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The Editor's Corner

Recently, presidential elections in the USA have taken place, a huge campaign that the world can follow through mass media. Also in Slovenia, just recently, the elections to the Parliament have come to an end. Elections always bring an opportunity for change and change is one of the features of contemporary times. In our Journal one change is on the way – a new Editor will take over Managing Global Transitions.

It has been three years since a group of professors, lecturers from the Faculty of Management Koper and our visiting Fulbright scholar from the United States of America Suzanne Catana discussed and launched the idea about the Journal. Since then, in the last two years, four numbers of the first two volumes have been published. The scope of the Journal was broad enough to attract articles from different countries and continents and from a variety of fields such as economics, business management, education, etc. The Journal was well accepted in professional and research communities and many of you, the readers, sent us your comments and suggestions. The Journal would never see the light of day without the Editorial Board, the Editorial Team, Alen Ježovnik and Staša Ferjančič, the Managing Editor and the Editorial Assistant and, of course, without all of you, who submitted your articles to our Journal and all of you, who were willing to review them. Thanks to all of you for your contribution.

The new Editor, my colleague from the Faculty of Management Koper, Boštjan Antončič, has already been involved in the editorial work for this number. I am convinced he will bring to the Journal a nice mixture of change and tradition and also support developments, needed to be undertaken in order to make the Journal strongly grounded in current research and professional communities.

In this number, Sudharatna Yuraporn discusses learning organization characteristics that contribute to the readiness of a learning organization to change. Her study was done on Thai Mobile Service industry. Her results showed a significant relationship between readiness to change and some of the characteristics of the learning organization. On the basis of her findings she suggests that organizations need to be developed into learning organizations to gain or sustain competitive advantage.

Branka Skrt and Boštjan Antončič present an empirical examination of strategic planning and small firm growth. Their findings show that

strategic planning and systematic decision-making can be considered a key determinant of survival and success of small firms.

Štefan Bojnec and Ana Xavier raise an interesting question about the size and number of firms. They analyzed the Slovenian manufacturing sector and found a remarkable difference between the number of registered manufacturing firms and the number of firms with employment.

Silva Bratož presents a comparative study of metaphor in English and Slovene popular economic discourse. Her findings indicate some similarities and also differences between the two languages. As metaphors are used more and more not only in economic discourse an interesting reading for other fields of research is provided.

Jorg Lackenbauer discusses the case of Hungary regarding the catching-up, regional disparities and EU cohesion policy. He analyzed how EU cohesion policy can contribute to attain higher national growth as well as contribute to the decrease in regional disparities. As the accession of new EU members occurred this year, the topic is interesting for the readers.

I hope that you, a reader, will find the number interesting and worth using in your professional and research work. As the season holidays are approaching I also wish you all the best in 2005.

Anita Trnavčevič
Editor

The Number and Size of Firms: Why So Big a Difference?

Štefan Bojnec
Ana Xavier

The number of firms and their size are analysed for the Slovenian manufacturing sector on the basis of the firm-level evidence of the Business Register of Slovenia virtually representing all the firms in activity. A remarkable difference is found between the number of the registered manufacturing firms and the number of firms with employment. The increase in the number of all registered firms is remarkable, but it is less so for the number of firms with employment, suggesting that many more firms were being registered than were in reality economically active. The large majority of newly registered firms during the 1990s were firms without any recorded employment. Whilst the number of firms increased, the number of employees declined, the average manufacturing firm size measured by employees per firm declined. Private firms constitute the vast majority of the firms in activity at end of the 1990s and afterwards.

Introduction

The rapid increase in the number of firms serves as an indication that markets are becoming more competitive. As in several other Central and Eastern European (CEE) countries, the number of firms in Slovenia increased substantially throughout the 1990s early 2000s. The considerable increase in the number of firms is a result of policy changes associated with relatively low capital and registration requirements, easing the opportunities for registering and entry of new registered firms, as well as

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restructuring, bankruptcy and organisational transformation within the large manufacturing enterprises, and similar processes that took place during transition to a market economy. Overall economic deregulation has allowed new firms to enter the markets, some of which were successful and have been in activity for a long period of time and some of which failed and exited the market (e. g. EBRD 2001). Several new private *de novo* firms have been established, and also many large manufacturing enterprises were split or reorganised into several parts. The increase in competitive pressure has been induced by the entry of new firms and by trade liberalisation. The bankruptcy procedure has played an important role in imposing hard budget constraints and straightening financial discipline for exit of loss making enterprises. While some firms exited, particularly in the most recent years, as a result of increased competitive pressures in firm output markets and institutional and policy changes in line with those of the European Union (EU), firm entry still offset firm exit (Bojnec and Xavier 2004). Hence, an increase in the number of firms can be acknowledged albeit with different intensities across different branches.

In this paper we look more in-depth into the growth of the number of firms aiming to make a distinction between the growth in the number of job creating firms and that of the firms without any recorded employment. Indeed, one of the most striking features of Slovenia's transition is the remarkable increase in the number of firms recorded by the official statistics in the Business Register of Slovenia (BRS). However, there is a considerable difference in the number of registered firms and the number of economically active firms. This 'vacuum' in the number of firms due to several 'empty' firms has so far been largely neglected. We draw attention to this fact by dividing firms into active firms ('non-zero employment firms') and inactive firms ('zero employment firms') according to their employment. While the latter are by far the most important in the BRS, any serious econometric analysis of the firm dynamics can only be conducted on the basis of the economically active firms with at least reasonably good evidence for employment, financial and some other performance indicators (Bojnec and Xavier 2004).

Therefore, this paper aims to analyse the extent of the gap between the two categories of firms and its impact on the firm numbers and size, as well as providing an answer to the question of why there is so great a difference between the larger number of registered and the smaller number of economically active firms, which causes differences in the firm size. We

look at the extent and the evolution of manufacturing firm demography on the basis of the firm-level information of the BRS obtained from the Statistical Office of the Republic of Slovenia (SORS) virtually representing all the firms in activity at any point between 1987 and 2000. Most manufacturing branches in Slovenia and – throughout the 1990s – experienced rates of firm entry that are greater than firm exit (Bojnec and Xavier 2004). Most of them also experienced labour shedding associated with an initial increase in unemployment and, in the mid-1990s, with an outflow of labour into regular and early retirement. As a result, the average size of manufacturing enterprises in terms of employment per firm declined during that period. There are, however, differences in manufacturing enterprises according to firm ownership. Private firms are responsible for the greatest difference in the number of firms. Some of them are part-time self-employed firms, but several of them are 'empty' firms without any employment.

The Number of Firms

To analyse the dynamics in the number of firms and their size in the manufacturing D sector, we use firm-level information provided by the BRS obtained from the SORS. This data set provides us information on firm identification (ID), NACE sector, employment and firm ownership. The distinctions between firms are made on the basis of the firm ID used as the criteria to identify whether a firm has stopped its economic activity (if ID is no longer in the sample), has started activity (ID is not previously in the sample) or is still in activity (if ID is still in the sample).[1] Note that there were some cases when a firm appeared to have exited in one year but in fact reappears later on as a 'survivor', with the same ID number, which indicates that when it was first considered an 'exitor' it was potentially due to misreported information. These cases were re-coded as 'survivors'. We distinguish between zero- and non-zero employment firms. The non-zero employment firm is a firm whose employment is a certain positive number equal to or greater than 1. The zero-employment firm is one whose employment in the dataset is recorded as zero. The latter situation might represent part-time self-employed persons (e. g. also employed somewhere else or retired) or firms whose operation has not started or already stopped, but the firm is still in the BRS. Very often they correspond to firms who have formally registered but whose activity has not started in reality. As a result of institutional changes, which made firm entry easier with relatively low initial capital and other registration

requirements in the early 1990s, and the economic transformation leading to firm restructuring, spin-offs and by-pass firms, the number of the manufacturing firms in Slovenia increased from 1,614 in 1987 to 8,783 in 2000 or by 444% (Figure 1). Interestingly, the rapid increase in the number of manufacturing firms in Slovenia is due in particular to the substantial increase in the registered number of firms which do not record any employment or the number of 'zero' employment firms. The number of manufacturing firms with 'zero' employment increased from 241 in 1987 to 6,992 in 1998 or by 2,801%, slightly declining thereafter. There was a window of opportunity, which opened and allowed the establishment and setting up of new private or *de novo* firms. There is also a positive development pattern for the firms with recorded employment, but their increase is more modest. They increased from 1,373 in 1987 to 2,132 in 2000 or by 55%, which is still a considerable increase in their numbers.

When looking at firm ownership we can only consider the firms for which ownership information was clearly stated (Tables 1 to 3). The focus of our analysis is on the number of manufacturing firms by their ownership. The total number of firms is divided by ownership category looking at the whole sample and the two sub-samples controlling for firm employment. The 'zero' employment firms are those which do not record any employment. The 'non-zero' employment firms are those which record a positive (>0) number of employees. We use the classification of the firms provided by the SORS, which in the BRS classifies the firms according to the prevailing firm ownership in the following four categories: socially owned enterprises, mixed enterprises, cooperatives or enterprises owned in the majority by cooperatives, and privately owned enterprises. Since in several cases the firm ownership in the BRS is not clearly identified, we introduce an additional category of the 'not-identified' firm according to its ownership. The relatively high number of firms which are considered 'not-identified' according to firm ownership occurred particularly during the first years of the 1990s. The number of socially owned manufacturing firms initially declined, increased between 1992 and 1994, and declined again afterwards. This development is a mixture in development of socially owned zero and non-zero employment firms. The drop in the number of socially owned enterprises in the years 1990, 1991, and 1992 is reflected in an increase in the number of 'not-identified' enterprises. Since then, the number of 'not-identified' enterprises has declined. This has been accompanied by an increase in the number of mixed zero and non-zero employment firms.

