

THE TRANSITION FROM SOCIALISM TO A MARKET ECONOMY IN SLOVENIA: STRATEGIC PROBLEMS OF DIFFERENT ENTERPRISES¹

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The military crisis in the former Yugoslavia was in part triggered by the process of democratization, which questioned the socio-political domination of certain groups under the previous, socialist regime. Since Yugoslavia was a multinational entity, such groups were of an ethnic as well as social and economic character. Given the majority principle, these groups felt that the democratization process would menace their positions, especially in those areas where they were a numerical minority. War was their response to incipient democracy.

The roots of democracy were economic in nature. Socialism was based on a tacit agreement between the authorities and citizens: in exchange for political loyalty every citizen was assured a minimum standard of living. When it became apparent that it was no longer possible to guarantee the citizenry's welfare, the authorities had to initiate change. Thus revolution came from the top. The first to recognize the impossibility of maintaining the politico-economic compact were the political leaders. Therefore, they took the initiative, hoping to achieve what Tomasi de Lampedusa termed in his famous novel, *Gattopardo*, "changing everything, in order to leave everything unchanged." The democratization process increased liberty in the hope that citizens would start caring for themselves. But in such extensive socio-political transformations it is very difficult to predict precise outcomes, which explains why many socialist states disintegrated. The fate of large companies with high fixed costs is similar in crises: Transforming them into smaller units, a part of the fixed costs can be converted into more bearable variable costs, proportionate to output. The establishment of an independent Slovenia is a typical example of such an economic process.

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The author expresses his thanks to Michela Lazzaro, who cooperated in this work by researching and analyzing data.

The transition process, viewed from an economic standpoint, faces two orders of problems:

1. Regulation of the economic environment, a task which has to be undertaken by the state authorities;

2. Problems connected with the transformation of former socialist enterprises into market-type enterprises, either

2.1. through restructuring, with an ownership change, aimed at better delegation of responsibility, or

2.2. foundation of new enterprises based on the rules of market economy.

This study grew from research carried out during the last years of the former Yugoslavia; the transition caused political disruptions and forced a restriction of the object of study to a smaller area of Slovenia.²

²

The literature on transition is very wide. Some of the more important publications on the topic are: Alberto Chilosi, "Distribution Consequences of Privatisation in the Economies in Transition: An Analytical Framework," *MOCT-MOST* 6(1996): 75-93; Padma Desai, ed., *Going Global: Transition from Plan to Market in the World Economy* (Cambridge: MIT, 1997); Richard Ericson, "On an Allocative Role of the Soviet Second Economy," in ed. Padma Desai, *Marxism, Central Planning, and the Soviet Economy: Economic Essays in Honor of Alexander Erlich*, (Cambridge, MA: MIT Press, 1983) 110-132; David F. Good, ed., *Economic Transformations in East and Central Europe: Legacies from the Past and Policies for the Future* (London: Routledge, 1994); Marie Lavigne, *The Economics of Transition: From Socialist Economy to Market Economy* (New York: St. Martin's, 1995); Christopher T. Saunders et al., *Economics and Politics of Transition*, East-West European Economic Interaction Series 14 (London: Macmillan; Vienna: Vienna Institute for Comparative Economic Studies, 1992); Klaus M. Schmidt and Monika Schnitzer, "Privatization and Management Incentives in the Transition Period in Eastern Europe," *Journal of Comparative Economics* 17(1993): 264-287; Dragomir Vojnić, "Economics and Politics of Transition," *Proceedings of the 1st International Conference on Enterprise in Transition, Split, October 4-6, 1995* (Split: School of Economics, 1995); Salvatore Zecchini, ed., *Lessons from Economic Transition: Central and Eastern Europe in the*

In order to show the progress of restructuring in Slovenia, we may compare data from other Central European countries. Table 1 reports per capita GDP³ for three groups of countries: those of the

1990s (Dordrecht: Kluwer Academic, 1997); Huizhong Zhou, "Planning, Plan-Influencing, and Market Fine-Tuning: Implications for Economies in Transition," *Journal of Comparative Economics* 17(1993): 561-580.

The author's works on the topic include: "Izkušnje tujih kapitalnih vlaganj v Sloveniji (Esperienze di investimenti stranieri in Slovenia)," in *Proceedings of the "Alpe Adria" Conference, 1, 2 ottobre 1992*, ed. Dušan Bobek and Leo Gusel, *Atti del 12. Convegno Scientifico Internazionale Alpe-Adria*, (Maribor: Ekonomsko-poslovna fakulteta, 1992) 63-77; "Modernization and Ethnic Problems in Carinthia," *Slovene Studies* 14.1 (1992): 35-50; "Experience in creating small business enterprises in Slovenia," in *Proceedings of the 23rd European Small Business Seminar* (Belfast: European Foundation for Management Development, NISBI, 1993) 399-415; "Kleinunternehmen im wirtschaftlichen Umbruch Sloweniens und die Rolle der Grenzregionen," *Isonzo Protokoll*, ed. Andreas Moritsch and Gudmund Tributsch (Klagenfurt: Verlag Hermagoras, 1994) 285-312; "Mala podjetja v gospodarski preobrazbi Slovenije in vloga obmejnih področij," *Proceedings of the Soški conference 1994*, ed. Andreas Moritsch and Gudmund Tributsch, (Celovec-Ljubljana: Mohorjeva založba, 1994) 243-266; "Small Business Networking in Passive Areas of Transitional Countries of Central East Europe, as a Contribution to the Solution of Social, Economic and Ecological Problems," *Proceedings of 24th European Small Business Seminar, 21-23 September, 1994*, vol. 2 (Belfast: European Foundation for Management Development, NISBI, 1994) 422-439; "Die Problematik des Innovativen Unternehmens in Transition," *Journal für Betriebswirtschaft* 9(1994): 105-106; "Problematika inovativnega podjetja v tranziciji," *Naše gospodarstvo* 5.40 (1994): 519-526; "Uporaba inštrumentov iz poslovne teorije pri proučevanju narodnostnih vprašanj na primerih Koroške in Trsta," *Zbornik Narodne manjšine danes in jutri* (Trieste: Slovenski Raziskovalni Inštitut, 1994) 143-158; "Inovativna podjetja v Sloveniji na prehodu iz socializma v tržno gospodarstvo: opažanja, izkušnje in predlogi," in *Proceedings of Prva slovenska konferenca o menedžmentu inovativnih tehnologij, MIT '95, 7-8. June 1995, Bled Slovenia*, ed. Miha Junkar and Paul Levy (Ljubljana: U of Ljubljana P, 1995).

³

Sometimes it is GSP, the Gross Social Product, a category computed

former Yugoslavia for which it was available, the ex-socialist countries of East-Central Europe, and the western countries of West-Central Europe. The comparison includes Slovenia's immediate neighbors.

Table 1: Per capita GDP in USD at current prices for select countries in the transitional period⁴

Y E A R	Countries									
	former Yugoslavia			Transitional countries of Central and Eastern Europe				Western countries of Central Europe		
	Slo-venia	Cro-atia*	Ma-cedo-nia*	Hun-gary	Slo-vakia	Cz. Rep.	Po-land	Aus-tria	Ger-many	Italy
1989		3350		2820			1920	16509	19290	15120
1990	8658	2970		3180			1720	20376	19300	18920
1991	6331	2960	1030	3060	2130	2130	1956	21049	19909	19880
1992	6195	2230	870	3450	2120	2120	1846	23456	22233	21150
1993	6366	2740	740	3520	1990	2940	1891	22904	21126	17360
1994	7026	3138	765	3995	2160	3500	2484	24573	21220	17450

*For Croatia and Macedonia the 1994 data is for GSP instead of GDP.

The phenomena illustrated by the table are even more evident in figures 1, 2 and 3 (see p. 65). Data are reported separately for groups of countries because of the characteristics of the computer program used, but they have been constructed so as to yield comparative insights into GDP sizes and trends. The three western countries have a much higher per capita GDP, on average more than three times higher than that of the ex-socialist countries. Among the latter, Slovenia has the highest average, approximately twice that of others in the group.

in former socialist countries and not yet changed into GDP.

⁴

The data are taken from the *publications Gospodarski kazalci držav sveta, 1993 and 1994* (Ljubljana: CMSR, 1993 and 1994.) There are slight differences in the data between the two editions published in 1993 and 1994 for the same years and countries. In these cases we selected the most recent data, supposing that the differences were due to corrections. Data for 1994 were not published but given to the author by M. Pretnar, of the CMSR. These same notes apply to tables 2 and 3.

