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THE IMPACT OF THE EDUCATIONAL STRUCTURE OF HUMAN CAPITAL ON BUSINESS PERFORMANCE OF ENTERPRISES IN THE REPUBLIC OF SERBIA[1]

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Abstract: *The aim of this paper is to critically analyze and evaluate the impact of human capital education on the economic growth of enterprises in the Republic of Serbia, with a special focus on theoretical and empirical aspects of the relationship between investments in knowledge and organizational productivity. Starting from modern economic and managerial paradigms that treat human capital as one of the main carriers of competitive advantage, the paper problematizes the levels and structure of the labor force education in Serbia, as well as the degree of compliance between educational profiles and the requirements of the modern business environment. Methodologically, the research relies on the analysis of relevant literature, statistical data and results of previous studies, in order to identify key correlations between the educational level of employees and growth indicators at the level of individual enterprises. The obtained findings indicate a strong positive impact of continuous investment in education and professional development on innovation, efficiency and financial performance of enterprises. The conclusion points to the need for a systemic approach to human capital development, which implies more intensive cooperation between educational institutions, the state and the private sector in order to create a dynamic and flexible labor market, capable of responding to the challenges of the modern knowledge-based economy.*

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INTRODUCTION

In the contemporary global economy, marked by rapid technological changes, digitalization, and increasingly intense competition, human capital has become one of the key resources for sustainable development and the long-term competitive advantage of enterprises. Unlike the traditional view of capital as a physical or financial category, human capital encompasses the knowledge, skills, competencies, and creativity of employees, whose quality significantly influences overall organizational performance. Modern economies, especially those striving to transition toward knowledge-based societies, increasingly recognize that an educated, motivated, and innovative workforce is the most important resource for generating new value and achieving long-term prosperity.

Education, as a fundamental component of human capital, is a critical factor in the process of economic growth and the transformation of business entities. Every society's educational system is based on the idea of quality knowledge as an essential element of all its parts. However, a key question arises: Does quality knowledge automatically imply a quality educational system? Or conversely, does a poorly designed and structured educational system necessarily lead to a lower level of quality knowledge? The inevitable implication of these questions is that knowledge, as one of the elements of the system, plays a functional role in the overall development of education (Аврамовић, 2013). In this sense, education is not only a means of achieving individual employability, but also a societal mechanism for building a productive, inclusive, and innovative economy.

A high level of education and continuous professional development contribute to greater productivity, innovation, and the ability of companies to adapt to the demands of a dynamic market environment. Companies that systematically invest in the development of their human resources demonstrate better financial performance, higher resilience to crises, and a greater capacity to adopt new technologies. On the other hand, insufficient investment in education and training limits the capacities of the workforce, deepens structural mismatches in the labor market, and reduces overall economic competitiveness. In the context of the Republic of Serbia, despite the awareness of the importance of education for economic development,

enterprises face numerous challenges – from the misalignment between the educational system and labor market needs, to limited resources for investing in employee training and development, as well as negative demographic trends that further reduce the availability of qualified labor. Additionally, the issue of brain drain, particularly among highly educated young professionals, presents a significant obstacle to the accumulation and retention of human capital within the country.

Based on the above, the subject of this paper is the analysis of the relationship between human capital education and the economic growth of enterprises in the Republic of Serbia. The aim of the research is to determine the extent to which the level of workforce education affects business performance, and to identify potential policies and measures that could contribute to more efficient human capital development in the function of economic progress. Accordingly, this paper seeks to link the theoretical foundations of the human capital concept with relevant empirical findings, as well as with the specific challenges and opportunities characteristic of the Serbian economy.

The structure of the paper includes: a theoretical framework and conceptual definition of human capital; a review of relevant empirical studies; an analysis of the current situation in Serbia; and finally, recommendations for improving educational strategies in an economic context. In this way, the paper aims to contribute to the broader discourse on the importance of human capital as a driver of development and to offer guidelines for creating sustainable and inclusive policies at both the enterprise and national levels.

1. EDUCATION IN THE CONTEXT OF HUMAN CAPITAL THEORY

In modern economic theory, education is viewed as an indispensable component of human capital, with a direct impact on productivity, competitiveness, and economic growth. According to the classical theory of human capital, developed by economists Theodore Schultz (1961) and Gary Becker (1964), education is not merely a social value, but an investment that generates economic returns in the form of higher earnings, better employment conditions, and greater contributions to national income.