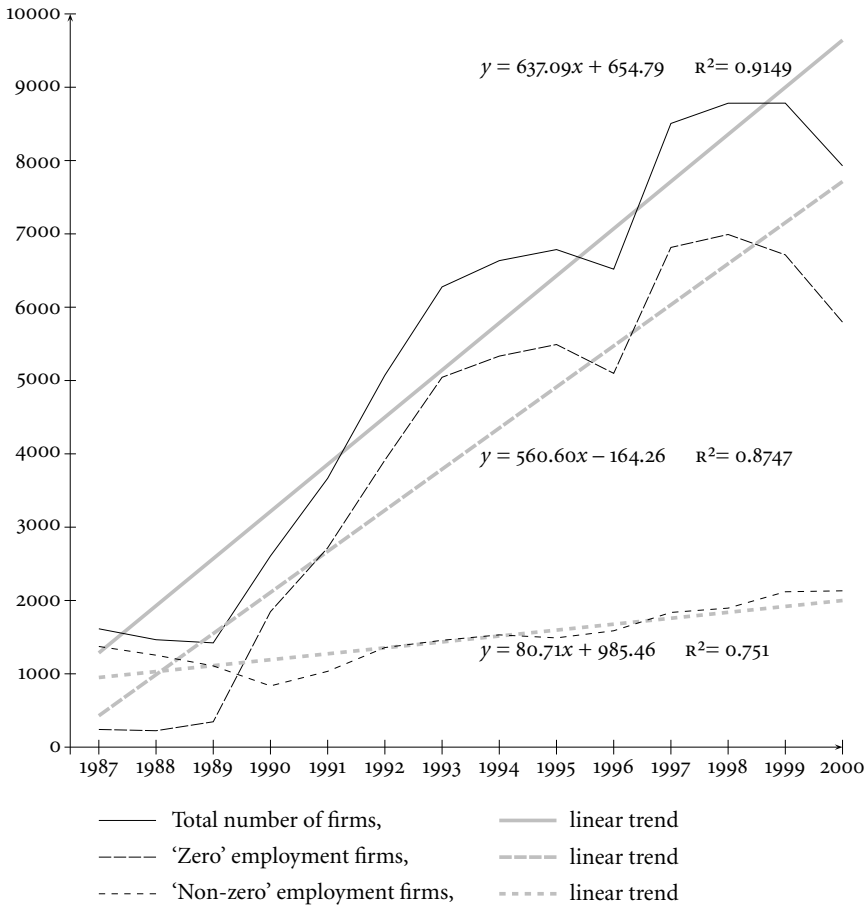

Figure 1: Number of registered firms in Slovenian manufacturing, 1987–2000
Source: Authors' analyses on the basis of the data from the BRS.

These developments suggest that at the beginning of the 1990s there was a period when an important reorganisation of socially owned enterprises took place in agreement with the changes in the regulatory and institutional environment. The number of mixed firms has approximately tripled since 1990. It increased steadily until 1998, but slightly declined afterwards. The growth of the non-zero employment mixed-owned firms was fastest than that of the zero employment mixed-owned firms. The relatively small number of cooperatives increased with a high prevalence of zero employment cooperatives over time. The most considerable is, however, the increase in the number of private firms. The number of

Table 1: Number of total registered firms by ownership in Slovenian manufacturing, 1987–2000

Year	Social	Not identified	Mixed	Co-operative	Private
1987	1614	0	0	0	0
1988	1461	0	0	0	0
1989	1418	0	0	0	0
1990	661	191	106	4	1638
1991	914	79	222	6	2436
1992	1012	37	268	8	3731
1993	1041	12	308	15	4882
1994	1036	12	308	18	5234
1995	962	22	301	19	5448
1996	800	26	324	26	5226
1997	719	9	384	58	7288
1998	598	9	400	62	7692
1999	529	16	387	62	7778
2000	460	24	349	62	7033

Source: Authors' analyses on the basis of the data from the BRS.

private manufacturing firms with recorded employment increased from 5 in 1990 to 1,747 in 2000 (Table 2). However, the most striking is the fastest growth of private firms with zero employment from 1,633 in 1990 to 6,320 in 1998 or by 287%, but with a slight reduction in their number afterwards. Tables 1 and 3 clearly illustrate that a large number of private manufacturing firms were set up between 1990 and 1993, but many of them did not create employment. Several private firms remained inactive for job creation even for a longer period. In 2000, 91.2% of 'zero' employment firms were private manufacturing firms. Hence the main difference in the number of the registered firms and the number of firms with employment is due to a large number of private firms with 'zero' or no recorded full-time employment.

More specifically, Figure 2 compares our results with the recorded evidence in the Statistical Yearbook of Slovenia (SYSLO). According to our results, since the Law on Enterprises entered into force in 1989, more than 70% of all manufacturing firms were firms without any recorded full-time employment. In 1997, this share was over 80%, but with an important decline thereafter. The SYSLO, however, did not record any dis-

Table 2: Number of firms with 'non-zero' employment by ownership in Slovenian manufacturing, 1987–2000

Year	Social	Not identified	Mixed	Co-operative	Private
1987	1373	0	0	0	0
1988	1252	0	0	0	0
1989	1106	0	0	0	0
1990	611	139	53	4	5
1991	788	38	162	6	8
1992	854	14	194	6	259
1993	831	2	222	9	352
1994	769	1	215	10	492
1995	626	10	201	8	582
1996	433	20	222	10	834
1997	304	4	262	14	1214
1998	213	5	270	17	1372
1999	154	8	256	17	1675
2000	116	11	243	15	1747

Source: Authors' analyses on the basis of the data from the BRS.

crepancies in the number of firms until the mid-1990s. In the years 1997–1998, the SYSLO recorded a discrepancy between the number of manufacturing firms and the number of firms with full-time employed persons who are insured at the pension and disability insurance and health insurance of around 43–44%, which is less than our calculations indicate. Finally, we provide a comparison between the number of active firms with recorded payments through resident accounts and final accounts held by the Agency of the Republic of Slovenia for Payments, and the number of registered firms in the BRS. According to this comparison, around 70% of registered firms are financially inactive firms. This finding is much closer to our result when comparing the number of firms and the number of zero employment firms. These comparisons suggest that the increase in the number of economically active manufacturing firms in terms of employment or in terms of financial transactions was not as substantial as initially, particularly until the mid-1990s, recorded by the official statistics on the basis of the BRS based on different (inconsistent) registers. However, the question remains of how big this gap is between the registered and economically active manufacturing firms and what can explain

Table 3: Number of firms with 'zero' employment by ownership in Slovenian manufacturing, 1987–2000

Year	Social	Not identified	Mixed	Co-operative	Private
1987	241	0	0	0	0
1988	209	0	0	0	0
1989	312	0	0	0	0
1990	50	52	53	0	1633
1991	126	41	60	0	2428
1992	158	23	74	2	3472
1993	210	10	86	6	4530
1994	267	11	93	8	4742
1995	336	12	100	11	4866
1996	367	6	102	16	4392
1997	415	5	122	44	6074
1998	385	4	130	45	6320
1999	375	8	131	45	6103
2000	344	13	106	47	5286

Source: Authors' analyses on the basis of the data from the BRS.

it. Some 'zero' employment firms might be self-employed firms not obligated to conduct payments through recorded resident accounts to the Agency for Payments. However, what the data appear to suggest is that the number of part-time self-employed firms was of much less importance than the number of firms without any recorded employment.[2] This clearly confirms that, to a great extent, 'zero' employment firms were 'empty', economically inactive firms, whose number has started to decline since 1998 and more recently with the 'cleaning' of the BRS.

Average Firm Size

The average size of manufacturing firms is analysed on the basis of the number of employees per firm (mean employment per firm). Labour shedding and retirements during economic transition and firm transformation in the Slovenian manufacturing sector were significant, and consequently the total number of employees in the manufacturing sector declined from 321,945 in 1987 to 177,121 in 2000, or by 45%. The greatest decline in employment in Slovenia occurred between 1987 and 1993. The most considerable decrease in employment in the manufacturing sector occurred in 1990 when the rate of employment growth amounted to (mi-

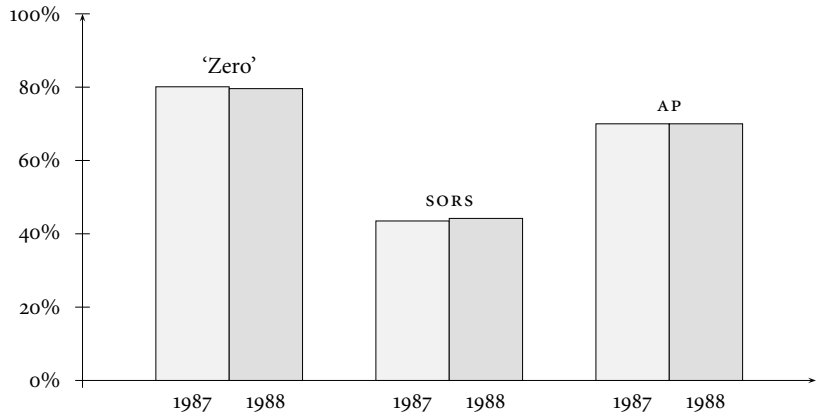

Figure 2: Discrepancies for the number of inactive manufacturing firms, 1997–1998

