of business entities, as well as their functionalities, what negatively reflected onto their market, technological, and financial adaptability (Žanić, 1999, p. 78). After the democratic changes of the Croatian Parliament, they recognize the importance and respect the needs of small and mid-sized entrepreneurship, as well as evaluate the dynamics and abilities of their business entities in revitalization of the overall economy. The arguments to confirm the “maturation” in that sense are in the fact that Croatia only in 2002 started to define and create the legal legislation, within which small and mid-sized entrepreneurship fought for its legal basis and status determination. But regardless of all of the above, as well as current efforts, the economic position of small and mid-sized businesses in the conditions of globalization becomes more and more complex and uncertain, timed, with more demanding consumers, and

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questionable results, all for which a new dimension, additional burden, and negative connotations has the current economic crisis. It is often non-objectively talked about the return of the recession, which is burdened by the consequences of the previous, very recent one, but in nature we are dealing with a “classic” economics crisis, marked by various negative indicators, trends, and cause-and-effect factors and implications. Terms of business and existence for most small business entities have severely changed, but in a negative sense of the word. Business results have become worrying, “rubicons” of the past have become almost insurmountable, and the absurdity of the moment reached its peak, especially given the “theoretical” insights that the efforts of Europe, and also Croatia, regarding the implementation of new economy will be confirmed only if small and medium-sized businesses are set to the top of the priority list (Škrtić, 2005, p. 119), that is they get the role and the significance of a dominant development tool. However, the crisis in this economic period manifests its exponentially, and even “longevity”, expressed through all negative trends, tendencies, and consequences, to which, unfortunately, not even with the appropriate means and solutions, the economies of, in regard to Croatia, more developed countries cannot adequately oppose.

Manifestation of Crisis to Small- and Medium-Sized Entrepreneurship in the European Union and Republic of Croatia

It is a fact that the whole Europe is in crisis, except Germany, which is, according to latest data, stabilized its economy and has recorded growth rates. That cognition does not correspond to the realization of the unique goal of the European Union and Croatia in sense of practical treatment of role and importance, as well as manifestation of the overall business realization of small- and medium-sized entrepreneurship and their implication on further development. Accordingly, the European Union in this period is not on the path to achieving its priority goal: become the most competitive and the most dynamic economy in the world, based on knowledge, capable of sustainable economic growth, with a tendency of producing a higher number of quality jobs, and also strengthening social cohesion (Kandžija & Cvečić, 2010, p. 152). Such claims confirm the actual economic situations in Greece, Spain, Portugal, Ireland, France, Hungary, Italy, as well as in Croatia. With that, at this moment it is directly compromising the “project” of integrating into the European Union, as a singular political-economical institution whose, that is the principle advocated position, need is necessary and represents the only real possibility for European countries to oppose and take economic initiative, and insure perspective in the near future in contrast to aggressive and competitive markets of North America and the so-called “Asian Tigers”. At this moment, it is a mitigating circumstances that the named markets of North America and Asia are having more or less the same problems, but they are better in, and use the proper, or rather more efficient ways of responding to the challenges of the economic crisis.

Manifestation of Crisis in the European Union

The European Union is a unique market of almost 500 million people, whose existence is based on free movement of goods, services, and factor of production, but this does not in any way mean that the working conditions of small and medium-sized businesses are ideal (Kersan-Šabić & Banković, 2008, p. 62). The same realizes around 20% of the worlds manufactured wealth, the same as in the USA. In Europe GDP per capita is around the same as in Japan, but that is 40% less than in the USA. The European Union is a highly industrialized economy, but the largest portion of its wealth (around Three-quarters) is made by services. Active society, aged 16 to 64, in 2009 was 235 million people, what puts the Union to the 3rd place, after China

and India. But, there is no doubt that the current global crisis and recession hit the Europe hard. GDP decreased for around 4%, and unemployment rose to 10%, which are around 23 million workers. Such state particularly affected public finance of the Union's countries, where an average budget deficit of 7% was recorded during 2008 and 2009. Growth potential decreased, and many investments have failed (Kandžija & Cvečić, 2010, pp. 43-44). Due to the big global and economic crisis and recession which hit Europe and the rest of the world after 2008 there was a significant decrease in economic activity and employment as well as a decline in confidence in the financial sector. A decline in confidence and a growth in debt in many of the Union's countries further emphasized already existing problems of lower rate of competitiveness, innovation, and productivity. Europe is confronted with inevitable changes, and the crisis revealed structural weaknesses of its economy (Kandžija & Cvečić, 2010, p. 58). Problems, which face small entrepreneurship of Croatia and the Union, are virtually the same, however, what needs to be distinguished is from the point of reached development from which those problems are observed, and also how much those same problems are a barrier to Croatia or the European Union. Nevertheless, there is a large gap, which Croatia must overcome (Kersan-Šabić & Benković, 2008, p. 66).