"Education increases the economic value of an individual in the labor market, making them more productive and flexible in relation to technological and market changes" (Becker, 1964, p. 19).

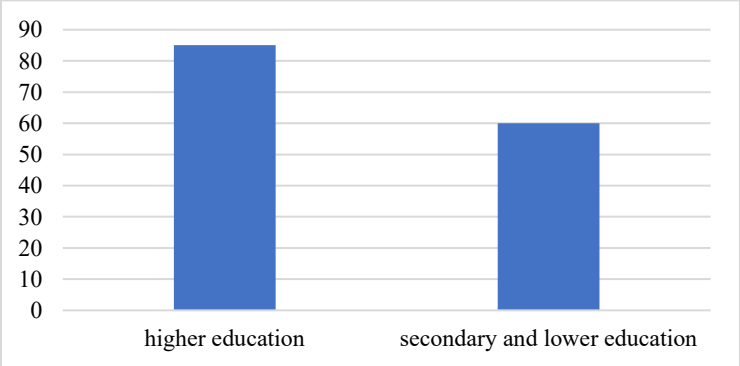
Investment in education, therefore, has a dual effect: at the microeconomic level, it raises individual income and improves living standards; at the macroeconomic level, it influences GDP growth, technological innovation, and societal development. The World Bank and the OECD have long emphasized that countries with a highly educated workforce tend to achieve better economic outcomes, attract investment, and integrate more easily into the global economy (OECD, 2020).

"Countries that systematically invest in education achieve long-term competitive advantage in a global knowledge-based economy" (World Bank, 2018, p. 7).

However, the economic approach to education through capital theory is often criticized for its reductionist perspective, as it treats knowledge as an economic commodity and neglects the intangible values of education. Nonetheless, in a market economy, educational capital functions as a tool for labor market positioning, where formal qualifications often determine employment levels, wages, and career advancement.

Research shows a positive correlation between the level of education and economic activity. According to EUROSTAT data, in the European Union member states, the employment rate for highly educated individuals is, on average, 25% higher than for those with medium or lower levels of education (EUROSTAT, 2022). These data confirm the economic value of educational capital as a resource that enables better positioning in the labor market (*Graph 1*).

Graph 1. Employment Rate by Level of Education



Source: Based on EUROSTAT data for 2022.

In addition to direct economic benefits, education also plays a key role in enhancing entrepreneurial skills, technological development, and social

innovation. Accordingly, national education policies are increasingly shifting from quantitative expansion to the qualitative improvement of knowledge and skills that have direct application in the economy. Concepts such as the "knowledge economy" and "education for sustainable development" are becoming dominant in economic and educational strategies.

However, it is important to note that investment in education does not always yield uniform results. There is the phenomenon of "overqualification" and "degree inflation", which leads to a mismatch between educational qualifications and actual labor market needs. This indicates that the economic value of educational capital depends not only on the level but also on the relevance and quality of education.

In conclusion, the theory of educational capital in the economic context provides a strong framework for understanding the relationship between education and economic development. Its application, however, requires a balanced approach that also takes into account the social consequences of applying market logic to education. Only in this way can the full potential of education be realized as a resource of strategic importance for both the individual and society as a whole.

2. THE CONCEPT OF HUMAN CAPITAL

The concept of human capital, as previously emphasized, emerged within economic theory in the mid-20th century, when economists such as Theodore Schultz and Gary Becker highlighted the fact that investments in education, health, and the training of individuals represent an important form of investment, similar to investments in physical capital. According to their understanding, the knowledge and skills that an individual acquires through formal education, work experience, and continuous professional development directly affect their productivity and economic value.

In the broadest sense, human capital is defined as the sum of knowledge, abilities, motivation, and health that an individual possesses and can apply in the process of production and value creation. Unlike physical capital, human capital is embedded in the individual, meaning it is non-transferable, but it can increase or decrease over time depending on the conditions of education, the working environment, and opportunities for development.

In economic literature, human capital is often linked to economic growth through several mechanisms: increased labor productivity, improved

management quality, innovation, better adaptability to technological changes, and more efficient organization of business processes. From the perspective of enterprises, human capital represents an intangible resource of strategic importance, affecting not only operational results but also long-term sustainability and market positioning.