Notes: 'Zero' – percentage of 'zero' employment firms in total number of registered manufacturing firms; SORS – percentage of inactive firms with no employed person in total number of manufacturing firms as recorded by SORS; AP – percentage of active firms with recorded payments through resident accounts or final accounts by the Agency of Payments in the number of registered firms in the BRS.
Source: Authors' analyses on the basis of the data from the BRS, SYSLO 1997, and SYSLO 1998.

nus) –17.2%. Since 1997 the rate of employment growth has been positive, indicating a slight increase in the total number of employees in Slovenian manufacturing. As the number of employees declined and the number of firms increased at the same time throughout this period, it is logically the case that the average number of employees per firm declined. This is clearly revealed by the empirical results in Figure 3. Between 1987 and 2000 the mean number of employees per registered firm in the manufacturing sector declined from 199.5 employees to 22.3 employees. While at the end of the 1980s, an increase in the average size of the firm in terms of the employee number per firm is recorded, later during the 1990s the average size of the firm declined steadily. The most considerable difference in the average size of the firm occurred in 1990 due to the rapid increase in the number of 'zero' employment firms. This clearly indicates that the average size of the firm in terms of employment per firm is biased considerably towards the firms without employment. Some of them are new entries in a form of self-employment, while a large number of them are 'empty' firms, which exist only on a paper as a result of the transformation of existing enterprises and institutional changes, which made firm

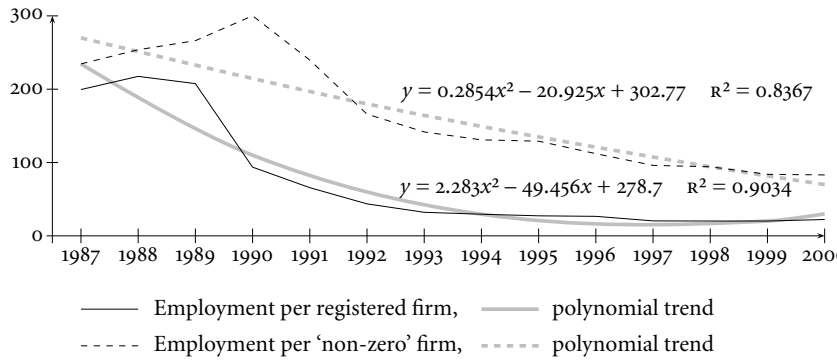

Figure 3: Mean employment in manufacturing, 1987–2000

Note: The values regard numbers of workers per firm.
Source: Authors' analyses on the basis of the data from the BRS.

registration easier. Some large enterprises were also left 'empty' by establishing a by-pass firm.

To exclude this potential bias towards the 'empty-zero' employment firms, and to estimate the sensitivity of the results, we present also the results of the average size of manufacturing firm in terms of employment per 'non-zero' employment firm. It is clearly visible from Figure 3 that the average size of the 'non-zero' employment firm is much greater than the average size in the whole sample of firms. The former declined from 234.5 employees per firm in 1987 to 83.1 employees per firm in 2000, while the latter declined from 199.5 to 22.3 during the same period, clearly showing that the gap, caused by the bias in the development of 'zero' employment firms, does exist, but after having first widened it has been narrowing. The average size of the 'non-zero' employment manufacturing firm increased in 1988, 1989 and 1990 when most of large socially owned enterprises were not being transformed and restructured. Some of them continued to grow. However, the average size of the 'non-zero' employment firm declined considerably in 1991 and in 1992. This is consistent with some fundamental institutional and policy changes leading to an extensive process of firm organisational transformation and firm restructuring imposed by the institutional and policy changes. Most large manufacturing enterprises underwent a process of reorganisation and restructuring in preparation for the process of privatisation. Later, the average size of the 'non-zero' employment firm continued to decline steadily. A convergence process between the two-trend lines (for zero and

non-zero employment categories) is clearly illustrated for the most recent years suggesting that some cleaning process is going on among the registered 'zero' employment firms.

Factors Affecting Changes in the Number of Firms and Their Size

As said, the main reason for the large difference in numbers of zero and non-zero employment firms, and consequently in the average firm size, are 'empty' firms, that is, the vast majority of zero employment firms are economically inactive firms without employment or without sales that exist only on paper and in the BRS. Many are private firms. Between 1989 and 1993, and to a lesser extent later, several firms were set up, which have never been economically active either in terms of generating jobs or in sales. This gap consisting of zero employment firms overestimates the growth of newly established firms. A certain cleaning of the BRS can be noticed after the year 1998, when the peak in the number of private 'zero' firms was achieved.

During the period analysed here, several changes have taken place within the institutional and legal frameworks and in governmental policies, which have affected the dynamics of firms. Among the main institutional and policy changes related to the dynamics of manufacturing firms are: requirements for setting up firms, bankruptcy and bankruptcy procedures, government rehabilitation policies associated with potential state subsidies, competition and trade policies.

LIQUIDITY, LOSSES, BANKRUPTCY AND BANKRUPTCY PROCEDURES

A body of literature has developed on the role of initial conditions on transformation, and later recovery and economic growth (e. g. Aghion et al. 1994; De Mello et al., 2001; Falcetti et al., 2002). One often recorded constraint for Slovenian firms is the delay in receiving payments and the associated liquidity problems.[3] The number of firms and the share of employment in illiquid companies with blocked giro accounts for more than five days was quite high in the first half of the 1990s (IMAD 1994, 21). As in other CEE countries, a large fraction of enterprises was faced with financial difficulties. While in the initial stage of transition most illiquid enterprises were large enterprises, later on, among the illiquid pool of enterprises, there also appeared many medium size and small firms with a smaller number of employees per illiquid firm.

The legal and regulatory basis for bankruptcy and bankruptcy procedures is one of the most crucial elements for efficient market selection process in market economies (e. g. Gray 1993; Coricelli and Djankov 2001; Maskin and Xu 2001). The legal and regulatory environment for bankruptcy and bankruptcy procedures in Slovenia has passed through different stages, which were largely related to the various bankruptcy laws and their implementation. Companies' bad liquidity position and financial disorder were an important systemic problem (e. g. Zizmond 1993). The bankruptcy law represents the key regulatory environment for the bankruptcy of enterprises as a process in which the interests of owners, borrowers and employees should be matched. Protection of employment or labour hoarding has been argued from public or national interest as a means to overcome the financial crisis and to sustain employment. Throughout the 1990s some manufacturing enterprises did go bankrupt, and falling employment appears to have been more the result of enterprise bankruptcy than of enterprise restructuring (EBRD 1998). Some of these enterprises were later re-established, but as a rule – particularly in labour intensive enterprises – they reduced the level of employment. Among capital-intensive enterprises, they were often heavy industry enterprises and loss-making enterprises during the longer period in the 1980s.[4] While for labour intensive enterprises it was common to encounter labour shedding, for capital-intensive enterprises it was common to have the assets written off or reduced.

Some training/re-education programmes to re-qualify and train workers were developed and directed at labour intensive branches. However, due to the relatively high wages in Slovenia – a fact that alters international competitiveness – several labour intensive activities are still under the pressure of having a relatively low value-added to pay high wages and to compete in the international markets. Among such branches are the textile and footwear industries.

ENTERPRISE TRANSFORMATION AND GOVERNMENT RESTRUCTURING PROGRAMMES

The State Development Fund was an enterprise-restructuring agency for the restructuring of large-loss-making enterprises. The Fund took over several enterprises in financial difficulties for possible restructuring. In 1997 it was transformed into the Development Corporation of Slovenia (DCS) (Slovenska razvojna družba – SRD) for the financing and restructuring of enterprises that had not yet been privatised, as well as priva-

tised enterprises in financial distress (EBRD 1998). Large-scale enterprises in the aluminium, steel, and oil sectors were included in the rehabilitation process, relaxing firms' budget constraints, and in providing them with subsidies. The prevalence of soft-budget constraints was intended to mantain employment levels and lead to a gradual restructure of the enterprise. In some enterprises development centres were established or re-established (e. g. wood and textile industry) aiming at employee retraining and enterprise adjustment towards a greater ability to compete on developed western markets. With the abolishment of the DCS, the enterprises in the DCS are being transferred to privatisation investment companies, pension funds and some other agencies.

COMPETITION POLICY

Competition policy may allow firms easier entry into the market and exit from it. It is recognised by the existing literature that healthy competition increases competitive ability and leads to greater competitiveness (e. g. Bresnahan and Reiss, 1991; Aghion at al., 1997). Unfair competition via entrepreneurial restriction of competition reduces competitive ability and hence is a deviation or a violation of good business or trade practices. This can be due to market power by individual participants, systemic distortions, and distorted economic policies.

Competition policy and the protection of competition aim at allowing full existence of market competition, ensuring market discipline, and preventing of unfair competition in the interests of society, companies and consumers. Competition policy covers both the areas of anti-trust regulation (prohibition of monopolistic agreements and abuse of the monopolistic position) and regulation of (unfair) competition (prohibition of unfair competition), which is harmonised with EU regulations and their implementation.

TRADE POLICIES

During the 1990s, four events were of major importance to Slovenian trade, which have had implications on the restructuring, entry and growth of firms. First, there was the breakaway from the former traditional markets in the former Yugoslav republics. This caused demand shock for some enterprises previously largely selling products to these markets. Second, a new free trade initiative developed in the region, which resulted in the Central European Free Trade Agreement (CEFTA). This was beneficial for sales and growth of several manufacturing firms.