There is relatively minimal variation among the western countries in transition in 1993, which may be connected to the internal transition or to the crisis in the East-West trade.⁵ In the group of ex-socialist countries we observe a minimum in 1992 for Slovenia, Croatia and probably the Czech Republic and Slovakia. Judgments about these last countries are difficult because we do not have separate data for them before 1992. Hungary and Poland show steady growth during the period, indicating that they reached a transitional low point earlier. Macedonia shows a declining pattern, seeming to indicate that the transitional low point has yet to come. With the exception of Macedonia, all of the ex-socialist economies expanded after 1992, a sign that the worst days of the transition were behind them and they were in a growth pattern.

The same considerations emerge from observations based on tables 2, 3 and 4, which show annual GDP growth in each country, the size of foreign debt (also an important indicator of the economic

Table 2: Yearly growth in GDP as %, in constant prices, for select countries in the transitional period

Y E A R	Countries									
	former Yugoslavia			Transitional countries of Central and Eastern Europe				Western countries of Central Europe		
	Slove- nia	Cro- atia	Mace- donia	Hun- gary	Slo- vakia*	Czech Rep.*	Po- land	Aus- tria	Ger- many	Italy
1989		-2.0		-0.2			-0.2	4.0	2.8	3.0
1990	-4.7	-10.0		-4.0			-12.5	4.6	2.7	2.2
1991	-8.1	-23.4	-10.7	-11.9	-15.1	-15.1	-7.6	3.1	4.3	1.3
1992	-5.4	-24.8	-14.7	-4.5	-7.0	-7.0	1.5	1.6	1.0	0.7
1993	1.3	-11.8	-15.0	-1.0	-4.1	-0.3	4.0	-0.3	-2.4	-0.7
1994	5.5	0.8	-6.2	2.0	1.5	2.6	5.0	2.7	1.6	2.2

⁵

Italy and Austria had large public sectors bound to the transition processes. Germany had to absorb the negative effects of unification. The collapse of the eastern system reduced public expenditures, especially for armaments and related activities.

situation, especially considering future scenarios),⁶ and accumulated hard currency reserves as an indicator either of economic strength or the relative strength of the currency.

Table 3: Total foreign debt in millions of USD⁷

Y E A R	Countries									
	former Yugoslavia			Transitional countries of Central and Eastern Europe				Western countries of Central Europe		
	Slo-venia	Cro-atia	Mace-donia	Hun-gary	Slo-vakia*	Czech Rep.*	Poland	Austria	Ger-many	Ita-
'89				20,600			38,900	9,510	98,800	74,
'90	1,954			21,300			46,600	9,420	130,060	118,
'91	1,866	2,771	806	22,658	9,861	9,861	52,500	12,700	149,600	125,
'92	1,741	2,672	842	21,438	9,328	9,328	48,520			120,
'93	1,873	2,638	846	24,600	2,981	8,339	49,456			
'94	2,258	3,856	1,218	28,521	3,515	10,300	44,033			

*The data for the Czech Republic and Slovakia are cumulative until 1992. In 1993 they are separate for each country

Table 4: Total hard currency reserves, not including gold, in millions of USD

Y E A R	Countries									
	former Yugoslavia			Transitional countries of Central and Eastern Europe				Western countries of Central Europe		
	Slo-venia	Cro-atia	Mace-donia (est.)	Hun-gary	Slo-vakia	Czech Rep.	Po-land	Austria	Ger-many	Italy
'89										
'90				1,246			2,314	8,600	60,709	46,720
'91	316			1,070			4,492	9,380	67,902	62,927
'92	365	201		3,190	3,190	3,190	3,633	10,330	63,000	48,679
'93	1,168	669		4,348	1,522	1,522	4,099	12,380	91,000	27,643
'94	1,570	1,325	30	6,772	468	3,710	3,985	14,600	77,600	27,545
*Est	2,764	2,307	140	6,727	1,500	6,145	5,728	17,843	77,363	32,265

⁶ If a country must pay a sizeable external debt, it will have difficulty investing for future recovery.

⁷ *Gospodarski kazalci držav sveta* (Ljubljana: CMSR, 1993 and 1994).

Figure 1:

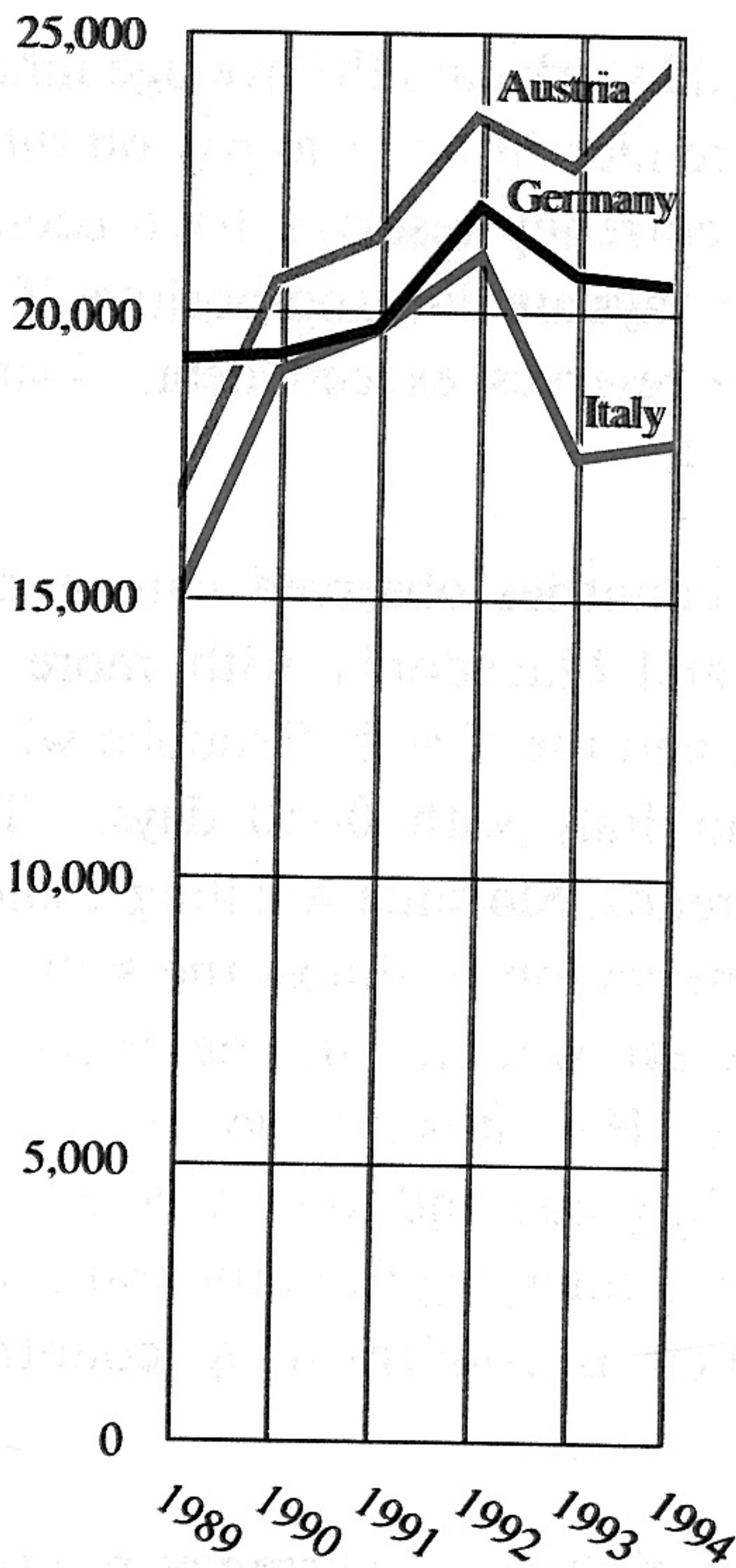


Figure 2:

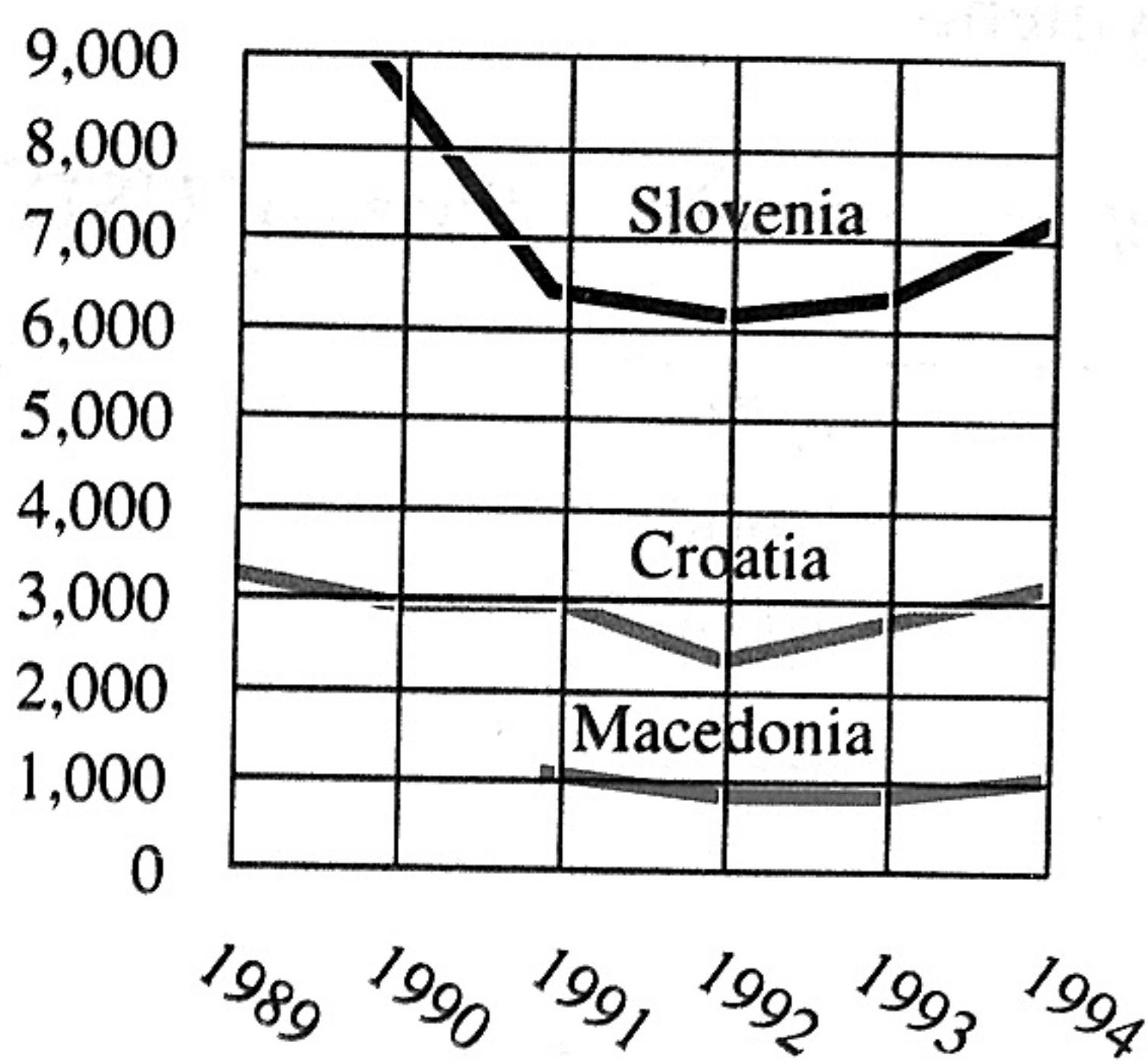
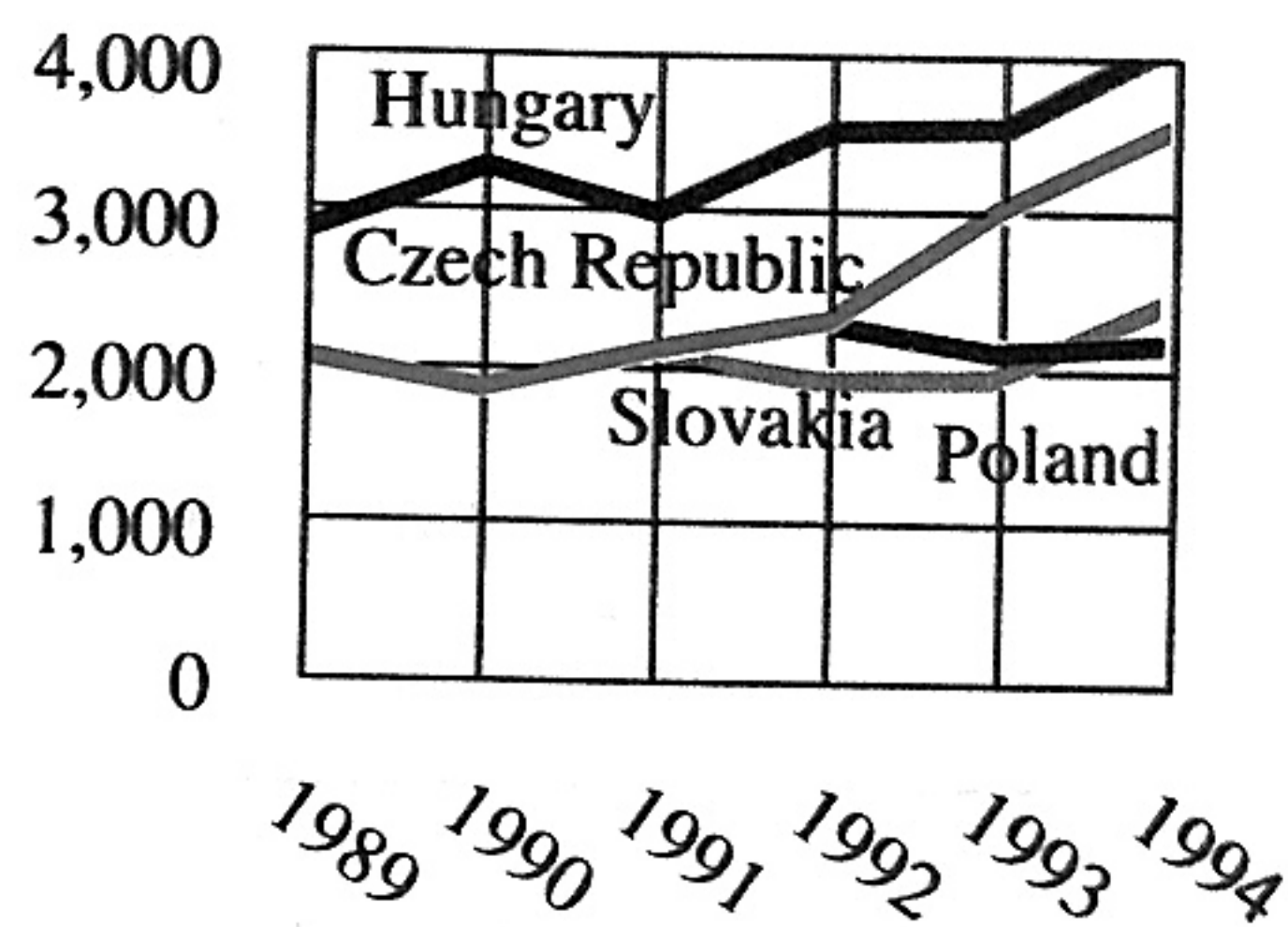


Figure 3:



Of possible interest is an indicator that joins three relevant aspects of a given national economy: GDP, reserves and foreign debt. It is represented by the index Y:

$$Y = \left[\frac{(R - D)}{GDP} \right] \times 365$$

365 is the number of unpaid work days the average inhabitant of a selected country would have to render in order to pay off the residual external debt after existing hard currency reserves have been used for that purpose. Y is negative if work days are due and positive if there are days of leisure, in which case the reserves exceed debt. Data for the calculations are graphed in figure 4.

Figure 4 shows that the countries observed can be divided in three groups: Poland, Hungary and Macedonia with more than 200 days; Slovenia, Croatia, Slovakia and the Czech Republic with 50–100 days; and Austria, Germany and Italy with 0–50 days. The three western countries show upward trends; Slovenia a falling trend, which, however, in the last period of observation is almost the same as that of the western countries. It is unclear whether the described indicator could also have operative meaning. Here it is used to compare the most important country indicators for the group and to provide a benchmark. The total data show that Slovenia is emerging from the transition rather successfully, an impression which is confirmed by country-specific data.

Table 5 shows the growth of the hard currency reserves which enabled Slovenia to make its currency convertible on 1 September 1995. Table 6 reports Slovene balance of payments.

Table 5: Period ending foreign exchange reserves in millions of USD⁸

1992	1,200
1993	1,600
1994	2,800
May 1995	3,200

⁸

Bank of Slovenia Monthly Bulletin, June- July 1995.