Different paradigms within the theory of human capital further highlight the importance of education as its key component:

- **Neoclassical economic theory** treats education as an investment with expected returns in the form of higher earnings and increased productivity;
- **Endogenous growth theory** (e.g., Romer, Lucas) emphasizes the role of knowledge and technological innovation as internal factors of economic development, with human capital taking a central place;
- **Institutional approaches** focus on the importance of institutional and cultural frameworks for the effective use of human capital.

In the context of the Republic of Serbia, the issue of human capital takes on particular significance in light of demographic challenges, brain drain, and structural mismatches between the education system and labor market needs. Understanding and improving human capital – particularly through education and training – is a necessary prerequisite for increasing enterprise competitiveness and accelerating economic development. In fact, in Serbia's case, numerous studies point to the existence of a structural mismatch between the education system and the demands of the labor market (Vlahović, 2021; ETF, 2020), resulting in the underutilization of available human capital. Additionally, negative demographic trends and migration further reduce the potential for knowledge-based economic growth.

At the same time, in the modern context of digitalization and rapid technological change, the concept of human capital is acquiring a new dimension that goes beyond traditional frameworks of formal education. Increasing emphasis is being placed on the acquisition of so-called *"soft skills"* (communication, critical thinking, adaptability), as well as the capacity for lifelong learning and rapid adaptation to new working conditions. In precisely these areas, the Republic of Serbia faces the challenge of modernizing curricula, encouraging cooperation between educational institutions and the business sector, and fostering a culture of learning in the workplace. Without a clear human capital development strategy encompassing both the public and private sectors, it is difficult to expect that Serbia will be able to harness the

full potential of its human resources for sustainable development and competitiveness in the global economy.

3. OVERVIEW OF RELEVANT EMPIRICAL STUDIES

A large number of empirical studies confirm the positive link between investment in human capital and economic performance at both the micro and macro levels. Psacharopoulos and Patrinos (2004), in their global review of returns on investment in education, show that each additional level of education leads to a significant increase in individual earnings and productivity. The average rate of return on investment in primary education in developing countries exceeds 10%, while for higher education in developed countries, it ranges between 8% and 12%.

Hanushek and Woessmann (2012) point out that it is not enough to simply increase the number of years of education; rather, the *quality* of education is the key to economic growth. Their analysis of data from 50 countries shows that student achievement on international tests (e.g., PISA) is a strong predictor of future economic growth. In the business context, Black and Lynch (2001), in a study for the United States, found that companies that systematically invest in employee training have 16% higher productivity compared to those that do not. Similarly, Dearden et al. (2006) showed in the United Kingdom that company productivity increased by 6% after investing in employee training. In Central and Eastern European countries, including former socialist economies, numerous studies highlight the importance of quality human capital for attracting foreign direct investment, developing the IT sector, and fostering innovation (World Bank, 2019).

In addition to the above, significant contributions to understanding the role of human capital come from studies that link education and population health to long-term economic outcomes. Barro (2001) shows that the quality of education is one of the most stable predictors of GDP per capita growth, especially in developing countries. World Bank studies (2018) emphasize that investment in human capital – measured through indicators such as education, health, and child nutrition – is directly linked to a country's economic potential, and that differences in human capital can explain a significant portion of income inequality between countries.

Modern research, especially those based on panel data and long-term series, increasingly emphasizes the complexity of the relationship between human capital and innovation capacity. For example, Aghion et al. (2019)

argue that the *quality* of human capital is crucial for success in transitioning to knowledge-based and high-tech economies. Their analysis of OECD countries shows that economies with a larger share of the population employed in knowledge-intensive sectors record much faster productivity growth—provided that education systems support the development of cognitive, technical, and entrepreneurial skills.

Within the corporate sector, there are also studies focusing on the relationship between investment in human capital and organizational learning. For instance, Lopez-Cabrales et al. (2006) suggest that integrating training programs into human resources strategy is associated not only with productivity growth, but also with a greater capacity of the organization to generate and apply new knowledge. This link becomes particularly important in rapidly changing sectors such as information technology, financial services, and creative industries.

Although most empirical studies are concentrated on developed countries, the last decade has seen a growing number of studies addressing the effects of human capital in transition economies. In that context, research from the Western Balkans region highlights a series of structural challenges: lack of investment in lifelong learning, outdated teaching methods, insufficient cooperation between educational institutions and the economy, and the brain drain toward developed countries (RCC, 2021; ETF, 2020). These issues impact the long-term sustainability of development strategies and call for the adoption of comprehensive public policies to support the development of domestic human capital.