Third, at the end of 1994, Slovenia became a member of the General Agreement on Tariffs and Trade (GATT) and one of the founding members of the World Trade Organisation (WTO). With the WTO membership, trade measures have been transformed into more transparent and less discretionary trade policies. This has had more indirect effects on firms. Fourth, the widening and deepening of the East-West European integration was stipulated by the Association Agreements with the EU, and deepened through the negotiation process and the EU membership on the 1st of May 2004 with the adoption of the entire *acquis communautaire.* Manufacturing products constitute the most important item in Slovenian trade. While Slovenian firms had already developed some ways of cooperation with EU firms during the old system, these initiatives and adjustments to the EU membership have further boosted and created the growth of Slovenian merchandise trade with the EU-15.

OTHER GOVERNMENT POLICIES AND MEASURES

Among other government policies are fiscal and budgetary policies. More specifically, taxation policies can provide incentives or disincentives for the setting up and growth of newly established firms. Among important measures are also policies regarding the banking system, which can provide incentives or disincentives for firm development, serving them by providing loans to firms under internationally comparable competitive loan conditions.

Conclusion

This paper analyses the evolution of the total number of Slovenian firms establishing a clear distinction between firms with employment ('non-zero' employment firms) and firms without any recorded full-time employment ('zero' employment firms). In doing so the paper observes a large gap between the large total number of registered firms and the much smaller number of firms with employment. Thus, the crucial finding of this paper is that the recorded extremely fast growth of the total number of manufacturing firms in Slovenia throughout the 1990s was exaggerated. It is clearly illustrated that the number of manufacturing firms increased, but less substantially in real economic sense than was initially recorded by statistics. The increase in the number of economically active firms (i. e. 'non-zero' employment firms) was less substantial (albeit considerable) than the total number of firms thus indicating that a vast number of registered firms were never active in economic sense

throughout the 1990s. Indeed, particularly great was the increase in the number of 'zero' employment firms which to a large extent are 'empty' economically inactive firms that exist only on paper in the BRS, with the exception of some part-time self-employment firms. These 'empty' firms are of statistical nature, closely associated with the institutional deregulation associated with the transition process, allowing for easier firm's registration at relatively very low initial capital and other registration requirements.

It is necessary to mention that the increase in the number of 'non-zero' employment firms is related to a considerable increase in the number of privately owned firms. Indeed, several large manufacturing enterprises were transformed into various organisational units, and different newly established private firms were set up, which are typically smaller. The increase in the number of manufacturing firms and the reduction in the number of employees led to the decline in the firm size (i. e. in the number of the employees per firm) during the 1990s, which is however smaller if the 'zero' employment firms are disregarded. Note that a recent convergence process is taking place between the total number of registered firms and the total number of 'non-zero' employment firms, leading to the convergence of firm size measured by employment per all registered firms and by employment per 'non-zero' employment firms. This suggests that some 'cleansing' process is ongoing among the firms without recorded full-time employment or 'zero' employment firms.

With the Slovenian harmonisation of the institutional environment and implementation of policies in line with the EU, the market selection process in terms of firm entry and exit is again more dynamic. Since 1997, the rate of employment growth has been positive indicating a slight increase in the number of employees in Slovenian manufacturing. Further deregulation, strict implementation of the rules of competition and hence harder budget constraints may be expected to render the market selection process similar to what can be observed in the developed market economies.

Notes

1. Note that changes in the firm's name are not considered, but only changes in the firm identification number (ID). The comparison between the name of the firms and the ID of the firms suggests that many Slovenian firms (about one third) changed their names, but continued operating within the same firm's ID.

2. For the difference in the number of firms, the explanation in the SYSLO (1987–2003) seems to be a bit weak. It is argued that the discrepancy in data between the BRS and the Statistical Register of Labour Force (SRLF) arises due to the fact that the BRS comprises also inactive physical persons, and the SRLF comprises physical persons who have not yet been registered in the BRS, but have pension and disability insurance and health insurance. It is not clear by whom they are included in pension, disability, and health insurance. It is also not mentioned, that probably the main reasons for the difference are several newly registered firms by different kinds of employees, retired, students and similar persons, although several of these registered firms have never been active or finally stopped their activities, yet the firm's registration remains in the BRS. The latter argument is also more in line with the evidence from the register of resident accounts and final accounts at the Agency of Payments during the 1990s.
3. Inter-enterprise arrears and delay payments have been common during transition. For example, according to firm survey results recorded by Bojnec (2002), the typical delay payment period was about 43 days.
4. For similar problems in other CEE countries see Hughes and Hare (1992), Aghion at al. (1994), Carlin at al. (1995), Earle (1997), Caves (1998), and Coricelli and Djankov (2001).

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Strategic Planning and Small Firm Growth: An Empirical Examination

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Strategic thinking is important for small firms in the time of global competition, technological change and increased dynamics in markets. Even if many entrepreneurs do not formulate business plans, the strategic planning and systematic decision-making can be considered a key determinant of survival and success of small firms. The paper examines the relationship between strategic planning and small firm growth in terms of empirical analyses that include various strategic planning elements, which have not been given enough attention in past research. Seven hypotheses on the relationship between strategic planning and growth are developed and empirically tested by using data collected via questionnaire from 114 Slovenian smaller firms. The study has practical implications. Entrepreneurs need to be aware that strategic planning practices, processes and techniques can be beneficial for growth of the firm. In order to enable their firms to grow, entrepreneurs may like to consider exactly formulating vision and strategy, incorporating the elements of internationalization and networking in the firm vision, focusing on growth, profit, and market, among strategic analysis techniques paying special attention to analysis of market and competition, and exactly formulating generic business strategies. All these strategic planning efforts need to be reinforced by practices that follow the key growth and market orientations, and have company-wide support. The key implication of this study for research is that the assessment of the relationship between strategic planning and small firm growth needs to be done across various elements or dimensions.

Introduction

Strategic thinking has become a must for entrepreneurs in the time of global competition, technological change and increased dynamics in markets. As propagated by leading entrepreneurships textbooks (for example, Stevenson et al. 1998; Hisrich and Peters 2001; Timmons and

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Spinelli 2003), the development of a business plan is an important element in the success of the entrepreneurial venture. However, most entrepreneurs and small businesses do not base their success on business plans, because they tend, to a large extent, not to formulate them (Bhide 1994). Despite these business plan formulation practices, strategic planning and systematic decision-making can be considered a key determinant of the survival and success of small firms (Zimmerer and Scarborough 1996). Yet, the relationship between strategic planning and small firm growth in terms of empirical analyses that would include various strategic planning elements has not been given enough attention in past research. In this paper, we propose that strategic planning can be considered an important predictor of small firm growth. In what follows, hypotheses on the relationship between strategic planning elements and small firm growth are developed, and the findings of empirical analyses are presented and discussed.

Theory and Hypotheses

Strategy can be defined as an action performed by the firm in order to achieve its business objectives (Wickham 1998). Strategy can be seen as a pathway to move a concept or an idea from the inventive state to the actual positioning in a competitive environment (Ireland 2001) or as a roadmap to the planned result (Thompson and Strickland 2001). Large and small firms act on the basis of a business theory, which is formed from a group of assumptions on what business the firm is in, what its objectives are, how it defines business results, which its customers are, what they value, and for what they are willing to pay (Drucker 2001). The role of strategy is to put the business theory in action and help the firm to achieve desired results despite the environmental unpredictability. Strategy helps the firm in the purposeful search for opportunities (Drucker 2001). Overall, strategy forms a basis for success of the firm (Baker, Addams, and Davis 1993; White 1998; Besanko, Dranove, and Shanley 2000).

Growth is an important performance element and success measure in entrepreneurship. Our main thesis is that strategy is central and beneficial for business success of the firm in general, and for firm growth in particular. In past research, Miller and Cardinal (1994) found a positive relationship between strategic planning and firm profitability and growth. In the following paragraphs we develop specific hypotheses on the relationship between strategic planning and small firm growth.

MISSION, VISION, AND OBJECTIVES

Mission and vision are crucial elements of strategic management. The difference between vision and mission is in its time component; mission determines what the company does, whereas vision shows what the company will become and do in the future (Thompson and Strickland 2001). Visions can be considered sources of energy for achievement of formulated objectives (Thompson and Strickland 2001). Vision, mission and strategies are interconnected elements of entrepreneurial perspective; together they turn the entrepreneur's wish for a positive change into a managerial tool for achievement of that change (Wickham 1998).

Ambitious entrepreneurs who manage growth firms form an intensive and strong vision about the value they can create (Ireland 2001). Even if in a small firm the entrepreneur usually acts as a strategic manager taking all strategic and operative decisions (Hunger and Wheelen 1996), strategic vision forms a basis for strategy development and strategic planning. In order for the firm to grow, the entrepreneur needs to formulate an exact, clear mission and vision for his or her firm (Wickham 1998). On the basis of this research we propose the first hypothesis:

Hypothesis 1: Growth firms will have more exact mission and vision statements than non-growth firms.

In addition to the company's vision, growth will be reinforced by a strategic focus on market, growth and profits. Indeed, planning of corporate or business strategy needs to be centered around the market, product and service (Hunger and Wheelen 2001). Therefore, we propose the following hypothesis:

Hypothesis 2: Growth firms will be more driven by vision (2a), growth and profit focus (2b), and market focus (2c) than non-growth firms.

Vision and objectives are the bases of strategies and strategic planning. For an entrepreneur it is beneficial to have a clear vision, high and growth-oriented objectives, and a belief that he or she can achieve the objectives (Baum, Locke, and Smith 2001). In order to be successful and to grow, the firm needs to formulate high, optimistic, growth-oriented objectives (Wickham 1998). In addition to growth objectives, other objectives (financial or non-financial, personal or non-personal) may play important roles in actual achievement of small firm growth. Among multiple objectives, two objectives can be particularly important for firm growth: internationalization, and innovation/quality. The importance of internationalization for growth has been discussed, for

example, in the international entrepreneurhip literature (for example, see reviews by McDougall and Oviat 1997; Antoncic and Hisrich 2000a; Zahra and George 2002), whereas the importance of innovation and quality for growth has been given a lot of attention in the strategic innovation (for example, Tushman and Anderson 1997) and corporate entrepreneurship research (for example, Covin and Slevin 1986; Zahra 1991; 1993; Antoncic and Hisrich 2000b; 2001). Thus, we propose a positive relationship between growth, internationalization and innovation/quality objectives and actual firm growth:

Hypothesis 3: Growth firms will place higher emphasis on objectives of growth (3a), internationalization (3b), and innovation and quality (3c) than non-growth firms.