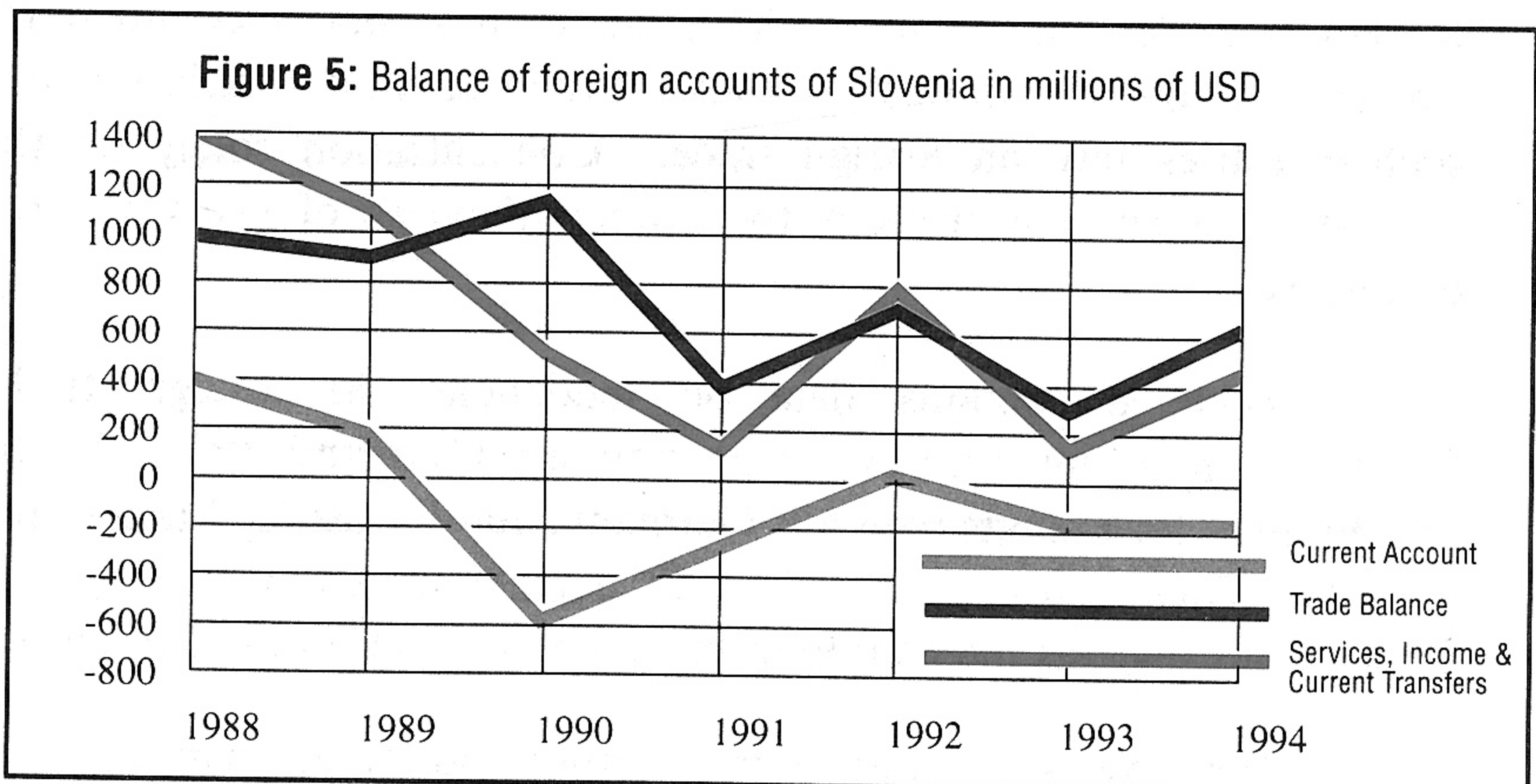
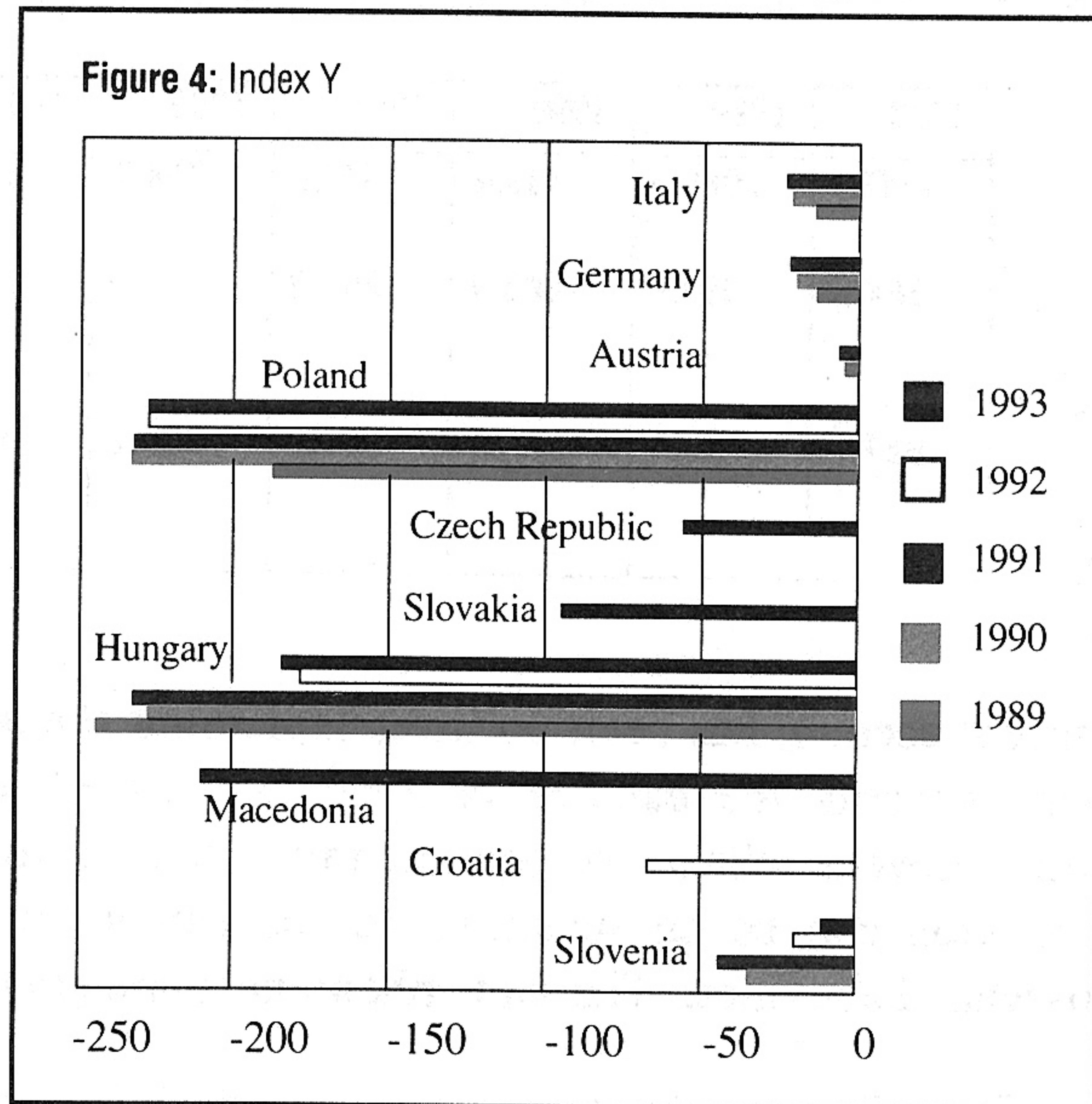


Table 6: Slovene balance of payments, 1988–1994, in millions of USD⁹

	1988	1989	1990	1991	1992	1993	1994
Current account	1351.8	1088.5	518.4	129.1	758.7	149.9	475.2
Trade balance	364.8	192.1	-608.7	-262.2	49.5	-154.2	-146.1
Services, income & current transfers	987.0	896.4	1127.1	391.3	709.2	304.1	621.3

The current account has been positive, explaining the accumulation of reserves, whereas the balance of trade has tended to be negative, indicating Slovene reliance on services rather than goods manufacture. This situation can be an incentive for developing trade and other, import-related activities. The same phenomena are graphed in figure 5.

Table 7 shows the qualitative characteristics of Slovene trade in goods. The import-export structure is typical of that of a country whose trade is concentrated in SITC groups six, seven and eight—that is, importing semiproducts and products and exporting the same articles. In 1994 exports accounted for 6,827 million USD, or approximately 49% of Slovene GDP, which indicates the extraordinary significance of foreign trade for the country. This situation is not uncommon for smaller developed countries. Because of their small domestic markets such countries rely on foreign trade. Concentration solely on the domestic market may weaken the competitiveness of firms in such countries.