Despite extensive evidence on the positive effects of investment in human capital, it is important to emphasize that the results are not uniform. The degree of impact varies depending on the institutional framework, labor market efficiency, resource availability, and quality of governance. As Acemoglu and Robinson (2012) highlight, without appropriate institutions that encourage innovation, equity, and mobility, even significant investments in education may have limited effects on development.

In conclusion, empirical literature provides strong support for the claim that human capital is one of the key drivers of long-term economic growth, organizational competitiveness, and social stability. However, the effects of investment depend on how these resources are utilized and on the alignment of educational, market, and institutional mechanisms. For that reason, the following chapter's analysis of the situation in Serbia will allow for a better

understanding of the specific challenges and potential of the national framework for human capital development.

4. ANALYSIS OF THE SITUATION IN THE REPUBLIC OF SERBIA

Understanding the significance of human capital within the context of a specific national economy requires a detailed analysis of the current situation to identify key challenges and opportunities for improvement. In the case of the Republic of Serbia, the development of human capital takes place under conditions of structural limitations and transitional changes affecting the education system, labor market, and vocational training system. Although there have been positive developments – such as the increase in the share of highly educated individuals in the total employed population – numerous indicators point to the need for deeper reforms and coordinated policies that will enable more effective use of human capital potential for economic development.

In Republic of Serbia, the issue of human capital is particularly important given demographic challenges, the mismatch between the education system and labor market needs, and limited investment in employee upskilling. According to data from the Statistical Office of the Republic of Serbia (SORS, 2023), more than 50% of employed individuals have completed secondary education, while the share of those with higher education has been steadily increasing, reaching about 27% in 2022 (*Table 1*).

Table 1. Employment by Education Level in Republic of Serbia

Education Level	Share of Employed (%)
Without completed primary school	3%
Primary school	18%
Secondary school	50%
College/University	20%
Higher education (Master/PhD)	9%

Source: SORS, 2023. (https://www.stat.gov.rs/en-us/publikacije/publication/?p=15431)

However, the share of individuals participating in non-formal education and training (lifelong learning) remains low – under 5% – which is significantly below the EU average (~11%) (*Table 2*).

Table 2. Comparison of Selected Indicators in Republic of Serbia and the EU

Indicator	Republic of Serbia	EU Average
Share of highly educated in total labor force	27%	36%
Participation in lifelong learning (ages 25–64)	4.3%	10.8%
Average return rate on higher education	9%	8–12%
Share of companies with training programs	30%	65%

Source: Authors based on statistical data

A study by the European Training Foundation (ETF, 2020) shows that Serbia faces structural mismatches between educational profiles and actual labor market needs. A large number of young people are being trained for occupations that do not match high-demand sectors (e.g., IT, technical fields, engineering). At the same time, a significant number of highly educated young people choose to emigrate, resulting in the loss of the most valuable segment of the country's human capital.

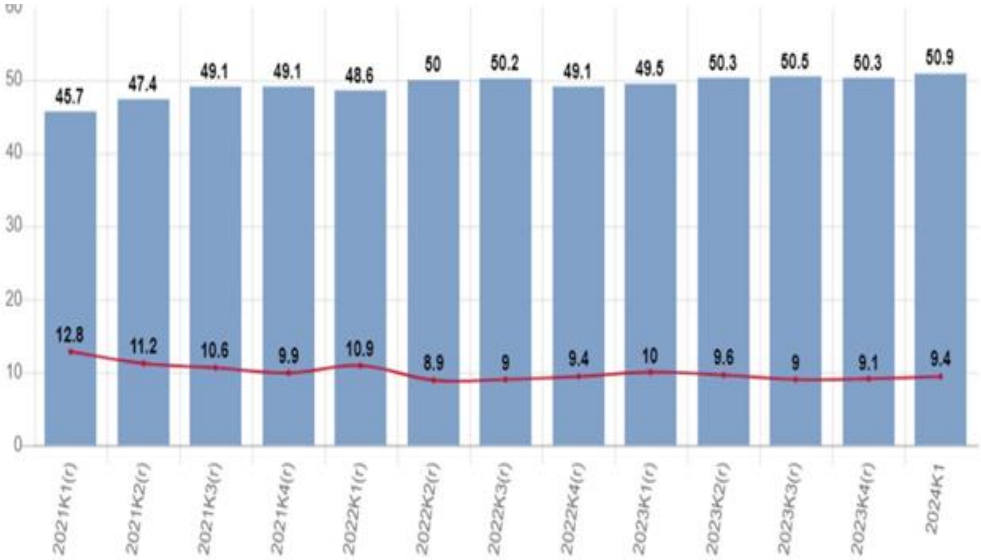
In the business sector – particularly among small and medium-sized enterprises – there is a limited awareness of the strategic importance of investing in employees. Research by the Chamber of Commerce and Industry of Serbia (CCIS, 2022) shows that fewer than 30% of companies regularly conduct internal training, and only 12% have structured workforce development programs. This significantly impacts productivity, innovation, and adaptability in a technologically dynamic environment.