STRATEGIES

Successful small firms tend to a large extent to use advanced planning and activity analysis (Zimmerer and Scarborough, 1996). Strategic orientation can be considered a driver of strategy formulation; a strategically oriented entrepreneur will pursue opportunities regardless of resources under his or her control, whereas a strategically not-oriented entrepreneur will limit his or her activities by the resources that are currently under control (Sahlman et al. 1999). Therefore, we expect a positive relationship between strategy formulation and firm growth, and propose the following hypothesis:

Hypothesis 4: Growth firms will place more emphasis on strategy formulation than non-growth firms.

Effective strategies are usually based on strategic analyses of the external and internal environment of the firm (Thompson and Strickland 2001). Entrepreneurs can benefit by using strategic management tools and techniques, such as: market analysis, SWOT analysis, strategy development, resource allocation plans, development of business, action, and financial plans, and in addition, a crisis plan (Sahlman et al. 1999). Thus, we expect a positive relationship between the use of strategic analysis techniques and firm growth:

Hypothesis 5: Growth firms will use strategic analysis techniques to a higher extent than non-growth firms.

The value of strategic planning for firm performance may lie more in the future orientation and planning practices than in the formal form

of a strategic plan (Hunger and Wheelen 2001). Small firms in particular tend to plan informally and not on a regular basis. Strategic planning can be beneficial for small firm performance, because it forces the entrepreneur to think about open business questions and search for solutions, and also encourages the entrepreneur's learning and making improvements (Wickham 1998). Strategic planning is a process that helps to forecast the future and prepare for the future, and can be beneficial for firm growth (Zimmerer and Scarborough 1996). The use of strategic planning practices can be beneficial for growth, so we propose the following hypothesis:

Hypothesis 6: Growth firms will use strategic planning practices to a higher extent than non-growth firms.

Porter's (1980) generic competitive strategies (price leadership, differentiation, focus/niche strategy) are often considered the basis for growth strategies of firms in general (Zimmerer and Scarborough 1996; Hunger and Wheelen 2001), and of small firms in particular, because small firms tend to be less diversified than larger firms, and many small firms are likely to be in the single business firm form. We expect that also at the level of business strategy formulation growth firms will tend to be more specific than non-growth firms:

Hypothesis 7: Growth firms will have more specified generic business strategies than non-growth firms.

Methods

Methodology will be discussed in terms of the measurement instrument, sampling, and data analysis.

MEASUREMENT INSTRUMENT

A questionnaire was designed on the basis of theory in order to acquire data for hypotheses testing. The respondents (managers) were asked to write the vision, long-term objectives, and mission for their firm. They were asked to choose up to three factors that had the strongest impact on the strategy formulation of their firm from a list composed of eight items (1 – Vision and objectives of the entrepreneur or the entrepreneurial team, 2 – The entrepreneur's wish for achievement of planned growth and higher profits, 3 – Opportunities in the market, 4 – Imitation of other firms and competitors, 5 – Advice and initiative of outside consultants, 6 – Requirements of financial institutions, 7 – Education of the

entrepreneur, 8 – Other). In order to acquire information on the strategy formulation emphasis, the respondents were given the choice of three possible answers (1 – very precisely, 2 – approximately, 3 – no) to the question whether their firm has a formulated long-term way – strategy – on how to achieve the objectives, vision, and mission. The question on strategic analysis techniques was phrased in a way that the respondents answered a question about the basis of the decision for the strategy their firm follows; they were given a possibility to select among five answers (1 – Analysis of market and competition, 2 – Analysis of internal capabilities of the firm, 3 – Analysis of the overall business of the firm (internal and external factors), 4 – Feeling-based (intuition of the entrepreneur), 5 – Other). Questions on strategic planning practices of the firm included thirteen Likert-type items with scales from 1 (totally disagree) to 5 (totally agree); the item contents are:

1. knowledge about customers and their needs,
2. orientation to grow and increase profitability,
3. knowledge about own strengths and weaknesses,
4. awareness of own competitive advantages,
5. knowledge about opportunities and threats in the market,
6. non-utilized resources and capabilities,
7. achievability of long term objectives of the firm,
8. planning of business operations for the future,
9. all employees oriented towards the common goal,
10. strategic planning key for the company success,
11. clear vision about the future, known to all people in the firm,
12. actual formal business plan, as a basis for business operations,
13. prepared strategic plan.

Specification of a business strategy of the firm was assessed by asking a question based on Porter's (1980) generic strategy typology (cost leadership, differentiation, and focus/niche strategy). The respondents were asked to check the items which were characteristic for their firm (1 – provides on the market products/services with lower prices than competitors, 2 – provides on the market products/services that are different, better than the competitive ones, 3 – sells products/services to a specific group (segment) of customers). Control varaiables were also collected (industry, firm size, growth, profitability).

SAMPLING AND DATA ANALYSIS

The data were collected on the basis of stratified sampling using two groups of smaller firms (up to 250 employees) in Slovenia. The first group (stratum) were 300 growing firms, which were randomly selected from the list of the 500 fastest growing firms in Slovenia published annually by the Slovenian business journal *Gospodarski vestnik*. The second group (non-growth) included firms with annual growth from –5% to +5%, from which 300 firms were randomly selected. Various industries were included in the two samples, with the exception of non-profit firms. The questionnaire was forwarded by e-mail to the selected 600 firms.

The response rate was 19% (114 firms provided answers, of which 52 growth-firms and 62 non-growth firms). Growth firms of the sample were – in comparison to the non-growth firms – somewhat bigger, more involved in production and trade industries, similar in profitability, and faster in growth (see sample characteristics in Table 1).

Answers on the open-ended questions about vision, objectives, and mission were content analyzed, resulting in nine key categories:

1. fast growth (in this category were grouped firms that forecasted aggressive, fast growth, or substantial increase in market share and profits);
2. moderate – limited growth (expressed sales or market growth orientations, but expected moderate, stable growth or geographically limited growth – to a region or a small economy of Slovenia);
3. internationalization (orientation to expand to foreign markets);
4. innovation and quality (improvements in quality and innovation of products or processes);
5. networking (orientation into connections, contact relations, and business collaboration);
6. e-business (orientation into electronic commerce);
7. retention of size or survival (orientation into retainment of status quo and survival,
8. no vision/objectives, and
9. other (not classified in the first eight categories).

The hypotheses were tested by comparing the means of the variables between the growth group and the non-growth group by using univariate and bivariate data analysis in the SPSS statistical package.

Table 1: Sample characteristics

	Growth Firms ($n = 52$)	Non-Growth Firms ($n = 62$)
Firm Size (no. of employees)		
9 or less	29%	73%
10 to 19	18%	12%
20 to 49	41%	12%
50 or more	12%	3%
Industry		
Production	36%	27%
Trade	25%	15%
Business Services	19%	37%
Financial Services	2%	8%
Information Technology	6%	3%
Transportation	2%	5%
Other	10%	5%
Profitability (average ROS *in last three years)*	Mode 6–19% (42.3% of firms)	Mode 6–19% (51.6% of firms)
Growth (average growth in no. of employees)		
0% or less	11.5%	37.1%
1 to 10%	65.4%	56.5%
11% or more	16.2%	0.0%

Findings

Hypothesis 1 stated that growth firms would have more exact vision and mission statements than non-growth firms. On the one hand, 84.6% of entrepreneurs of growth firms actually wrote down their company vision, whereas in the non-growth firms group this percentage was lower (69.4%). This is in line with Hypothesis 1. On the other hand, contrary to the hypothesis, mission statements were reported by 61.5% growth firms and 71.0% non-growth firms (very exact mission statements were given by 21.2% growth firms and 32.3% non-growth firms). Thus, for Hypothesis 1 we attained mixed results. This may be due to the fact that growth firms may be more inclined to express their vision instead of their mission because they can be more future oriented, whereas non-growth firms may be more focused on what they are actually doing.

Hypothesis 2 stated that growth firms would be more driven in their strategy formulation by vision (2a), growth and profit focus (2b), and

Table 2: Strategy formulation drivers

Strategy Formulation Drivers	1	2
Vision and objectives of the entrepreneur or the entrepreneurial team	70.2%	66.7%
The entrepreneur's wish for achievement of planned growth and higher profits	74.5%	58.3%
Opportunities in the market	55.3%	41.7%
Imitation of other firms and competitors	17.0%	25.0%
Advice and initiative from outside consultants	4.3%	8.3%
Requirements of financial institutions	4.3%	2.1%
Education of the entrepreneur	2.1%	20.8%
Other	0.0%	4.2%

1 – Growth firms 2 – Non-growth firms

market focus (2c) than non-growth firms. A comparison of drivers of strategy formulation between growth and non-growth firms is displayed in Table 2. Some differences became visible. Growth firms had, in comparison to non/growth firms in strategy drivers, a slightly higher percentage of vision of the entrepreneur or entrepreneurial team (70.2% vs. 66.7%), more importance given to the entrepreneur's wish for achievement of planned growth and higher profits (74.5% vs. 58.3%) and to market opportunities (55.3% vs. 41.7%), and less emphasis on imitation and education. These results are in support of Hypotheses 2b (growth and profit focus) and Hypothesis 2c (market focus), and in weak support of Hypothesis 2a (vision).