Table 8 contains data on tendencies in foreign trade. Slovenia's most important export partners are Germany, Italy, Croatia and France; for imports they are Germany, Italy, Austria, France and Croatia. Thus trade is primarily with neighbors, and Germany and France; this suggests integration of the country into Central Europe.

Now we shall turn our attention to what happened to enterprises during the transition process. The data in table 9 are for employment by economic sector. In the period 1990–94 former socialist

⁹*Bank of Slovenia Monthly Bulletin*, June–July 1995.

Table 7: Trade by sections of SITC in millions of USD¹⁰

SITC	Exports				Imports			
	1993		1994		1993		1994	
		%		%		%		%
0 Food,	239	4	274	4	478	7	555	8
1 Beverages, tobacco	45	1	50	1	44	1	47	1
2 Raw materials	108	2	131	2	345	5	473	6
3 Mineral fuels	313	5	76	1	700	11	521	7
4 Fats and oils	7	0	7	0	23	0	30	0
5 Chemicals	552	9	706	10	750	12	891	12
6 Manufactured goods	1586	26	1866	27	1147	18	1419	19
7 Machinery and transportation equipment	1664	27	2067	30	1969	30	2324	32
8 Miscellaneous manufactured goods	1557	26	1636	24	783	12	800	11
9 Other	11	0	14	0	262	4	245	3
Totals	6082	100	6827	100	6501	100	7305	100

Table 8: Tendencies in trade, in millions of USD

Country	Exports				Imports				Balance	
	1994	%	1995	%	1994	%	1995	%	1994	1995
Austria	303	5	373	5	553	9	756	10	-250	-383
Italy	756	12	923	14	1051	16	1258	17	-295	-335
Germany	1798	30	2068	30	1626	25	1734	24	172	334
France	528	9	586	9	522	8	613	8	6	-27
USA	216	4	250	4	188	3	197	3	28	53
Croatia	739	12	738	11	595	9	498	7	144	240
Macedonia	198	3	218	3	89	1	80	1	109	138
Former USSR	298	5	316	5	217	3	169	2	81	147
Other countries	1247	20	1356	20	1660	26	1999	27	-413	-643
Totals	6083	100	6828	100	6501	100	7304	100	-418	-476

¹⁰

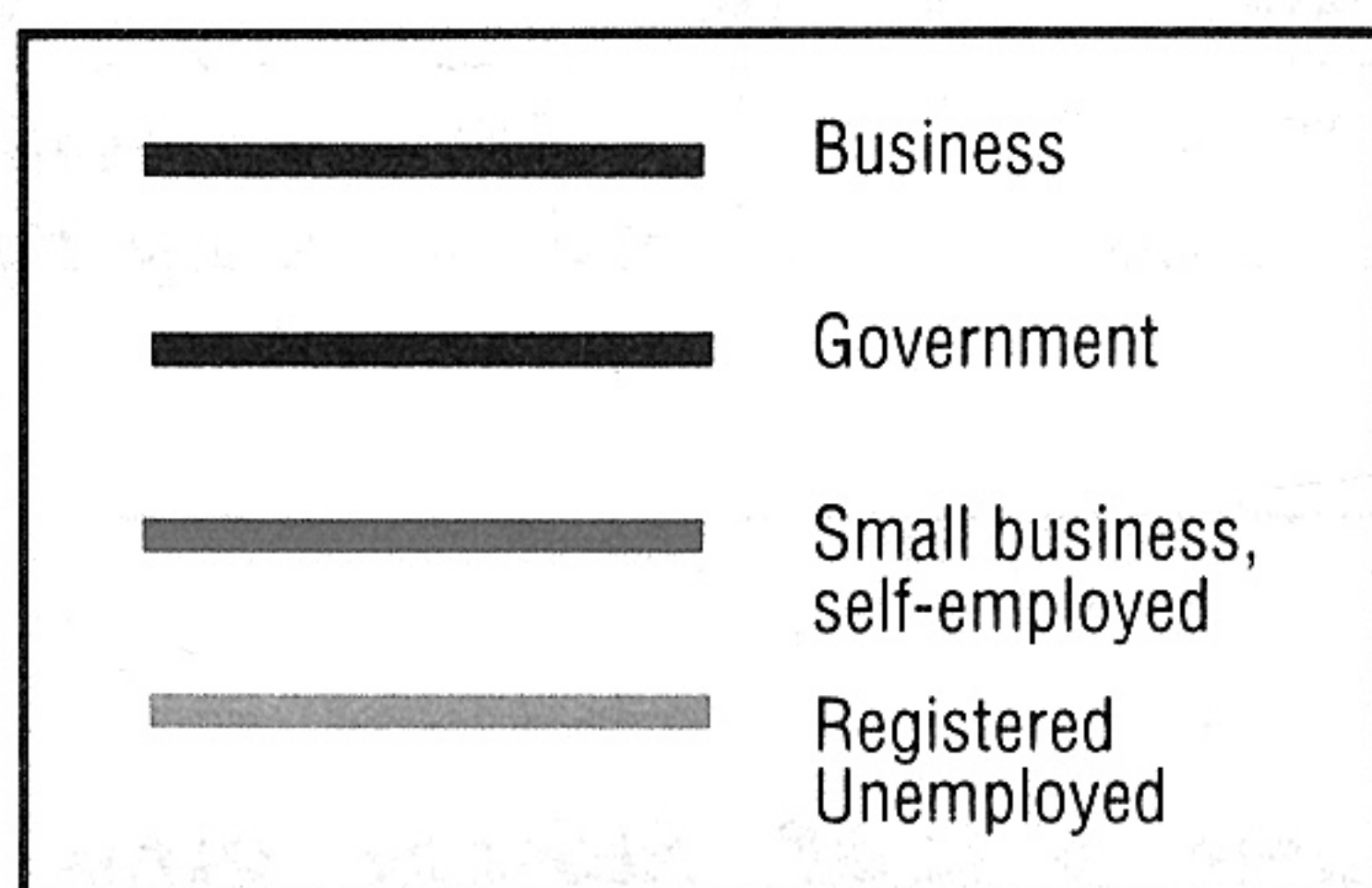
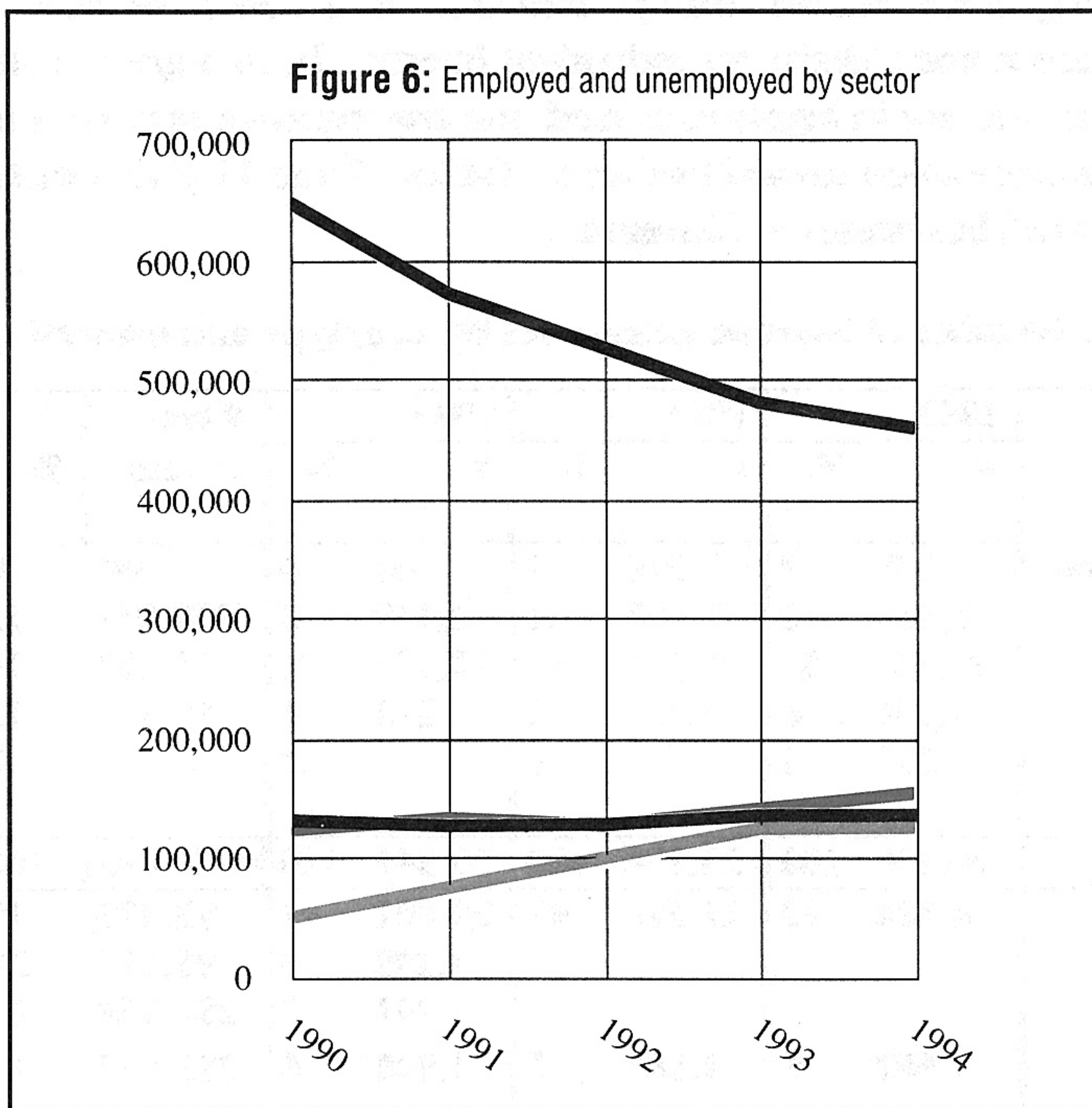
businesses lost almost 200,000 employees. 10,000 were reemployed in government, 20,000 by small and employee-owned businesses; but the number of registered unemployed peaked in 1993, rising by more than 80,000 before falling slightly in 1994. The same data, graphed in figure 6, demonstrate how sharply business employment fell.

