THE IMPACT OF SMALL AND MEDIUM ENTREPRENEURSHIP ON TOURISM DEVELOPMENT IN THE REPUBLIC OF CROATIA

Marina Gregoric¹
Polytechnik of Medimurje

Andreja Kovac Pajic
Polytechnik of Medimurje

ABSTRACT
The aim of this research paper is to analyse the development trends of small and medium entrepreneurship in the tourist industry of the Republic of Croatia and to find out how entrepreneurship plays a relevant role in the development of economic growth in Croatia, with emphasis on its impact on tourism as one of the major growing industries in the world. Small and medium enterprises are more efficient, flexible and specialized, more open and oriented to new technologies and also more able to utilise opportunities in their markets. In order to support the consistent growth of entrepreneurship, it is important to include governmental funding, whether from local or EU funds. The objective of the paper is to define the current situation of small and medium entrepreneurship in the tourism sector, to find out whether enterprises use funds and sources from EU funds or from other relevant state or regional institutions.

The methodology applied in this research consists of a secondary literature review, the qualitative method by use of in-depth interviews with owners and managers of small and medium enterprises, quantitative data analysis through a conducted survey as well as the comparative method in order to contrast the available statistical data. The major results implicate that tourism in Croatia works regionally, which means that there is insufficient initiative, structured investment policy and support for small and medium enterprises in the tourism sector. In order to support entrepreneurship in tourism, there should be a united awareness of the needs, opportunities, knowledge and coordination involved in directing small and medium entrepreneurs in their specific field of development. There should be more initiative and common partnership between small and medium entrepreneurs and the government on all levels and all types of business influencing tourism and being part of the tourism product. This is necessary to achieve in order to utilise the tourist market potential and thus gain a more competitive position on the international market.

¹ Address correspondence to Marina Gregoric, PhD, Medimurje Polytechnik in Cakovec
Ulica J.Jelacica 22a, 40000 Cakovec, E-mail: marina.gregoric@mev.hr
The contribution of this research is in understanding the current situation and future trends of the position of small and medium enterprises relevant for tourism development in Croatia as well as in addressing some specific improvements and changes which should be undertaken in order to create partnership and improve the coordination of all players in tourism.

**Key words**: funds; partnership; small and medium enterprises; tourism; trends

**JEL Classification**: L26, L83

**INTRODUCTION**

Tourism as one of the main industries of the Republic of Croatia is rapidly developing and attracting the increasing attention of entrepreneurs who wish to invest. Although the potential benefits of investing in tourism are very important, many businesses still do not know what they could do to achieve a significant return on investment. Croatia is a country that for many years has attracted visitors largely because of its natural spaces and rich cultural and historical heritage, while the quality, availability and diversity of tourist attractions greatly lag behind other European tourist countries.

It is very important for the tourism sector in the Republic of Croatia to consider all areas which affect tourism, therefore it is necessary to assess the accommodation infrastructure, general infrastructure, availability, tourist offering, tourist products, and new tourism products that have good prospects for development, human resources, demand, realization and future impacts, competition, constraints, investment, and global mega trends and opportunities.

In developed countries, as well as in our country, the majority of companies are small and medium enterprises, while the larger enterprises are relatively fewer than those that appear in highly economically developed countries, which means that SMEs (small and medium enterprises) are generators of Development Entrepreneurship in Croatia.

The aim of this research paper is to demonstrate the development of the SME sector in Croatian tourism and the means and possibilities which are offered through programs and projects. The research goal is to find out what the major problems are that small and medium enterprises are facing in order to become active and successful players within the tourist industry.
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Entrepreneurship can be considered the pioneer of the development of modern tourism and to study its impact on the quality of services offered to tourists has only recently become a subject of research in tourism (Li, 2008 in Bartoluci and Buda, 2010).

Entrepreneurship Development Strategy provides an answer to the question in which direction should Croatia develop and what actions should be taken in order to ensure productive organizational, institutional and human expectations that would improve the competitive edge of Croatian tourism and which would in turn lead to better utilization of natural resources – all based on the principles of responsible and sustainable development. Activities covered by the Strategy are focused on product development; and the development of accommodation offerings and tourist infrastructure, investment, marketing, human resources and strengthening the management of tourism development, for which a proposed action plan for the development of priority tourism policies is created.

As for the tourism sector, Croatia must improve key business elements such as: high seasonality, average spending per guest, spatial distribution of tourist activities, the possibility of attracting new segments of guests and more. Marketing areas that need improvement are: brand strength, parallel positioning, accommodation offerings, the capacity of attracting new segments of visitors and seasonality.

Croatia has opportunities in the following areas: through global trends in the tourist market, the development trends of tourist products, through taking an environmentally responsible position, developing new communication and sales skills, and through the development of new and innovative business and management models.

Development strategy will be implemented through the partnership principle, institutional deregulation, environmentally responsible development, more than sun and sea tourism in the entire area, authenticity and creativity, hospitality, innovated market access, production for tourism, and the culture of quality (Institute for tourism, http://www.itztg.hr).