Hypothesis 3 stated that growth firms would place higher emphasis on objectives of growth (3a), internationalization (3b), and innovation and quality (3c) than non-growth firms. When visions of firms were analyzed, interesting differences between growth and non-growth firms were discovered (see the first three columns in Table 3). Growth firms were found to express in their visions – more than non-growth firms – elements of growth (fast growth: 5.8% growth firms vs. 1.6% non/growth firms; moderate growth: 21.2% vs. 14.5%; retention of size: 11.5% vs. 16.1%) and internationalization (19.2% vs. 11.3%), but not innovation and quality (15.4% vs. 19.4%). In addition, the two groups differed in terms of networking (9.6% vs. 0.0%), but not in terms of e-business. When objectives were compared (see the last three columns in Table 1), some difference was found for the growth element (fast growth 7.7% vs.

Table 3: Elements of visions and objectives of growth and non-growth firms

Vision	1	2	Objectives	1	2
Fast growth	5.8%	1.6%	Fast growth	7.7%	1.6%
Moderate growth	21.2%	14.5%	Moderate growth	26.9%	25.8%
Retention of size	11.5%	16.1%	Survival	1.9%	3.2%
Internationalization	19.2%	11.3%	Internationalization	11.5%	9.7%
Innovation and quality	15.4%	19.4%	Innovation and quality	23.1%	19.4%
Networking	9.6%	0.0%			
E-business%	1.9%	1.6%	Undecided	3.8%	11.3%
No vision	0.0%	4.8%	No objectives	0.0%	3.2%
No answer	15.4%	30.6%	No answer	25.0%	25.8%

1 – Growth firms 2 – Non-growth firms

1.6%, moderate growth 26.9% vs. 25.8%), and very small differences for internationalization (11.5% vs. 9.7%) and innovation and quality (23.1 vs. 19.4). In sum, these results are in some support of Hypotheses 3a (growth) and 3b (internationalization), but much less of Hypothesis 3c (innovation and quality).

Hypothesis 4 stated that growth firms would place more emphasis on strategy formulation than non-growth firms. In our sample 90.4% of growth firms reported to have a formulated strategy for attainment of their objectives, vision, and mission (13.5% very precisely and 76.9% approximately). In contrast, the percentage of non-growth firms that have a formulated strategy was lower – 79.1% (9.7% very precisely, 69.4% approximately). These results are in support of Hypothesis 4.

Hypothesis 5 stated that growth firms would use strategic analysis techniques to a higher extent than non-growth firms. Percentages of strategic analysis techniques that were used by firms in our sample for use in strategic planning are displayed in Table 4. The most used technique in growth firms was found the analysis of market and competition (36.2%), whereas non-growth firms relied more on the analysis of internal capabilities (37.5%). The firms somewhat differed also in the use of the analysis of the overall business (internal plus external factors): 21.3% of growth firms and 27.1% of non-growth firms. In addition, about 30% of all firms based their strategic planning on the intuition of the entrepreneur. Findings concerning Hypothesis 5 are mixed at best, but they indicate that particularly analysis of market and competition can be beneficial for small firm growth.

Table 4: Strategic analysis techniques*

Strategic analysis techniques	1	2
Analysis of market and competition	36.2%	27.1%
Analysis of internal capabilities of the firm	29.8%	37.5%
Analysis of the overall business of the firm (internal and external factors)	21.3%	27.1%
Feeling-based (intuition of the entrepreneur)	29.8%	31.3%
Other	0.0%	0.0%

* Multiple answers were allowed – the percentages do not sum up to 100
1 – Growth firms 2 – Non-growth firms

Hypothesis 6 stated that growth firms would use strategic planning practices to a higher extent than non-growth firms. As shown in Table 5, growth firms placed on average more emphasis on all analyzed strategic planning practices than non-growth firms, with the exception of one item (awareness about strategic planning being key for the company's success). However, statistical comparisons of means indicated only some differences to be statistically significant. Significant differences were found for: orientation to grow and increase profitability ($\chi^2 = 5.56$, sig. 0.006). knowledge about opportunities and threats in the market ($\chi^2 = 4.53$, sig. 0.016), and all employees oriented towards the common goal ($\chi^2 = 6.20$; sig. 0.044). Thus, support for Hypothesis 6 can be considered mixed.

Hypothesis 7 stated that growth firms would have more specified generic business strategies than non-growth firms. As indicated in Table 6, all three generic business strategies (differentiation, cost leadership, and focus/niche) got somewhat higher percentages of answers as being characteristic for growth firms than for non-growth firms. These findings are in support of Hypothesis 7.

Discussion

This paper provides evidence that strategic planning does matter in firm growth. Vision is an important element of strategic management, and – as shown in this paper – exact formulation of the vision statement and strategy formulation can be beneficial for small firm growth. Interestingly, our findings also indicate that the formulation of vision (future orientation) can be more important than formulation of mission (current orientation) for firm growth; we also found evidence that growth

Table 5: Strategic planning practices (average values*)

Strategic planning practices – items	1	2
Knowledge about customers and their needs	4.55	4.40
Orientation to grow and increase profitability	4.53	4.08
Knowledge about own strengths and weaknesses	4.52	4.34
Awareness of own competitive advantages	4.50	4.35
Knowledge about opportunities and threats in the market	4.45	4.05
Non-utilized resources and capabilities	4.35	4.16
Achievability of long term objectives of the firm	4.29	4.03
Planning of business operations for the future	4.12	3.79
All employees oriented towards the common goal	3.98	3.70
Strategic planning key for the company success	3.86	3.97
Clear vision about the future, known to all people in the firm	3.75	3.27
Actual formal business plan, as a basis for business operations	3.41	3.05
Prepared strategic plan	2.86	2.48

* Answer range 1 (totally disagree) to 5 (totally agree)
1 – Growth firms 2 – Non-growth firms

Table 6: Generic strategies*

Generic strategy	1	2
Differentiation strategy (different, better products/services)	73.1%	64.5%
Cost leadership strategy (lower price)	26.9%	21.0%
Focus/niche strategy (focus on a specific customer segment)	59.6%	56.5%

* Multiple answers were allowed – the percentages do not sum up to 100
1 – Growth firms 2 – Non-growth firms

firms expressed in their visions all elements, except one – learning organization, which is more difficult to define, of the winning strategies for the 21st Century as defined by Hitt et al. (2001). These elements are: internationalization, innovation and quality, networking, and to some extent also e-business. Contrary to the expectation of a difference, the innovation/quality element was found important for both growth and non-growth firms.

In addition to vision, growth and profit focus and market focus have also been shown to be crucial strategy formulation drivers of small firm growth. We obtained also one puzzling result: about one fifth of non-growth entrepreneurs reported education of the entrepreneur as a strat-

egy formulation driver. This may mean that non-growth entrepreneurs recognize the importance of education for the development of their companies, but that the efficiency of management and entrepreneurship education may be very low, or it may mean that non-growth entrepreneurs simply lack fresh ideas and rely too much on the information obtained in different educational contexts.

We did not provide enough evidence to say that growth firms use strategic analysis techniques to a higher extent than non-growth firms, but our findings suggest that analysis of the market and competition can be particularly beneficial for small firm growth. We discovered that about 30% of entrepreneurs of our sample base their decision on intuition; this finding is in line with the findings of Bhide (1994) for the US entrepreneurs.

Finally, we provided some empirical evidence that the extent of use of strategic planning practices (such as orientation to grow and increase profitability, knowledge about opportunities and threats in the market, and the orientation of all employees towards the common goal) and generic strategies (differentiation, cost leadership, and focus/niche strategy) can be predictive of small firm growth. Our findings – which are that small firms tend to rely on differentiation and focus/niche business strategy more than on cost leadership strategy – seem to be the result of a common characteristic of small firms, which in comparison to large firms have lesser resources and lesser opportunity and capability to compete on the basis of economies of scale.

A key implication of this study for research is that the assessment of the relationship between strategic planning and firm growth needs to be conducted across various elements or dimensions. The study has practical implications. Entrepreneurs need to be aware that strategic planning practices, processes and techniques can be beneficial for growth of the firm. In order to enable their firms to grow, entrepreneurs may like to consider exactly formulating vision and strategy, incorporating the elements of internationalization and networking in the firm vision, focus on growth, profit, and market; among strategic analysis techniques pay special attention to analysis of market and competition, and exactly formulate generic business strategies. All these strategic planning efforts need to be reinforced by practices that follow the key growth and market orientations, and have company-wide support.

The study may have some limitations, and might suggest some future research opportunities. First, the data were collected with percep-

tual and predominantly single-item measures from one respondent per firm. Since the focus was on small firms, the respondent – usually the owner-manager – can be considered a key person for providing strategic planning information. Using multiple respondents and constructs of the elements of small business strategic planning, and combining perceptual measures with behavioral and secondary/financial data, may increase reliability in future research. Second, the generalizability of the findings may be limited because data collection was conducted within one economy – Slovenia. However, even if the Slovenian economy is smaller and lagging in development in comparison to the US and economies of Western Europe, the findings on the basis of Slovenian data may be generalizable, as indicated by previous cross-national comparative studies, for example, in corporate entrepreneurship (Antoncic and Hisrich 2000; 2001) and in business ethics (Bucar, Hisrich, and Glas 2003). Of course, cross-cultural comparisons can reinforce current findings and bring new insights to future research. Third, the focus of the study was predominantly on strategic planning, and did not include other strategic management elements, such as implementation and control issues, which would be of interest for future research.