Table 9: Employment and unemployment by type of enterprise

Y E A R	Business	Govern- ment	Small business and self- employed	Register- ed un- employed	Total working age po- pulation
1990	647,861	134,361	127,521	44,623	954,366
1991	579,799	129,796	129,416	75,079	914,090
1992	527,186	129,780	126,466	102,593	886,025
1993	486,838	139,969	139,636	129,087	895,530
1994	462,073	143,253	146,981	127,056	879,363

My chief interest in this period is in the founding and growth of new enterprises, in particular those with links to neighboring countries, rather than in issues of privatization as such. The following illustrations chart the process of restructuring in the Slovene economy. Figure 7 indicates how vibrant small business creation has been in Slovenia. When the old system ceased to function, new business creation jumped. Employment data from a variety of enterprises is contained in figure 8, which shows that large enterprise employment fell sharply between 1989 and 1993, while small and mid-sized business employment rose in the years following. Yet the overall pattern of employment was little changed; there was not a strong upward trend in smaller enterprises. Large enterprises in fact displayed greater employment gains starting in 1994, after a period of restructuring.

The effect is still modest; there is no strong trend in the growth of employment in small and mid-sized enterprises. On the contrary, in 1994 the old kind of large enterprises, after the changing of the economic system in the period 1989–93 (i.e., after "transition"), were performing better than smaller ones.



A hypothesis could be advanced that in Slovenia—and in other former socialist countries—the model of development by means of SMEs may be not as important as in non-transitional countries. SME entrepreneurship varies with economic conditions but also according to cultural, historical, social and psychological factors. An Italian case study done in the industrial district of Manzano,¹¹ where more than

¹¹

Igor Jelen, "L'area della sedia nel Friuli Orientale - L'area-sistema come paradigma di organizzazione territoriale della produzione," in *Sezione*

1,000 SMEs hold a 30 % share of the world chair market, suggested that the driving force behind entrepreneurship is a sense of economic independence and a desire for individual liberty. If, in a given culture, such values are not in highly esteemed, the consequence may be a more collective orientation toward business. Tables 10 and 11 give qualitative data on small businesses in Slovenia.

Table 10: Number of Slovene enterprises by size, type and ownership

	1992		1993		1994		# em- ployees	%	per enter prise
	#	%	#	%	#	%			
Cooperative	138	1	216	1	41	0	191	0	5
Social	2,368	12	2,507	11	2,479	8	339,817	72	137
Private	16,301	81	19,271	83	27,179	88	75,687	16	3
Mixed	1,144	6	1,182	5	1,242	4	59,565	13	48
Undeter- mined	235	1		0		0		0	
Totals	20,186	100	23,176	100	30,941	100	475,260	100	15
Small	18,584	92	21,588	93	29,001	94	92,223	19	3
Mid-size					1,199	4	95,273	20	79
Large					741	2	287,764	61	388
Mid-size and large	1,602	8	1,588	7	1,940	6	383,037	81	197
Registered	35,381	175	46,538	201	51,091	165		0	0
Year ending information as reported by enterprises. "Small" refers to enterprises with less than fifty employees, revenues under two million ECU, and an average value of active not more than one million ECU.									

A profound insight into the behaviour of small Slovene firms was recently published by Bartlett.¹² He identified three categories of firms: those led by young, inexperienced entrepreneurs willing to do a lot of work and prepared to reinvest their money in the firm; a second

di Geografia, Dipartimento di Scienze politiche (Trieste: Università di Trieste, Gorizia, 1991).

¹²

Will Bartlett, Janez Prašnikar and Dušan Valenčič, "Employment Growth in Small Firms in Slovenia," *Proceedings of the 1st International Conference on Enterprise in Transition, Split, October 4-6, 1995* (Split: School of Economics, 1995) 345-363.