Holders of all investment activities in tourism by the year 2020 will be small and medium enterprises, on which will development investment projects will be built, and which will be realized through the private sector. Enterprise development will be affected by traditions, position in the family, social status and level of education (Lordkipanidze, Brezet and Backman, 2005 in Bartoluci and Budimski, 2010).
Encouraging the development of entrepreneurship in the Republic of Croatia

Besides economic opportunities, individuals, institutions, infrastructure and environment lead to more entrepreneurship. In Croatia, in the first place are state supports and subsidies which the state directly uses to affect the economic relations of individual economic entities. The Republic of Croatia is developing support for the promotion of entrepreneurship through institutional and financial incentives.

Institutional incentives are implemented through regional development agencies, business centres, business incubators, business accelerators, science and technology parks, business parks and centres of competence. Financial incentives are implemented through credit incentives – direct lending, interest subsidies and by encouraging liquidity and tax incentives. All of the above measures and activities can be viewed and analysed through growth in the number of accommodation and catering facilities, the number of employees, increase in traffic and financial indicators. The development of tourism businesses is not conditioned solely economically, but also a large number of social factors in each stage of development have an important role, where to start a business usually remains within the family and all family members are included in the business as well as the creation of the tourism product. Such examples can be found in peasant farms, wine cellars and small family hotels.

Entrepreneurial investment and innovation in Croatian tourism

The impact of entrepreneurship on the development of tourism can be traced to investments that drive economic growth and employment. By joining the European Union, Croatia is growing through fast investments, in which most are invested in fixed assets. Investment is very important in managing entrepreneurial projects at all stages in order to minimize the risks and uncertainty of the realization of projects. To start a business program, it is necessary to have a business plan and various studies and projects. Through the use of grants, subsidies and funds given to encourage entrepreneurs to invest, they could create new jobs, as well being used for better transport links, innovation, a cleaner environment and balanced regional development.
Through European structural and investment funds, funding is available to increase the competitiveness of SMEs, for the construction of production facilities and equipment, for more favourable financial instruments, for innovation, for tourism (hotels, marinas, camps and thematic camps), advisory and other services, access to the foreign markets, encouraging start-up and ensuring the survival of existing businesses – including agriculture and fisheries (Petricevic, http://www.britishcouncil.hr/sites/default/files/prirucnik_dop_i_dpp_u_turizmu.pdf).

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Difficulties in the development of tourism related businesses

As a result of the global economic and social crisis of 2008 that took a toll on entrepreneurship, the state wants new instruments such as pre-settlement funding, write-offs and furthermore, it acts to help overcome the crisis, particularly to assist those businesses that are not functioning well, crushing the competition and the fundamental objective of the enterprise. Nevertheless, since the year 2010 Croatian tourism has recorded a steady growth in revenue and an increase in the number of visitors; there is also a series of problems has arisen. Croatian tourists come down to the coast, and to a much lesser extent in continental Croatia. Accommodation facilities are not used enough nor are they sufficient, with most guest visits taking place in the season, and they do not apply the principle of sustainable development in the businesses of the tourism industry.

Tourist Enterprises of the Republic of Croatia

In Croatia, regional programs to develop cross-border cooperation with neighbouring countries are the common role of sustainable development and tourism, the development of a cooperative economy and common human resources and projects of economic and social development. The development of the continental tourism related businesses of Croatia should focus on creating the preconditions for promotion, support and assistance in the construction or reconstruction of rural tourism, ensuring the conditions for the sustainable development of rural tourism, improvement of the tourism product, improving the knowledge and skills of human resources, specialization of the tourist product.
and services, professional experience, the cooperation of tourism and agriculture, and the promotion of Croatia through branding.

For Croatia, it is important to take advantage of the geographical features, climate, water, wildlife, protected natural heritage, protected cultural and historical heritage, famous people and historical events, cultural and religious institutions, sports and recreational buildings and grounds, tourist trails, paths and roads, natural spas and natural attractions. Furthermore, meeting all the prerequisites for better development of scientific and congress tourism, health tourism, religious, sports and recreation, experientially-thematic tourism, rural tourism, cultural and urban tourism takes just a little entrepreneurial spirit, goodwill, and regional political sensitivity to result in even better, more innovative, advanced and highly satisfied entrepreneurs.

RESEARCH RESULTS

Research was conducted among entrepreneurs in Croatia, concerning which businesses are related to the tourist industry. Qualitative research is done by use of in-depth interviews with selected entrepreneurs, while quantitative research is done through distribution of questionnaires. The results of qualitative research indicate that entrepreneurs were not able to utilize governmental support and funds due to various reasons: not being well informed about the funds available, not knowing how to apply for them and not being able to apply for and fill out all the necessary documents needed to fulfil the set requirements. Amongst 15 interviewed entrepreneurs, one was found to be a positive example of good practice. This entrepreneur was supposed to be funding the expansion of activities and investment in fixed assets, and after the stagnation of the year due to administrative obstacles, he managed to realize the project through EU funds, specifically the IPARD measure 302, which are assigned to it grant funds, while the discrepancy in the necessary funds were provided through the Ministry of Tourism. Today’s economy has recorded a growth in revenues from accommodation and catering, and has gradually become recognized in the wider region, opening new jobs. This is a good example of the utilization of EU funds, but with difficulties in obtaining information and realistic possibilities for the use of grants, subsidies and EU funds.