In 2005 in the whole European Union, there were 39.3% of small and medium sized entrepreneurship per 1,000 people. The highest rate of small and medium sized businesses per 1,000 people was recorded in Czech Republic (86%), Portugal (80.5%), and the Mediterranean countries: Greece, Italy, and Spain, which today have the most severe economic problems. On the other hand, countries with the lowest rate of small and medium sized businesses per 1,000 people are: Slovakia (7.7%) and Romania (18.9%), as well as Germany (Švaljek, 2007, p. 71).

Small entrepreneurship (better known as SME—Small & Medium Entrepreneurship), is an important part of every national economy, and 60%-70% of all employed people in all national economies of all European countries are employed in small businesses. Small entrepreneurship represents a key factor of social and national economic stability. The same make 99.8% of all companies of the European union, in contrast to 43,000 large companies that make only 0.2% of the total number of enterprises. In the year 2007 in the European union (EU-27) over 20 million small and medium enterprises have operated, which employed around 75 million people (two-thirds of EU employees), and 30% of those have emphasized growth as their main goal, as well as the reduction of administrative costs by 25% in the year 2012. This could potentially increase Europe's GDP by additional €150 billion, what would increase GDP by 1.5% or €150 billion (Ministry of Foreign and European Affairs, 2011).

Looking at the share of small entrepreneurship in the total number of entrepreneurs, the difference is very small because the share in Croatia is 99.4%, and in the European union it is 99.8%. The total number of small economy businesses in the EU equals to 23 million and they employ more than 100 million workers (Kersan-Šabić & Banković, 2008, p. 61). The given data has an obliging nature which insists that this issue is approached as a priority sociological phenomenon, since it gives a key to solving many existential questions of the modern society—economic growth and development, competitiveness of enterprises, opening new and sustaining existing jobs. Mostly the reason is that the European union set ambitious goals, which are, in conditions of economic crisis, and even political instability which is present in certain countries, very hard to achieve, and not further aggravate.

Manifestation of Crisis in Croatia

As it was predicted, the area of crisis, which began in the second half of 2008, also affected Croatia,

marking previous years, as well as this one, with negative business results and unpromising trends. Namely, operations of Croatian entrepreneurs for I-IX 2009 were marketed with a significant decline of economic activity. In the given period entrepreneurs have generated an excess of revenue over expenses in the amount of 21.8 billion HRK, or 30.1% less than in the same period of 2008, which is a confirmation of a significant decline of economic activity measured by the decrease in gross domestic product, industrial manufacturing, and retail operations, but also in the conditions of relatively low inflation rates. Therefore, the global economic crisis manifested its consequentiality in Croatia also, and the negative trend of decline in economic activity was continued through the first nine months of 2009. The following factors of business influenced the operations of entrepreneurs:

- Slowing of economic growth and inflation rate of 2.9%. A decline in gross domestic product by 6.7% was achieved in the first trimester, and a 6.3% in the other, and according to physical factors, there was probably a decline in the 3rd trimester as well;
- Physical indicators of economic activity in the first nine months of 2009 showed a decline in economic activity in reference to the same period of 2008. Industrial manufacturing decreased by 9.7%, retail trade by 16.0% (from I-VIII 2009), scope of construction works by 3.7% (from I-VIII 2009), as well as the number of overnight stays by 1.0% (from I-VIII 2009);
- The economic crisis caused a decrease in foreign and domestic spending, what resulted in a decrease of inflationary pressures, so in the I-IX months, according to the same period of 2008, a 2.9% inflation rate was realized;
- In Croatia there is a high demand for loans, so with the decrease in money supply (loans), there has been an increase in interest rates in contrast to the same nine month period of 2008;
- There has been a decrease in number of employed and an increase in the number of the unemployed (rate of registered unemployment is 14.7%);
- The employed in the Croatian economy received a nominally increased pays by 3.9%, but because of an increase in prices by 2.9%, there was no real increase in pays to rise the retail trade—which was significantly decreased in relation to the previous year;
- In I-IX months of 2009 the negative trend of trade and account deficit continued, than the budget deficit as well, and so there was an increase in the total domestic and foreign debt, which grew by the end of July to €40.6 billion (FINA, 2011).