According to the Labor Force Survey, in the first quarter of 2025, the number of employed persons in Serbia was 2,887,100; the number of unemployed was 289,400; and the number of people outside the labor force was 2,438,100. Compared to the same quarter in the previous year, the number of employed persons increased by 15,400, the number of unemployed decreased by 9,700, and the number of those outside the labor force dropped by 37,600. The employment rate increased by 0.5 percentage points (p.p.), reaching 51.4%, while the unemployment rate decreased by 0.3 p.p. to 9.1%. The rate of the population outside the labor force was 43.4%, a decrease of 0.4 p.p.

Compared to Q4 of 2024, there was a reduction in the number of employed persons by 7,800, a decrease in the number of people outside the labor force by 24,100, and an increase in the number of unemployed by 16,300.

The unemployment rate rose by 0.5 p.p., the rate of those outside the labor force dropped by 0.3 p.p., while the employment rate remained unchanged (SORS, 2025). The total informal employment rate was 11.5%, with informal employment in agriculture at 48.1% and in non-agricultural sectors at 6.0% (*Chart 2*). These data highlight the need for a comprehensive approach to better align the education system with labor market demands, as well as the importance of continuous investment in human capital development within enterprises. Moreover, it is essential to improve employment policies that encourage the formalization of labor relations and reduce the informal economy, especially in agriculture, where informal employment rates are particularly high. Only through coordinated efforts by educational institutions, employers, and government bodies can a competitive and adaptable labor market be created, contributing to Serbia's sustainable economic development.

Chart 1. Unemployment Rate in Republic of Serbia (2021–2024)



Source: SORS, 2024. (https://www.stat.gov.rs/en-us/publikacije/publication/?p=15431)

The data in the chart point to a relatively stable upward trend in employment during the observed three-year period. From the first quarter of 2021, when the employment rate was 45.7%, there has been continuous growth, reaching 50.9% in Q1 of 2024. Although growth wasn't linear and there were slight fluctuations, the general trend is positive, indicating a gradual recovery of the labor market and increasing economic activity.

On the other hand, the unemployment rate showed moderate oscillations, ranging between 8.9% and 12.8%. The highest rate was recorded in Q1 2021, followed by a significant decline and stabilization at lower levels. Despite minor increases in certain quarters, such as the end of 2022 and the beginning of 2024, the overall trend points to a slight decrease in unemployment. These indicators reflect a gradual strengthening of the domestic economy's capacity to absorb labor, but also highlight potential challenges in the labor market structure – such as job quality, employment regulation, and alignment between the supply and demand for knowledge and skills. In this context, the role of the education system becomes even more critical, as its ability to produce a workforce equipped with relevant and applicable knowledge is key to sustaining positive labor market trends. The data clearly indicate the need for a deeper structural analysis of the relationship between education and employability, particularly given the increasing mobility of the workforce and the evolving nature of in-demand competencies.

5. CONTRIBUTION OF HUMAN CAPITAL TO THE DEVELOPMENT OF ENTERPRISES

Human capital represents one of the key intangible resources of a modern enterprise. Unlike physical capital, it encompasses the knowledge, skills, competencies, creativity, and experience of employees, as well as their values, motivation, and attitudes, which fundamentally affect efficiency and innovativeness in business operations (Becker, 1993; Schultz, 1961). These very elements enable enterprises to maintain a competitive advantage in a dynamic and uncertain business environment (OECD, 2021).

Effect on productivity and efficiency – Quality human capital directly influences employee productivity. Employees who possess relevant knowledge and skills perform their tasks more efficiently, make better decisions, and reduce the number of business errors (Barney & Wright, 1998). For example, in manufacturing activities, well-trained workers can increase the speed and quality of production, while in the service sector, employees with developed communication and analytical skills improve the customer experience (Ployhart et al., 2014).