Quantitative research was conducted by distribution of questionnaires to 255 respondents with a response rate of 60%, which resulted in 153 answered questionnaires. The sample was selected randomly from different SMEs throughout Croatia.
The results of the quantitative research show that 49% of respondents did not expand their operations due to a failure to obtain grants, 39% of the respondents attested that the expansion of the business was prevented by a lack of financial resources, and 12% of the businesses confirmed that they were not expanding because of uncertainty in the business environment.

*Chart 1 Reasons that prevent respondents in business expansion*

Source: Authors personal processing

*Chart 2 Problems that respondents encountered in business*

Source: Authors personal processing

The above chart shows the problems the company respondents most often encountered in business and from which it is clear that entrepreneurs face different problems in business, but the leading financial shortcomings remain:
frequent changes in tax policy, difficulty in accessing government grants and incentives, and administrative obstacles and legal regulations.

**Chart 3 Required forms of support to respondent company**

- Searching for grants and incentives
- Subsidies and EU funds
- Searching for investors
- Market research
- Assistance to enter new markets
- Solving technical and technological problems

Source: Authors personal processing

Most respondents are required to support the financing of entrepreneurial projects (37%), to search for funding (18%) and resolve technical problems (15%), while the training of employees, market research and assistance in entering foreign markets are represented to an equal extent.

**Chart 4 Difficulties that arise when seeking support and incentives**

- Knowledge or information on incentives, subsidies and EU funds (37%)
- Content and the inadequacy of support and incentives for particular company (24%)
- Conditions under which incentives and support are offered (6%)

Source: Authors personal processing

The greatest difficulties faced by entrepreneurs in seeking grants and incentives are knowledge or information on incentives, subsidies and EU funds (37%), after which follows the content and the inadequacy of support and incentives for a particular company (33%) and the conditions under which incentives and support
are offered (24%), while only 6% of the respondents did not encounter difficulties in finding support and incentives.

CONCLUSION

Since the fundamental objective of the Croatian Strategy for Development of SMEs is approaching the levels of employment, innovation and tourism found in developed states of the European Union, the Croatian economy should become an economy in which will new companies will be created that will be ready to withstand the demands of the market and competition. To facilitate the creation of new businesses and more easily resist the demands of the market, the necessary aid and sufficient financial resources are required.

The biggest problem of SMEs in the Republic of Croatia is a lack of funding since the banking system does not track the small and medium enterprises and entrepreneurs and it is hard to obtain funding for whatever purpose they need. Furthermore, the biggest obstacle is a lack of discipline in terms of payment, which follows the Croatian business trends since its independence. To this extent, the government has tried to influence the adoption of laws and bylaws to regulate terms of payment and other activities related to the enforcement of payment in general. Regardless of the influence of the state in the area of payments, the results are not yet visible. With regard to problems related to tax policy, entrepreneurs face frequent changes in legislation. For the state to maintain liquidity in the market, it has kept large companies and employees, and for small businesses unpopular measures, such as pre-settlement funding, rescheduling, write-offs and administrative contracts, by way of which the government wanted to help enterprises to survive in the market and to be more competitive. Another important obstacle is the administration, which is most prominent in obtaining various licenses, although a lot has already been achieved by the introduction of electronic services – both for business and for private entities. To make the best use of EU structural funds, a problem for businesses occurs not only at the beginning of the realization of the project, but even much earlier – when obtaining basic information about the real possibilities of applying for funding.

Tourism takes an increasing share of GDP in Croatia, but it is still not enough to bring about more positive effects on the Croatian economy. Following accession to the European Union, grants, subsidies and structural funds have become more in demand than before, and that has contributed to improved marketing activity, informing entrepreneurs about available projects supported through
funds, and has had a positive effect on development and investment in Croatian tourism.

Since most businesses engaged in tourism activities are not fully and timely informed of the existence and the possibilities of applying for structural funds, the use of national, regional and local grants, subsidies and incentives are not extensively used. Croatian tourism in almost all regions acts locally. To achieve better results, Croatia needs to consolidate and to try to connect needs, opportunities, capabilities, knowledge, and all this in an effort to gear SMEs according to the actual needs of the market. Croatian tourism and economy must realise opportunities sooner, be more open to new technologies, specialise activities faster, be more efficient and more flexible, contribute more to development and competitiveness and achieve a better position in international markets. To achieve all this, Croatia needs to: see to it that entrepreneurship in each region is equally developed in order to improve the state of entrepreneurship with regard to local economic policy, as local business development affects the growth of the national economy; to encourage local entrepreneurship and reduce centralization of the state; and to develop regional development centres that would satisfy the requirements of the state and entrepreneurs.

The withdrawal of funds from the EU Structural Funds represents a great potential which is a vital task, because in Croatia there are people, entrepreneurs, with enough vision, experience and enthusiasm to revive the spirit of enterprise, in order to create new businesses, new jobs, profits and, above all, better, more successful and satisfied entrepreneurs.

REFERENCES