Operating in the conditions of a decreased gross domestic product by 6.7% in the first trimester and 6.3% in the second, Croatian entrepreneurs in I-IX months of 2009 generated a gross profit (excess of revenue over expenses) of 21.8 billion HRK, which is by 9.4 billion or by 30.1% less than in the same period of 2008, when a 31.2 billion HRK gross profit was generated. Total revenue were, according to the same period, decreased by 9.1%, and the total expenses by 7.7%. Due to a fast growth reduction of total revenues over total expenses, the efficiency of operations of entrepreneurs has worsened, where they have, per 100 HRK of expenses, made 105.05 HRK, which is by 1.60 HRK less than in I-IX months of 2008, when they made 106.65 HRK. To that we should add the following business results:

- The number of employed decreased by 1% in relation to the same period of 2008;
- Investments into long-term assets decreased by 15.4% in relation to the same period of 2008;
- Net earnings were increased by 3.1% nominally, due to a real rise in prices by 0.2% (FINA, 2011, p. 2).

Business Results in Terms of Crisis and the Segmentation of Small Entrepreneurship in Croatia

A few years ago, in the achieved financial results of entrepreneurs by size, a dominant role from the big entrepreneurs took over the small entrepreneurship (small and medium entrepreneurs). But, in I-IX months of 2009 all size entrepreneurs started to achieve significantly lower business results than in the same period of 2008. The business results show that small entrepreneurship, under the conditions of reduced economic activity, achieved slightly better business results than big entrepreneurs have. Namely, small and medium entrepreneurs participate in over 50% of the total business results of entrepreneurs—with 99.4% in the number of entrepreneurs, with 66.7% in the number of workers, with 52.9% in total revenue, with 52.5% in total expenses, with 57.8% of gross revenue, with 58.4% in staff costs, with 69.6% of total stock, with 57.8% of consumer demand, with 61.1% in total liabilities to suppliers and with 47.3% in total investments. The share of small entrepreneurship in I-IX of 2009 has reduced by approximately two percentage points in relation to I-IX of 2008, which means that the dominance of small entrepreneurship declined. Regardless of that small entrepreneurs have, in the I-IX of 2009 period, achieved the best results because on the invested 100 HRK they made 106.95 HRK of revenue, while medium entrepreneurs made 103.80 HRK, and the big entrepreneurs made 104.20 HRK (FINA, 2011, p. 7).

By analyzing the business results of all Croatian entrepreneurs, it is again confirmed that the basic characteristic of our economy, in which the privately owned entrepreneurs have the dominant role, the entrepreneurs in four major activities (trade, manufacturing, construction, and transport and storage) and small entrepreneurship (small and medium entrepreneurs). Not only there is stratification by industry, in small entrepreneurship regional layering is also present. Namely, entrepreneurs over time concentrated on just a few activities in which they identified the possibility of market progress, and in the frameworks of regional layering they used all kinds of advantages of certain possible work sites, in within which they manifest their entrepreneurial activities.

In addition to the same data, evincive are, for example, certain indicators that speak of tourism activity, as one of the more dominant ones, which, regardless of good last year's ranges in tourism traffic of Croatia, confirm that, in the sense of further entrepreneurship development, in tourism it is needed to solve many more tasks and obstacles, for example, ensure development continuity, insure macroeconomic growth, neutralize obstacles for entrepreneurs, as well as many other. Next data, based on the 2009-2010 period, have de facto much greater credibility regarding overlooking the real "force" of the tourist sector, and speak in favor of confirming the negative trends. The same, namely, regardless of increased results of the tourism traffic, remain, or rather put a "shadow" onto the total results (including financial) and deny the views of tourism as a Croatian "economic miracle". On the other hand, it is a confirmation of negative implications of crisis, which manifest in this very significant economic activity of Croatia as well as is shown in Table 1.

Analyzing the data it can be concluded that tourism does not confirm its constancy, more precisely tourism has "denied" itself by showing negative trends, which primarily leaves an obligation of more severe analysis and a more systematic approach to entrepreneurship in tourism. All of that, in a certain sense, speaks and confirms that Croatia in future tourism development has to additionally affirm its power, limit, and with that neutralize weaknesses, that is adequately valorize and use the opportunities and minimize the threats (Kutnjak & Radović, 2012, p. 11).