Conclusion

Strategic planning can be considered important in driving small firm growth. This study has added to the knowledge about the relationship between strategic planning and growth with insights on the importance of strategic planning elements, and has given recommendations for strategic planning-induced growth. Precisely formulating vision and strategy, incorporating the elements of internationalization and networking in the firm vision, focusing on growth, profit, and market, performing analyses of market and competition, precisely formulating generic business strategies, and achieving company-wide support for strategies can all be beneficial for the growth of smaller firms.

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Catching-up, Regional Disparities and EU *Cohesion Policy: The Case of Hungary*

Jörg Lackenbauer

Central and Eastern European countries (CEECs) such as Hungary are not only relatively backward with respect to the 'old' EU Member States (EU-15), but they are also witnessing a worrying rise of regional inequalities within their boundaries. With the example of Hungary, we try to identify the factors behind catching-up with the EU-15 in some regions ('winner regions') and falling-behind in others ('loser regions'). By its very definition, EU cohesion policy has to consider both problems (national catching-up vs. the containment of regional disparities) very carefully in the enlarged EU. This is a complex issue, as regional policies often seem to face an equity-efficiency trade-off, as will bw shortly shown. On the basis of this analysis, we discuss how EU cohesion policy could contribute to attain higher national growth and, at the same time, contribute to the decrease in regional disparities. We use a theoretical approach that combines an endogenous growth framework with a new economic geography. The model we use shows that – in contrast to the traditionally used transport infrastructure policies – a policy that reduces the cost of innovation or increases the diffusion of innovation is able to reduce regional income inequality and agglomeration, and increase the national growth rate. The regional policies involved could be primary subsidies for research and technological development, investment in human capital or ICT infrastructure. In the final two sections of the paper, we discuss whether these regional policy prescriptions would fall on fertile soil in the light of Hungary's economic reality, and which could be promising EU cohesion policy schemes that would incorporate an innovation-oriented regional policy approach.

1 Introduction

Since 1 May 2004, the European Union has 25 Member States. The enlarged EU is heavily characterised by the great economic and social differences between the 'old' and the 'new' Member States. Moreover, the transition from centrally planned economies to market economies and the ongoing integration with the EU have led to a preoccupying rise of regional inequalities within the Central and Eastern European countries

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(CEECs) – these will be difficult to reduce, too. Both problems pose a major challenge to the Union – it is obvious that EU Eastern enlargement may not and cannot leave unchanged the Community's cohesion policy, as currently embodied mainly by the Structural Funds and the Cohesion Fund. Not only will there have to be a major reorientation of this policy towards new key priorities that are most growth- (and thus catching-up-) enhancing, but also a policy approach taking account of the strongly increased regional disparities within the new Member States. However, this issue has been neglected in the enlargement process, and the European Commission's proposals concerning the future priorities of its regional and structural policy operations do not point towards any major changes.

By its very definition, EU cohesion policy has to address both problems – national catching-up vs. the containment of regional disparities – very attentively in the enlarged EU. This is a complex issue, as regional policies often seem to face an equity-efficiency trade-off. How can EU cohesion policy contribute to attaining higher national growth (and therefore convergence towards the EU-15) and, at the same time – and central to the analysis in this paper – contribute to the decrease in regional disparities (something that traditional infrastructure policies have hardly been capable of)? Which are the regional policy prescriptions that a theoretical analysis yields? Are these prescriptions difficult to put into practice? And to what extent have they already been put into practice?

The remainder of this paper is organised as follows: In Section 2, we shed light on the economic disparities between the new Member States from Central and Eastern Europe and the EU-15. In Section 3, we analyse the growing regional disparities within the new Member States, with the example of Hungary, our case study throughout this paper. The equity-efficiency trade-off which regional policies often seem to face is looked at in Section 4. In Section 5, we analyse in detail a theoretical case for an innovation-oriented regional policy, and in Section 6 we question how these regional policy prescriptions perform in light of Hungary's economic reality. In Section 7 we ask what could be the contribution of current and future EU cohesion policy schemes. Section 8 provides a brief conclusion.

2 Economic Disparities Between the Accession Countries and the EU-15

The former communist countries have lost out on at least half a century of 'normal' economic development. The nature of their growth built seri-

ous structural distortions into their economies, which made them highly inefficient, compared to Western Europe. The planning mechanisms in place prior to 1990 inhibited total factor productivity (TFP) growth. By the eve of transition, inefficiencies and shortages were pervasive, labour and capital fundamentally misallocated, and the range and quality of goods and services produced left much to be desired (Dabrowski 2001, 2; Doyle et al. 2001, 4–5). As a result, the ten CEECs applying for EU membership after the end of the Soviet system[1] revealed (and still reveal) huge economic backlogs, especially in terms of GDP per capita: all of these post-socialist new EU Member States (with the exception of Slovenia) are much less prosperous than the 'old' EU members (the EU-15).

Although the new Member States have grown faster than the EU-15 since the mid-1990s (see Table 1 for their real annual growth rates), the gap in GDP per head remains pronounced: Slovenia and the Czech Republic were the only CEECs that had a GDP per head above 60 per cent of the EU-15 average in 2002. GDP per head was only around 40 per cent of that average in Poland, Estonia and Lithuania and just 35 per cent in Latvia. In Bulgaria and Romania, who are likely to join the EU in 2007, GDP per head amounted to only around 26–27 per cent of the EU-15 average (European Commission 2004, 10).

Due to the accession of the ten new Member States on 1 May 2004, the population of the EU has risen from 375 million people to 450 million people, i. e. by 20 per cent. However, the new Member States add much more to EU population (20 per cent) than to its GDP (just around 5 per cent in terms of Euros).[2] As a consequence, average GDP per head is significantly reduced: in the EU-25,[3] it is around 12.5 per cent lower than average GDP per head in the old EU-15. But even in spite of this, all of the new members from Central and Eastern Europe (with the exception of Slovenia) have a GDP per capita below 70 per cent of the EU-25 average. Countries like Latvia and Lithuania (not to mention Bulgaria and Romania) in 2002 had a GDP per capita of around 40 per cent of the EU-25 average, just above half the level in the EU's poorest old Member States, Greece and Portugal (77–78 per cent) (European Commission 2004, 11–12).

Table 1 shows that all the CEECs have a per capita GDP very far below the EU-25 average. With the exception of Slovenia, the GDP of all of these countries is even significantly below that of the least developed old Member States (Portugal and Greece). Hence, under the current rules, nearly all the regions in the CEECs would be eligible for funding from the EU's regional policy:[4] some 69 million of the 75 million people who

Table 1: GDP in the CEECs: annual growth rates and the level relative to the EU-25

	GDP real (compound) annual growth rates			GDP per capita in PPS, level*		
	1996–2000	2001	2002	1995	2000	2004
Bulgaria	–1.3%	4.0%	4.3%	30%	27%	32%
Czech Republic	0.9%	3.2%	2.0%	68%	61%	65%
Estonia	5.1%	5.0%	5.6%	33%	41%	48%
Hungary	4.0%	3.7%	3.3%	48%	54%	61%
Latvia	4.7%	7.9%	6.1%	28%	35%	43%
Lithuania	3.2%	5.9%	5.9%	33%	39%	48%
Poland	5.2%	1.0%	1.3%	38%	44%	47%
Romania	–1.6%	5.7%	4.9%	30%	25%	32%
Slovakia	4.6%	3.3%	4.4%	43%	48%	56%
Slovenia	3.9%	3.0%	3.0%	62%	73%	77%
EU-25				100%	100%	100%

* In percentage of EU-25. Sources: European Commission 2001b, 16; European Commission 2003b, 48; Podkaminer et al. 2004, 38.

have become EU citizens on 1 May 2004 (92 per cent of the total) live in regions with GDP per head below 75 per cent of the EU-25 average in the new Member States (European Commission 2004, 12).

Obviously, due to the low GDP per head in the new Member States, income disparities across countries (and regions) in the EU have clearly widened. Whereas the gap between the average GDP per head in the EU-15 and the level in the least prosperous old Member States was just under 30 per cent (i. e. Greece and Portugal had income levels almost 30 per cent below the EU-15 average), the gap has doubled since enlargement: Latvia, the least prosperous new Member State, has a per capita GDP which is roughly 60 per cent below the new EU-25 average (European Commission 2004, 11). The upcoming expansion to Bulgaria and Romania will again increase the scale of disparities across the EU.

As Figure 1 shows, in the enlarged EU of 25 (or even 27) Member States, countries can be divided into three groups according to GDP per head in PPS terms: the first group consists of 12 of the old 15 Member States (EU-15), whose GDP per head is well above the EU-25 average (by 10 per cent or more). The second group consists of the 'cohesion countries' Spain, Portugal and Greece plus Cyprus, Malta, Slovenia and the Czech Republic. These countries' GDP per head is between 68 per cent and 94 per cent of the EU-25 average. The third group comprises eight countries, all

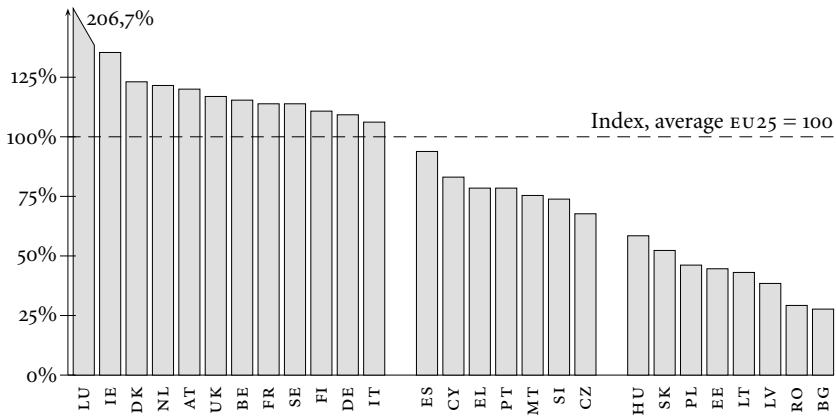

Figure 1: GDP per head (PPS), 2002, in three groups of countries
Source: European Commission 2004, 11.

of which are from Central and Eastern Europe, being either new Member States or accession candidates (Bulgaria and Romania). In this group, GDP per head is below 60 per cent of the average (European Commission 2004, 11–12).