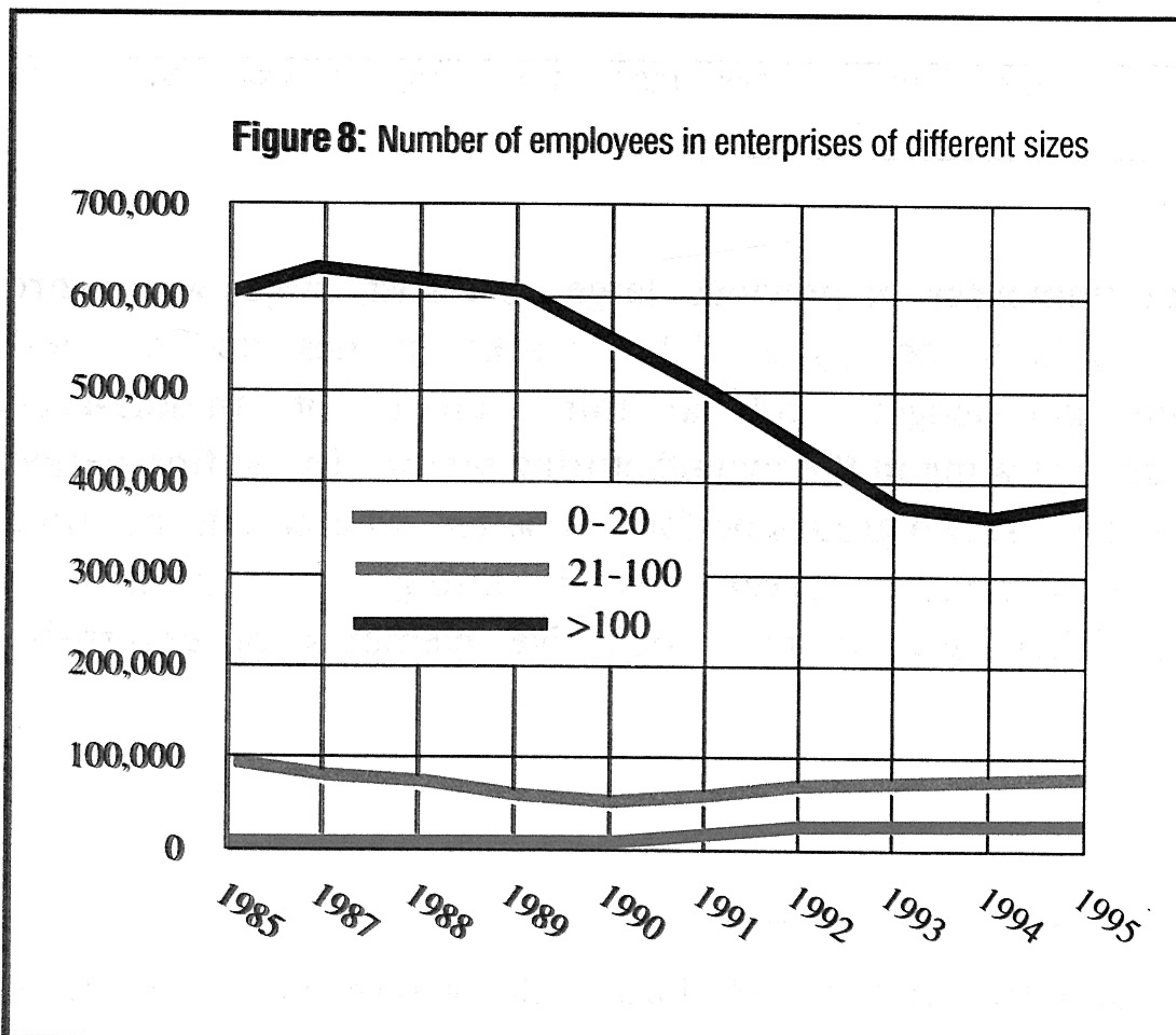
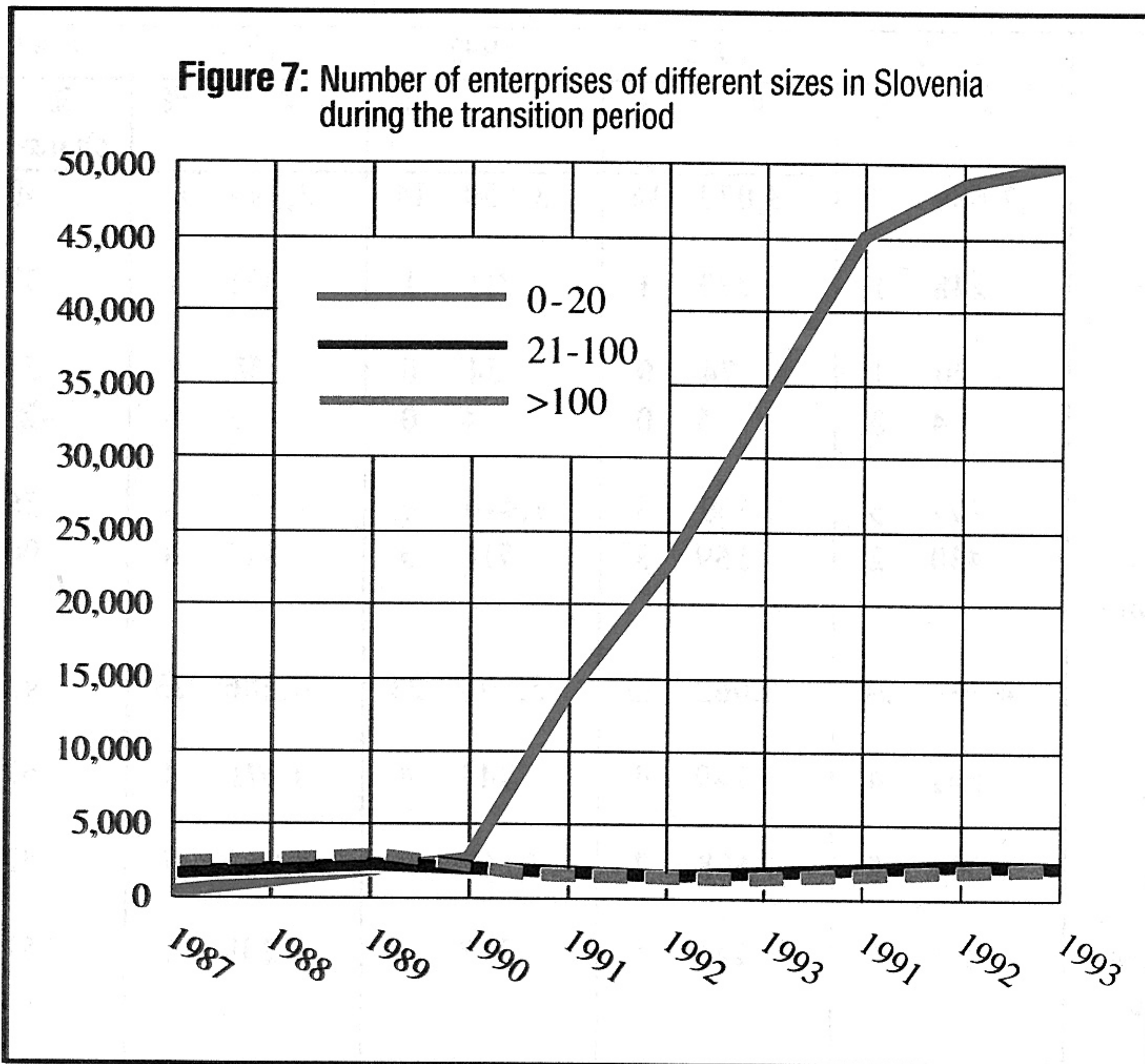


Table 11: Number of small enterprises in Slovenia by sector¹³

	1992		1993		1993		1994		92-94
	#	%	#	%	#	%	#	%	% change
1- Industry and mining	2,689	15	3,033	14	3,559	14	3,744	13	39
2- Agriculture and fishing	248	1	293	1	311	1	331	1	33
3- Forestry	90	1	74	0	54	0	58	0	-36
4- Water management	4	0	5	0	4	0	3	0	-25
5- Building	997	5	1,150	5	1,440	6	1,559	6	56
6- Transportation, communications	430	2	559	3	711	3	843	3	96
7- Trade, commerce	4,391	24	5,062	23	5,946	23	6,286	23	43
8- Hospitality, tourism	642	4	749	4	947	4	1,071	4	67
9- Crafts, personal services	1,398	8	1,608	7	1,917	7	1,992	7	42
10- Communal services, space regulation	191	1	240	1	268	1	299	1	57
11- Financial, technical, business services	7,504	40	8,815	41	10,805	42	11,670	42	56
Totals	18,584	100	21,588	100	25,962	100	27,856	100	50

group of ex-employees of previous large, socialist large who were immediately able to occupy available market niches due to their accumulated knowledge; and a third group of middle-aged entrepreneurs operating in the manufacturing sector. In the first period of transition the first two groups performed better, whereas in the more advanced stage of transition it seems that the third group's outlook is the best because they rely on more objective elements of enterprise

¹³

The data were supplied by Mr. Bizilj of the Slovene Office of Statistics. They differ slightly from those in the previous tables. It depends on the criteria by which small businesses are differentiated from all businesses.

building. Other studies on the topic of new enterprise formation in Slovenia exist, such as that Danijel Pučko.¹⁴

In a non-transitional market economy, service sector growth is considered a normal characteristic of a mature economy. Consideration of the service sector in a transitional economy are more complex. Many individuals who lost employment as a consequence of the move toward a free market are starting service sector businesses because of their knowledge of and ties with former employers and their market. In addition, barriers to entering the service sector are low. In the first stage the strategical move to the service sector has the main consequence of reducing overall fixed costs. Whether in the future it will also contribute to value-added growth and the improved welfare of the whole society is a function of the entrepreneurs' performance.

Table 12 reports my case studies, carried out in Slovenia.¹⁵ The sample was not drawn statistically, but I consider it nonetheless relevant since the choice of the enterprises was not predetermined but selected randomly on the basis of various transactional relationships established in the field.

The second column in table 12 gives the Slovene geographical area where the enterprise is located; the third, the type of activity; the fourth, information on the size of the business or, alternatively, a note that it is new; and the last column, a performance score based on a scale of 0–100. Clearly the latter data is connected to the activity of the business by per se, as well as to consulting group-business interaction.

¹⁴ Danijel Pučko, "Slovenian Enterprises in Transition (Strategic Issues and Experiences), in *Proceedings of the 1st International Conference on Enterprise in Transition, Split, October 4–6* (Split: School of Economics, 1995) 299-304.

¹⁵ I would like to express my gratitude to F.M. Comelli, an Udinese entrepreneur who cooperated with me in most of the cases studied, bringing to the work very valuable practical knowledge.

Table 12: Sample of businesses in Slovenia

Number	Region	Type of activity	Character	Score
1	North-East	Services	New	100
2	North-East	Production	Large	50
3	North-East	Production	Large	60
4	North-East	Production	New	0
5	Center	Trade	Small	60
6	North-East	Production	Large	30
7	West	Production	Middle	50
8	North-East	Production	Large	50
9	North-East	Trade	Small	60
10	South	Production	Small	15
11	Center	Production	Large	30
12	North-West	Production	Middle	60
13	South	Production	Large	60
14	North-West	Services	Middle	60
15	West	Services	Small	70
16	Center	Production	Large	40
17	North	Production	Large	60
18	Center	Production	Middle	5
19	North-East	Production + Services	Large	60
20	East	Production	Middle	30
21	North-West	Services	Large	60
22	Center	Services	New	80
23	South-East	Production	Large	60
24	Center	Production	Large	70
25	Center	Production	Small	70
26	Center	Production	Middle	40
27	Center	Production	Large	60
28	East	Services	Middle	60

From this field experience we can try to derive some observable points and characteristics:

1. There are great performance differences between enterprises. This was not the case under socialism, when state management discouraged and hid differences in enterprise performance. When enterprises develop freely, on individual initiative, the characters of actors play a dominant role. In my case study one of them reached the optimal score of 100 points, showing ingenuity, flexibility, quick and correct decisionmaking, wisdom and motivational skills in managing employees. Another was scored 0, because the individual showed the opposite characteristics: ignorance, rigidity, slow and flawed decisionmaking, and lack of comprehension of personnel management.