Table 1

Number of Employed and Revenues of Tourism in Croatia

Type of employment	Year		ind. 2010/2009
	2009	2010	
In legal entities	46,389	46,336	-0.1%
In crafts and free lances	39,446	36,943	-6.3%
Total No. of employed	85,835	83,279	-3.0%
Revenues of tourism (in million of €)	6,379,700	6,236,800	-2.2%
Share of tourism in GDP	14.0%	13.6%	-2.9%

Note. Source: Ministry of Tourism of Republic of Croatia (2010).

Disproportion of Entrepreneurial Goals and Evident Problems

In order for small entrepreneurship in Republic of Croatia to be directed towards development and in order for it to, in a larger extent, approach the standards of EU markets, on which they will seek their place in the future, Croatia has set certain goals that need to be achieved. Comprehensive program goals in the 2008-2012 period, through which creating conditions for further development of small and medium entrepreneurship is wanted involve:

- Strengthening competitive abilities;
- Even regional development;
- Raising the quality of the entrepreneurial infrastructure;
- Reducing administrative obstacles;
- Strengthening the entrepreneurial climate in the society;
- “Internetization” and electronic commerce (Government of Republic of Croatia, 2008, p. 6).

In regard to the upcoming membership of Croatia in the European Union, and also regarding the circumstances and goals from the previously mentioned Program, as well as the process of comprehensive reforms which were demanded for a full membership, it is needed, however, in a certain way diverse, or rather “distance” the economic and the political area of Croatia in contrast to European Union. On the one hand, we speak of a small, transition country, as well as a “superforce”, i.e., an integration of 27 member countries, and on the other hand, which, on the level of society, implement specific programs. Every member country has an obligation to implement its measures and policies of encouraging the development of small and medium entrepreneurship in national frameworks, and all in the, according to the legal legislative of the European Union and proposed “balancing” overall interests of, before all, dominant members of the European Union. So will Croatia, through implementation of measures in all areas, try to achieve the main purpose and goal of modern policies—freeing unused potentials of small entrepreneurship, potentials that lead to competitiveness in the European Union. Through representation of member countries in making and implementing decisions for encouraging small entrepreneurship, it is contributed towards converging with the measures of the European Union and the integrity of the system. However, it is not easy, nor, very often, possible to achieve or exercise named goals, since it is, before all, needed to question the circumstances, match wishes and the opportunities and through those basics “treat the reality”. Namely, the circumstances, in which, at the end of the last century, small entrepreneurship operated, could largely, unfortunately, identify and match with the current economic period. It is about the following circumstances (Žanić, 1999, p. 78): (1) Narrowed market; (2) Obsolete technology; (3) Lack of information about the business and development occasions; (4) Partial incoordination

of business measures of economic policies; (5) High capital price; (6) Financial indiscipline; (7) Insufficiently encouraging tax policies; (8) Lack of economy and technology—supportive entrepreneurship infrastructure; (9) Insufficient connection of science and economy; (10) Insufficient interconnection between business entities; (11) Insufficient managing skills; (12) Lack of technical and technological knowledge; (13) Lack of ability to join international trade; and (14) Expectations of big and quick profits.

Following the above, the measures that were used to carry out the synchronization of small entrepreneurship over the last few years with the EU “model”, and which also represent the encouragement of Croatian small entrepreneurship, can be summed with the following (Kersan-Šabić & Banković, 2008, p. 67):

- Electronic business has evolved, what contributed towards simplifying the entrepreneurial surrounding;
- Sources or financing became more accessible, although we still need to work on microlending, risky capital funds, and other external sources of financing, excluding banks;
- Subjects of small entrepreneurship are encouraged to accept the standards prescribed by the European Union, for the sake of a more simplified access to the internal market, as well as generating competitiveness so the strong competition could be withstood;
- An extremely big leap has been achieved in the regulation area, administrative obstacles have been reduced, and the number of days needed to establish a company or a craft has also been reduced.

It is unparalleled that the institution of state, or rather the Government of Croatia influenced the development in a way of starting processes of businesses activities, which then developed further and reproduced, and expanded with their own pace. Just because it was important, or rather is important for the first impulses or stimulants to be strong enough (we can talk about the “critical mass of change”), in order to cause a further cycle of autonomous continuation of manufacturing to a greater extent, but that during that process it is not necessary to incessantly seek further help of the state (Glas, 1999, p. 46). With that process, in today’s competition, innovation is important, and also establishing new enterprises, which bring dynamics (and later growing into larger corporations), what from the position of analyzing the current economic crisis is not a rule, but rather an exception. In that sense the state must influence the following functions and areas (Osborne, 1988, p. 243): (1) intelligent infrastructure; (2) modernizing manufacturing; (3) human capital; (4) entrepreneurial environment; (5) risky capital; (6) desirable quality of living; (7) market for new products and services; (8) new industrial cultures; and (9) better social organization.