Encouraging innovation and technological progress – Human capital is the carrier of innovation. Employees who possess creativity and critical thinking abilities are often the source of new ideas, process improvements, and technological advancements (Florida, 2002). Institutional

investment in employee development – through training, seminars, knowledge exchange, and encouraging teamwork – results in greater readiness of enterprises to respond to changes in the market environment (OECD, 2021).

Strengthening organizational culture and loyalty – The development of human capital contributes to building a positive organizational culture. Enterprises that recognize the importance of employees as key partners in development not only achieve better business results but also build stronger internal cohesion, loyalty, and commitment to organizational goals (Saks, 2006; Boxall & Macky, 2009). This is especially important in times of a fluid labor market and frequent transitions between employers.

Impact on enterprise competitiveness – In the global market, competitiveness is less and less based solely on price, and increasingly on the quality of services, innovations, and speed of adaptation. Human capital is a prerequisite for all three dimensions (Grant, 1996). Enterprises that systematically invest in employee education and development achieve better results, adapt more easily to new trends, and build a reputation as innovative and responsible business entities (Barney, 1991). A practical example – many successful companies such as Microsoft, Google, or Infostud in Serbia are dedicated to the continuous development of employees and recognize them as key strategic resources (LinkedIn, 2020). They invest in internal academies, mentoring programs, support for personal development, and soft skills training, which results in high productivity, innovation, and team stability (Bersin, 2013).

Considering all the above aspects, it is clear that investing in human capital should not be seen as a cost but as a strategic investment with long-term returns. Research shows that organizations that continuously develop the competencies of their employees record not only better financial results but also a higher degree of innovation activity, customer satisfaction, and resilience in crisis periods (World Bank, 2018). Moreover, the development of human capital has a broader social significance because it contributes to increasing overall employment, reducing inequality, and improving social mobility. Modern human resource management concepts increasingly rely on data and analytical tools to identify employee potential, predict future needs, and measure the effects of development programs. In this context, the role of management becomes crucial – not only in creating development policies but also in building a favorable work environment that encourages learning, creativity, and open communication.

Such approaches demonstrate that human capital is inseparable from strategic management and sustainable enterprise growth. Overall, the importance of human capital in the modern economy exceeds traditional frameworks. It represents the driving force behind innovation, productivity, competitiveness, and organizational resilience. Therefore, it is of essential importance that both states and enterprises systematically develop policies that recognize the value of knowledge, skills, and employee engagement as the main lever of long-term success. Investing in human capital is not only about improving individual performance but also about fostering a culture of continuous learning and adaptability within organizations. This enables enterprises to remain agile in the face of rapid technological changes and evolving market demands. Furthermore, nurturing human capital contributes to social cohesion and economic stability by creating more equitable opportunities for all members of society.

CONCLUSION

Human capital represents a key and irreplaceable resource without which it is impossible to achieve long-term and sustainable development of any modern enterprise. In today's era of digitalization, globalization, and rapid market changes, the value of a company depends less on physical and financial resources and increasingly relies on intangible factors such as knowledge, creativity, adaptability, and employee collaboration. It is important to emphasize that human capital is not a fixed or static category – it is dynamic and continuously evolving under the influence of organizational culture, internal policies, and the work environment. Companies that systematically and strategically approach the development of human resources through continuous education, improvement of working conditions, fair compensation, and encouragement of innovation create a favorable environment where employees can give their best. This approach not only improves productivity and work quality but also strengthens the company’s image as a desirable and responsible employer in the labor market. Furthermore, human capital plays a crucial role in implementing new technologies, optimizing business processes, and building sustainable competitive advantages. Thanks to well-developed knowledge and skills of employees, companies can quickly respond to changes in the external environment, recognize new market opportunities, and successfully manage risks that arise in complex and unpredictable business conditions.

Considering all the above, it is clear that investments in human capital are not only socially responsible but also economically justified. Companies that recognize and value human potential as a strategic resource have significantly higher chances of sustainable growth, increasing market value, and positive impact in the broader social and economic context. For this reason, the development of human resources must be integrated into all business strategies as a key factor of success.

Ultimately, human capital should not be viewed only as a means to achieve business goals but also as a goal of modern business itself. Successful and responsible companies do not build only products and services, but above all, the people who create and support their development. This is the guarantee of long-term competitiveness, innovation, and sustainability in today's rapidly changing world.

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