We found the majority of the cases studied were somewhere in between—that is, they display some positive and some negative characteristics. An enterprise owner, for example, was very good at promoting innovation but less adept at managing a business. He would need help to improve his performance in that area. (When we tried to counsel him our opinions had little impact on his behavior; he still relied on the help of the state.)

The former system tried to make people equal by aiding poor performers and penalizing good ones; it also used negative selection criteria to favor conformists in management. The free market works in reverse: only good performers are able to survive. The problem in Slovenia is that older personnel that oppose reforms remain in the preponderant majority of enterprises. Where it is possible to hire fresh people, new selection mechanisms already appear to be effective, providing for the advancement of qualified individuals and the demotion of poor ones. The economic space in which these mechanisms are operative is widening.

The conclusion we can draw from these observations is that, in contrast to the previous system, the market exhibits a selection process. Selection is desirable since it benefits the economy as a whole. Its overall effect may improve the more smoothly that selection mechanisms work.

As concerns more narrowly formulated strategic aspects of business, we observed the following:

2. A large number of businesses seem to prefer operating areas; sometimes it appears that the rule of specialization is forgotten. A business must try to concentrate on a single operative area using the principle of specialization. Examples of this phenomenon are numerous in Slovenia, perhaps for two reasons:

2.1. Kardeljan theories that conceive of business as a conglomerate often run counter to common sense.¹⁶ For instance, one enterprise in our case study produces tools and provides alpine and spa services; another is involved in forestry, marketing of tools, construction contracting and cleaning snow from mountain roads.

2.2. Diversification may appear to decrease risk: if one activity is unsuccessful, another that is more profitable will provide balance.

We tried to start to rationalize such situations, but this proved difficult: the old directors grasped such arrangements like "drunken men the bottle,"¹⁷ in part based on experience and in part because they fear for their positions. Nonetheless, it is clear that such businesses are performing poorly and their performance will further worsen with time.

3. We found that well-organized enterprises are very specialized. Yet some of them are overly rigid. We identified, for example, a window frame manufacturer that could market in Italy. The product was of good quality and carried an advantageous price, 20% under that of Italian competitors; however, when we requested minor product changes, the Slovene producer's quotes were 60% overpriced. The costs of modifying production would not seem to have justified the increase.

4. It is difficult for Slovene businessmen to accept foreign experience and cooperation.

¹⁶ Edvard Kardelj was the most prominent theoretician of the Yugoslav "path to socialism."

¹⁷ A Slovene folk saying.

We were invited to consult with a large furniture producer that faced obstacles in entering the Italian market. The firm's position seemed strong because Slovenia has abundant lumber supplies, a fairly skilled workforce, lower labor costs and other advantageous factors, such as relatively low cost energy.¹⁸

The variables then become management and marketing skills. Our evaluation of the firm's product quality was negative; nevertheless, potential semiproduct purchasers were identified in Italy and performed a time study with the aim of reducing relatively high labor costs. The study showed that it was possible to reduce labor manufacturing time by 50%, thereby increasing competitiveness. Management preferred to market in Japan and the U.S. rather than adapt to potential Italian buyers' demands.

Management's decision in this case was questionable: they have competitive advantages in the Italian market due to territorial contiguity, lower transportation costs, and the factorial endowment is excellent. What is needed is only style and marketing, know-how which may be easily acquired. The style of leadership in the Italian market is renowned. If Slovenes succeed there, world markets would be easier to reach. Yet it seems as if they are reluctant to cooperate with foreigners in some cases, in particular with Italians.

We also had scarce success in establishing joint ventures between Slovene and Italian enterprises. A greater openness in this respect would be of great importance for future development.

Data in table 13 on foreign investment in former socialist countries enable us to compare Slovene performance in this field:

¹⁸

After Finland, it is said to be the most lumber rich country in Europe.

Table 13: Direct cumulative foreign investment in former socialist countries¹⁹

Country	In billions of USD at the end of 1995	Per capita in USD at the end of 1995
Bulgaria	0.5	56
Croatia	1.0	213
Czech Republic	5.8	563
Estonia	0.6	373
Hungary	10.7	1036
Latvia	0.5	183
Lithuania	0.3	79
Poland	6.8	177
Romania	1.6	69
Russia	3.3	22
Slovakia	0.7	133
Slovenia	1.2	611

If we consider absolute values than at the first place in the table we have Hungary followed by Poland, the Czech Republic, Russia and others. Slovenia is in sixth place. The per-capita figures are somewhat different. By this measure, Slovenia places third, after Hungary and the Czech Republic.

Slovenia has advantages and disadvantages for foreign investment. The advantages are the relative development of the country, the proximity to western countries like Austria and Italy, and

¹⁹

Business Central Europe, May 1996. Data for Croatia are inferred from preliminary 1994 data; data for the Czech Republic, twelve months of 1995; data for Estonia, six months of 1995.

relatively stable social and political conditions. The most distinct disadvantages are its small size, since most foreign enterprises are looking for sizeable potential markets, and attitudes towards foreigners.

I think that a certain difficulty in cooperating with foreigners may be due to a historical inferiority complex on the part of many Slovenes in relating to more developed, Western countries, and trying to compensate for it with an "I know everything best" syndrome. It is true that Slovenes often have a high cultural level, but much of their knowledge is acquired merely from books. In enterprises experience and know-how are demanded, and these are frequently lacking. Cooperating with experienced people, they could easily acquire what they lack. A more mature attitude toward international cooperation is needed.

5. Other kinds of considerations may be at the basis of the inefficient decisions. In an ex-socialist enterprise, now in the process of privatization, our consulting group identified a necessity of organizing new business units to exploit certain skills and capacities. We proposed a strategy of starting with small, flexible joint ventures with foreign entrepreneurs, for reasons explained in point 4. Even if the reasons for doing so were very clear from a real entrepreneurial point of view, we could not convince the management to take this decision. Instead they expressed a desire to buy a highly automated German plant. But simple computations revealed that it was too expensive and hence too risky. So the result was that no decision was made. Decisions are risky, and if no decision is taken it may appear that there is also no risk. But this may be wrong in the long run. Private and foreign competition has been growing in Slovenia, and a time may come when the ex-socialist company will be pushed out of the market.

6. Another characteristic of Slovene managers is their dedication to technological innovation. Almost all of them I knew during this period were fond of new processes, services and product development. This aspect has, in my opinion, both positive and negative sides.

6.1. Business innovation is positive because it yields strategic advantages, but enthusiasm for innovation should not obscure how

6.2. risky technological innovations are: only a fraction yield positive results. Their overall economic effect is that of consuming

resources for research without producing revenues. In a real case, a gentleman expended his entire patrimony in looking for "the winning new product" and he is still not sure of having found it. If additional resources are needed, he does not have them.

Without large, disposable investment funds, more modest strategies should be employed, with less risk and greater probability of success: smaller innovations, or simply copying successful products and selling them at a lower price. Developing countries in the Far East used such strategies.

It is possible that a fondness for innovation is a Slovene cultural characteristic; I observed managers and enterprise owners behaving almost as non-profit organizations in this respect. If this is true, it would be a pity to lose such a characteristic in the "harsh circumstances of the market." If we consider this aspect, then an industrial policy may be formulated in order to attenuate this characteristic's effect in market conditions.

In Slovenia's case in general, as surely in other countries of East-Central Europe, transition without an industrial policy may be too difficult to manage.

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POVZETEK

TRANZICIJA IZ SOCIALIZMA V TRŽNO GOSPODARSTVO V SLOVENIJI: STRATEŠKI PROBLEMI PODJETIJ RAZNIH VRST

V prvem delu študije avtor poda analizo vzrokov tranzicije na splošno, a se posebej v bivši Jugoslaviji, kar je pripeljalo do vojne in razkosanja bivše države. Nato analizira stanje Slovenije ob začetku tranzicije in njene rezultate v prvih letih tega procesa. V drugem delu razprave se pomudi pri vzorcu podjetij in analizira njihovo delovanje v tranzicijskem okolju, skušajoč pri tem izluščiti glavne elemente, ki vodijo v njihov uspeh ali neuspeh ter značilnosti, ki jih pri tem kažejo slovenski podjetniki.