The previous confirms that entrepreneurial potential of a country does not depend solely on an individual, but on the environment, mostly the state, regional government, and local government which has to contribute to achieving individual entrepreneurial initiative. With general national conditions, the entrepreneurial process and expansion of new enterprises is also influenced by special conditions of entrepreneurial activity (Bistričić, 2007): (1) availability of funding; (2) government policies; (3) new enterprise encouragement programs; (4) education and training of personnel for entrepreneurship and in entrepreneurship; (5) access to support services—especially to commercial and legal infrastructure; (6) access to physical infrastructure; and (7) cultural and social norms.

By analyzing the entrepreneurial problems in Croatia, an unsatisfying pace of starting entrepreneurial initiatives, and financial power of small and medium enterprises can be noticed. Except with basic weaknesses, the sector is burdened with a chronic deficit of education programs for entrepreneurship, through incoordination of government policies in creating a stimulating environment for entrepreneurship, through administrative impediments in various phases of the companies life cycle, through an undeveloped financial

market which are unable to satisfy the needs of small and medium enterprises, and through regional differences in entrepreneurial activities (Government of Republic of Croatia, 2008). With that, entrepreneurs are faced with many impediments, which are mostly represented on four levels. Compatibility with administrative regulations and huge operating costs represent a heavy burden. Regardless of recent improvement, entrepreneurs still believe that administrative barriers are the basic impediment to starting a business. On the other hand, educating and perfecting should additionally stimulate entrepreneurial activity through strengthening the right way of thinking, consciousness of possibilities for creating a career and skills, what in this depressive state of economic crisis often is not the case. Having in mind the fact that both personal and managing skills are of crucial importance for achieving success, personal skills need to be developed from the early phases of education. Thirdly, proper tax measures can contribute to development, growth, and survival of companies. Complexity of tax systems is by itself an administrative burden for entrepreneurs. The state of the job market, as the fourth factor, creates impediments for growth and putting intensive pressures towards developing qualifications of workers is needed. The growth in demand for highly qualified workers has overcome the growth in supply (European Committee, 2003). By comparing the obstacles of Croatia and of the European Union, it is obvious that they are virtually the same. One of the problems that occur in small and medium enterprises in the European Union is how to obtain capital, especially in the early phases of operation. Of course, that makes access to new technologies harder, and stops innovation. It is important to remark the fact that certain countries which operate on a unique market of the European Union, in the framework of small and medium entrepreneurship, do not achieve the needed export, what is a special problem for Croatia as well, and deserves greater attention and special initiatives towards resolving the same. For example, some smaller countries, as Estonia, Slovenia, Finland, and Denmark, show a much greater engagement in export unlike big countries like Spain, France, and Italy, which export in negligible quantities. As weaker exporting countries, in the sector of small and medium entrepreneurship, in the frameworks of the European Union are Cyprus, Bulgaria, and Malta (Bistričić, Agatić, & Kuzman, 2011, p. 153). Following the above, it is evident that the business subjects of small entrepreneurship of Croatia and the European Union, especially during the period of the current economic crisis, have a very expressed disproportion between defined and declared goals, on the one hand, as well as factually identified problems and impediments, on the other hand, what basically ties all relevant factors of the social community to refinement, or rather remodeling the approach, procedures, measures, entrepreneurial models, and stimulants of entrepreneurial activity.

Possible Fields of Activity and Initiatives of Institutions

Republic of Croatia significantly lags behind the stated countries of the European Union. It is confirmed by the results of Croatia compared with the results of member countries of the European Union (Slovenia, Hungary, and Italy), which already operate on the unique European market. The following indicators were analyzed: number of registered small and medium enterprises, revenue of the enterprise, and realized added value. Comparing the stated data, certain similarities of the small economy sector of Croatia with the named countries have been found, as well as the necessity of a rapid adaptation of our country to the demands of the European Union. When the whole system of aiding and organizing small entrepreneurship in the European Union is looked upon, and approaches and procedures of institutions are analyzed, it can be seen that it is needed to further improve already evident improvements of "chronic" weaknesses of the Croatian society as a whole, which is applied in entrepreneurship itself, for example, functioning of a legal state, privatizing of

public enterprises (when it is imperative; not by any means), decriminalization of crime (before all corruption and privatization), speed and efficiency of administrative operations, inefficiency and tardiness of justice, increasing investments, increasing manufacturing, discarding and discrediting opposing political options, need of lower tax burdens of entrepreneurs, increased financial options of entrepreneurial subventions, encouragement of entrepreneurship, initiatives in implementing socially responsible operations and care for the environment, creating a society of knowledge and tolerance, a society without prejudice, etc.. In the largest possible manner, the named anomalies of Croatian society and economy have already been recognized on the level of the European Union, which has, for its own member countries, produced a “set” of principles, policies, and recommendations which were integrated in reports, recommendations, and conclusions, what makes the integral part of the EU *acquis*, within the chapter about Entrepreneurship and industrial policies. European Union trusted small entrepreneurship which is the role of the basic source of innovation and new employment, the engine of growth, the carrier of structural changes and progress. It has also observed three problems that should be removed so small and medium enterprises could fulfill their expectations. These are (Švaljek, 2007, p. 71): (1) regulative and administrative costs; (2) inappropriate financing of entrepreneurial growth; and (3) non-existence of a group of policies directed towards education and building entrepreneurial worldviews at an earlier age. So it brought basic strategic and action documents of the European Union, in regard to encouraging the development of the small and medium entrepreneurship sector: (1) Treaty of Lisbon; and (2) European Charter for small and medium enterprises, Action plan: The European agenda for entrepreneurship.

Ad 1) The basic goal of the Treaty of Lisbon is creating the most competitive and most dynamic economy in the world. The strategy rests on three pillars (dictionary: Treaty of Lisbon): (1) economic pillar; (2) social pillar; and (3) ecological pillar. Specifically, according to the Lisbon strategy, strengthening the competitiveness of the Union rests on seven goals, and those are (Kesner-Škreb, 2007, pp. 441-442):

- Wider and more effective use of new information technologies;
- Creating European space for research and innovation;
- Finishing the building of a unique internal market of the European Union;
- Creating effective and integrated financial markets;
- Strengthening entrepreneurship by improving and simplifying the regulatory environment of the society;
- Stronger social cohesion based on promoting employment;
- Improving skills and modernizing the system of social protection;
- Sustainable growth that would ensure long-term quality of life.

The Treaty of Lisbon predicts the establishment of an information society, greater investment into research, and development of human capital through education. The goal of the strategy is effective transfer of European Union’s regulations onto the national level, removal of impediments in free movement of services (including financial) within the union, finishing the unique market in “network” industries (liberalization of markets of electric energy, gas, post services, train, and air traffic), and ensuring unambiguous application of rules about state aid. Also, creation of an environment that encourages innovation, investments, and entrepreneurship through eased access to financial institutions, unambiguous rules of bankruptcy, and easier establishment of enterprises, as well as reduced business costs is predicted.

Ad 2) In order for achieving the priority goals of the European Union, it is necessary to create conditions for dynamic growth of the small entrepreneurship sector. Starting from that principle, member countries have, in the year 2000, signed the European charter for small entrepreneurship, which was after signed by the

candidate countries as well. The European charter for small entrepreneurship is a document through which countries, once it is signed, adopt the principles of the European Union regarding the creation of a favorable environment for the development of small entrepreneurship, educating existing entrepreneurs, and encouraging the entrepreneurial culture around young people, which the leaders of countries accepted as a determinant of small and medium entrepreneurship development. The Charter follows the progress of every country in 10 dimensions, of which most refers to the removal of administrative and cost impediments in establishing, operating, and shutting down and enterprise. The position of small enterprises in the European Union can be improved by activities directed towards encouragement of entrepreneurship, evaluating the existing measures, and, when it is needed, adapting those measures to small enterprises, as well as an effort for the carriers of policies take into consideration the needs of small enterprises. In that purpose, it advocates that it will (European charter for small enterprises):

- (1) Strengthen the spirit of innovation and entrepreneurship, what allows for European enterprises to face the challenges that they face;
- (2) Create a regulative, fiscal, and administrative framework, favorable for entrepreneurial activity and promotion of the entrepreneur's status;
- (3) Ease access to the market, in a way that the requirements are as non-burdening as possible, and for them to be according to the main goals of public policies;
- (4) Ease of access to the best research and technology;
- (5) Improve access to financing through the whole lifecycle of the enterprise;
- (6) Permanently work on improving the results, so that the European Union could really offer the best environment for small enterprises in the world;
- (7) Promote the best support for small enterprises.

The Charter obligates the signatory countries to a systematical tracking, evaluation, and comparison of yearly progress of small and medium entrepreneurship development. It includes all the questions that regard to the problems of small economy, in the range from legal regulations to education. The Charter seeks to improve the cooperation in a range of areas, which are key for European small and medium entrepreneurship.

Ad 3) Entrepreneurial policy of the European Union encourages investments in science and development of new technologies, strategically important branches of manufacturing as are space technology, biotechnology, robotics, chemical industry etc., all in the contest of development of a society and an economy based on knowledge. For this purpose the European committee brought the Action plan for entrepreneurship, which gives support to development of small and medium entrepreneurship by financing education, promoting consciousness of the advantages of entrepreneurship, but also by protecting against the influences of grey economy (Policies and activities of EU—Entrepreneurship).

After extensive public consultations about the “Green book about Entrepreneurship”, the European committee published, in 2004, the “Action plan: European program for entrepreneurship”, which focuses on activities in five areas of the policy: entrepreneurship, incentives for entrepreneurs, competitiveness and growth, access to financing, and reducing bureaucracy. The Action plan was designed to give a strategic framework for encouraging entrepreneurship, replenishment of initiated plans and programs, especially the perennial program for enterprises and entrepreneurship from the year 2000. The goal of the Action plan is to encourage as many people as possible to engage into entrepreneurship, and ensure them the help they need in advancement. The European committee emphasized that the joint efforts of member states, professional organizations and local

government are needed to reach their goal—promoting a coordinated approach. For improving the state of entrepreneurship in the European Union, the Committee recommends measures in five strategic areas of policies (Policies of EU—Entrepreneurship):

- Entrepreneurial thinking: The Committee seeks to promote the consciousness of the entrepreneurial spirit with presenting models which are best in practice, and promoting entrepreneurial stands and skills with young people on following ways;
- Better incentives for entrepreneurs: not just about the ability for an enterprise to be registered fast and cheap, but for a more righteous balance between the risks and the prizes, through which business transfers and new social enterprises are made possible;
- Growth and competitiveness: The Committee seeks to give support and training to entrepreneurs from all social levels, especially women and ethnic minorities. Besides that, it encourages foreign trade, support networks, and strategic partnerships between entrepreneurs;
- Access to funding: the goal of the Committee is to create more capital and strengthen the balance sheets through improvements in availability of venture capital, investments, and private individuals. Existing financial instruments are used also for reducing the taxes on capital;
- Legal and administrative frameworks: Administrative impediments and regulatory burdens should be reduced and simplified in all areas such as taxation, employment, and environment.

The set goals in the frameworks of these strategic documents of the European Union had, or rather have their direct meaning in the conditions of a more-or-less stabile economy, indicated with positive growth rates and a continued development. But, regarding the new conditions and circumstances that came in extraordinary conditions of the current economic crisis, the European committee has, in accordance to the main goals of the Treaty of Lisbon, started a new “Recovery plan” for growth and jobs, in order to increase demand, and renew the confidence in the European economy. There are two main elements of the Plan: short-term measures for stimulating the demand, saving jobs, and renewing the trust, as well as “smart” investments that should enable in the long-term a larger and sustainable growth (Kandžija & Cvečić, 2010, p. 58). Overall, the European and Croatian entrepreneurial policies, which comes from the set goals, is the key for the development of the inner market and is connected with a series of joint policies, and the basic principle of the modern entrepreneurial policy of the European Union indicates the need for acknowledging small entrepreneurship as starting points (“Think Small First”). Accordingly, the European council has, in 2008, expressed a strong support of the initiative for further strengthening of sustainable growth and competitiveness of small and medium enterprises in Europe using the “Small Business Act”. The Act consists of different initiatives and principles, and its goal is creating a new political framework, which would cover the existing instruments and an upgrade of the European charter for small enterprises, and modern policies for small and medium entrepreneurship. Through the symbolical name “The Act” (Law), the initiative highlights the political desire of recognition of the central role of small and medium entrepreneurship in the EU economy, and represents an overall political framework for the European Union and its members through groups of principles, legislative proposals and measures, which are, primarily directed towards administrative limitations, ease of access to financing, encouraging cooperation and networking of enterprises:

- The first group consists of 10 principles, which direct the concept and implementation of policies on a European and national level. These principles are key for achieving added value on an European Union level, creating working conditions for small and medium enterprises, as well as enhancing the legal and

administrative surroundings around the European Union;

- The second group consists of new legislative proposals which govern with “Think Small First” principle;
- The third group consists of new policies which are used to implement previously named principles on a supranational and a national level (Kandžija & Cvečić, 2010, pp. 775-777).

Above all, despite all named goals, initiatives of the European Union and tasks that it recommends, and, in a way, binds its members, it is needed to additionally valorize the importance and the need of implementation of a very important factor which predisposes modern social and economic development—knowledge. Namely, modern research of complex interactive relations of society, economy, and knowledge, in the context of a growing interest for a society of knowledge, implemented in Croatia as well, show the state and the need of changing the role of insufficient knowledge, education, and innovation in the social and economic development of a country. Changes that are expected relate to at least four fields: (1) field of education and training—where it is necessary to expect a quicker connection to the European Union; (2) information and communications sector—since the appropriate indicators warn of a significant lag of Croatia in developing an information system in contrast to the achievements in the European Union; (3) challenges in the innovation system—indicate the investments in research and development of entrepreneurship which have been neglected for decades, and where the innovation system did not show as an initiator of an overall development of a country; and (4) legal and economic framework of a stronger development of a society of knowledge which, although, in the last few years, has been significantly upgraded, does not meet the standards. Administrative barriers are slowing the strengthening of business activities and an entrepreneurial climate, which weights the development of a society of knowledge (Barić & Jeleč Raguž, 2010, p. 75).

Conclusions

Modern economic policy of small economy is the base policy of today’s relations, what puts small economy in the focus of the European Union itself, as well as its members. Croatia, as a future member of the European Union, has invested, especially in 2002, a lot of effort into status determination of small economy, incentive measures for development of small and medium entrepreneurship, and standardizing with the European Union. The Croatian government with the project “Croatia in the 21st century”, as well as with the Program of incentives for small and medium entrepreneurship 2008-2012, additionally confirmed its orientation towards small and medium entrepreneurship. However, the economic crisis, present since 2008, has largely devalued the overall efforts and results of the European Union and Croatia on the way towards achieving the goals of small economy development. It is evident through enormous spikes in unemployment, a decline in manufacturing, deregistration of business entities, a decrease GDP, a lower life standard, and etc., what, in a certain way, identifies these “problems” on the level of the European Union and Croatia. But, undoubtedly the Croatian small and medium enterprises are currently lacking behind the economic efficiency of small entrepreneurship in countries of the European Union, what premiums that the anomalies of this sector must be systematically and timely solved faster and in a more engaging manner. It is a fact that there is the space and the possibilities for encouragement and development of small and medium entrepreneurship as a crucial entrepreneurial “medium” in the frameworks of the European Union and Croatia, which have to be generated and supported in all forms of activities, as well as minimize disparity of: (1) entrepreneurial goals, which are, in the context of the current crisis, unreachable; and (2) evident problems, which, in the intervals of crisis, to certain activities and to particular environments (local, regional, and national) confirm its consistency,

and even an expanding character.

Croatia in that context has to, with certain measures, increase the competitiveness of its economy, what implies the growth of Croatian exports. In order to use the benefits of the European market and confront the competition, Croatian entrepreneurs should be encouraged to innovate and internationalize, as well as connect and cooperate in order to keep them on the network of small entrepreneurship. On the other hand, the pressure of the competition insists on encouraging business subjects to continually use knowledge and innovation, since for the development of small economy a few criteria must be fulfilled: knowledge, capital, and social influence. Consequently, Croatian national programs spurred the development of small and medium entrepreneurship, supporting, before all, the “logic” of the European Union, which has, through a series of conclusions, suggestions, and recommendations in its strategic documents, strived towards affirming the achievement of certain goals. Undoubtedly, due to the current economic situation, or rather the current economic crisis, some determinations, decisions, models, measures, and programs should be reassessed, and accordingly (re)define, or rather according to the needs and possibilities “open” a space for generating new entrepreneurial initiatives. Since the largest portion of the Croatian population supported, through a referendum, Croatia joining the European Union, recognizing this, before all, as a chance for Croatian small and medium entrepreneurship and new employment, it is clear that Croatia itself must, in the shortest time possible, work harder on neutralizing the “syndrome” of the economic crisis through different, before all effective programs, models, and measures, through which, to small and medium entrepreneurship, would be given certain concessions and benefits, and in order to, in this state of the economic crisis, before all, exist normally. And finally, there must be a consciousness that, after entering of Croatia into the European Union in 2013, those questions will not be, in its name, solved by the European Union, but on the contrary; that the faith and the keys to the solutions are in its “hands”, during what, all disposable initiatives, chances, and financial opportunities of the European Union should be used.

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