The CEECs have had sustained solid growth for several years (see Table 1) and are likely to continue to outperform the old Member States in terms of GDP growth (see e. g. Podkaminer et al. 2004, 38). Nevertheless, it will take the 'best performers' among them 10 to 20 years and others like Bulgaria, Romania and Poland even around 30 years from now to reach only 75% of the EU-15 average, as growth and catching-up scenarios which have been calculated e. g. by the World Bank (2000) and by the European Commission (2001b) have shown. This process is only slightly shortened when the EU-25 average is taken as a point of reference.

In its latest report on economic and social cohesion (European Commission 2004), the European Commission considers two catching-up scenarios. In the first scenario, growth in the accession countries is sustained at 1.5 per cent a year above the EU-15 average, i. e. above the growth rates in the old Member States: a growth rate of 4 per cent a year in the new Member States could be assumed, as opposed to a growth rate of 2.5 per cent a year in the EU-15. This seems to be quite a plausible assumption, as it corresponds to what could be observed in reality in the recent past: the average growth rate of GDP in the new Member States could be effectively maintained at 1.5 per cent a year above the EU-15 average between 1995 and 2002 (with GDP growth averaging just around 4 per cent

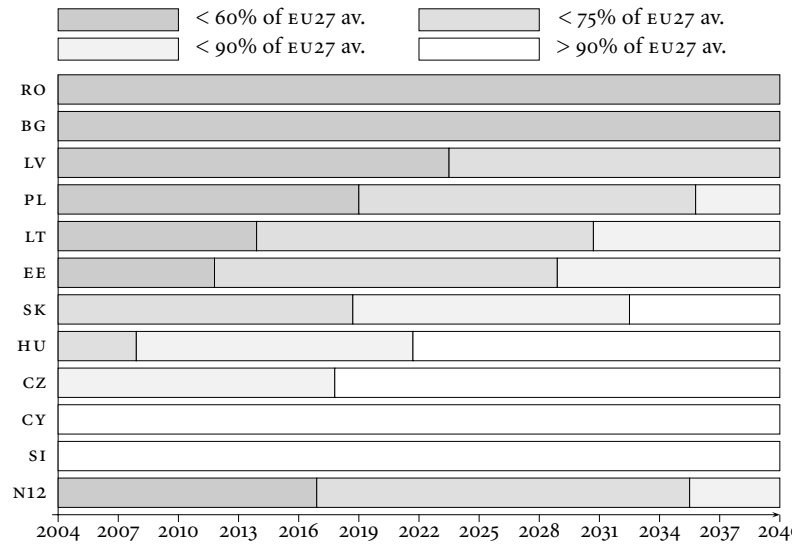

Figure 2: Simulation of GDP per head (PPS) in the accession countries, 2004–2040; relative growth assumption 1.5 per cent p. a.

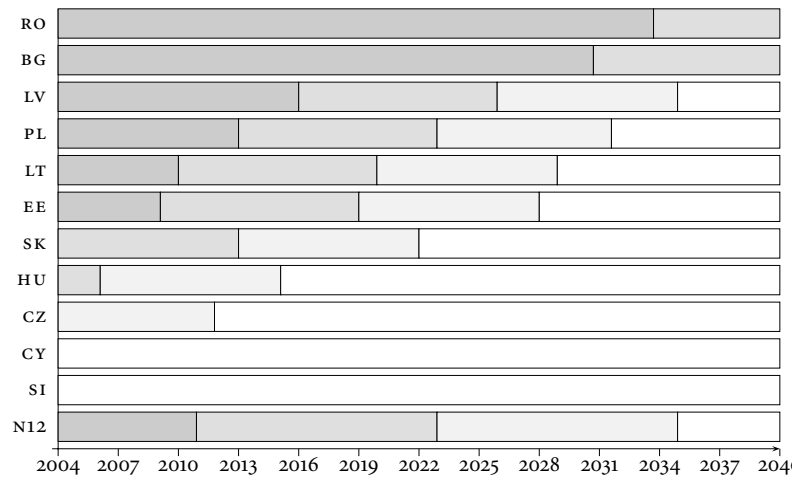

Figure 3: Simulation of GDP per head (PPS) in the accession countries, 2004–2040; relative growth assumption 2.5 per cent p. a.

Note: N12 – new member states plus BG and RO; MA – no data.
Source: European Commission 2004, 17.

a year in the accession countries in that period, as opposed to an average growth rate of 2.5 per cent in the EU-15 in the same time span). Given this scenario, average GDP per head in the 12 countries (the ten new Member

States plus Bulgaria and Romania) would remain below 60 per cent of the EU-27 average until 2017, as Figure 2 shows. In 2017, it would exceed 75 per cent of the average only in Slovenia, Cyprus, the Czech Republic and Hungary. Slovakia would reach 75 per cent of the average in 2019, Estonia in 2029, Poland only in 2035 – 30 years from now – and Latvia only in 2041. Bulgaria and Romania would still have a GDP per capita below 75 per cent of the average even in 2050, and this even if the point of reference is the EU-27 average, which is considerably lower than the EU-25 average (not to mention the EU-15 average) (European Commission 2004, 9, 16–17).

In the second scenario the European Commission analyses, growth in the new Member States is sustained at 2.5 per cent a year above the EU-15 average (meaning that the annual growth rates in the CEECs reach 5 per cent if growth in the old Member States is 2.5 per cent). Intuitively, this seems to be a less likely scenario and a very demanding task, because since the outset of the transition process, only very few accession countries could permanently maintain their growth rate at 2.5 per cent above the EU-15 average growth rate. Obviously, with growth being sustained at a considerably higher rate than in the first scenario, convergence to EU average income levels would occur faster and in a shorter time span, as Figure 3 shows. Poland, for example, would reach 75 per cent of the EU-27 average GDP per capita in roughly 20 years from now, instead of 30 as in the first scenario (European Commission 2004, 16–17).

Both scenarios have one thing in common: they demonstrate that even if growth rates well above the EU-15 average can be sustained for many years, for most of the new Member States, catching-up even to just the threshold of 75 per cent of the enlarged EU's average GDP per capita will very likely be a long-term process. EU cohesion policy will thus have to respond to the greatest challenges since its inception, if the new Member States are to be supported in their catching-up process and the Treaty objectives of 'economic and social cohesion' achieved in an enlarged EU.

3 Growing Regional Disparities Within the New Member States: The Case of Hungary

In this section we will focus on Hungary as a 'case study'. Yet, regional disparities increased in all of the transition countries, and many regional patterns of Hungary are at the same time general regional patterns of the East-Central European transformation of the last 15 years. Hence, much of what can be said about Hungary, the dominant role of its capital city,

the problems of its Eastern regions etc. could be equally said about other new EU members such as Poland, Slovakia or the Czech Republic.

The transformation of the CEECs from centrally planned economies to market economies, as well as the increasing economic integration with the EU, have led to the creation of new spatial patterns of economic disparities in these countries. Under the socialist system of centrally planned economies, rapid industrialisation had been associated with urbanisation in less-developed regions and an effort to spread industrial/urban growth. As a consequence, a general tendency towards regional economic convergence could be observed during the 1948–1989 period. As market economic systems have been widely introduced and the transition has been largely completed, the uneven spatial impact of intense economic reforms and integration with Western Europe is becoming more and more evident – widening disparities between and within countries characterise the overall picture (Bachtler et al. 1999, 8).

Several studies (e. g. European Commission 2001a; European Commission 2004; Petrakos 2000) confirm that throughout the last decade the accession countries witnessed increasing regional disparities. In its latest report on economic and social cohesion, the European Commission (2004, 10) finds that economic growth in the CEECs has not been regionally balanced. In all the new EU Member States, 'it has been disproportionately concentrated in a few regions, particularly in capital cities and surrounding areas. As a result, regional disparities in GDP per head have widened significantly' (2004, 10).

Growing empirical evidence (e. g. Bachtler et al. 1999; European Commission 2001a; Petrakos 2000; Resmini 2002) points to one type of winner and to two types of losers among the accession countries' regions: in this admittedly simplified dichotomy, the metropolitan and urban areas (namely the capital city regions) belong to the former group, the rural and old (declining) industrial areas as well as those in the Eastern peripheries belong to the latter group (Bachtler et al. 1999, 8; Iara and Traistaru 2003, 5). The regions bordering the old EU members have developed very dynamically in Hungary and Slovakia (where the region bordering the EU is at the same time the capital city region), but much less so in other transition countries (Lammers 2003, 222–224). Hence, the development of this 'category' of regions has to be judged in a case-related manner. In Hungary, all these regional patterns of transformation into a market economy became evident quite soon after the transition process had set in.[5]

The capital city regions of the Czech Republic, Hungary, Slovakia, Estonia and Latvia play the most dominant core roles. In all of these countries, there is no centre that could rival the capital city. In the Czech Republic the disparity between Prague (which, in 2000, had already reached a level of 133 per cent of the average EU-25 GDP per capita, see European Commission, 2003a) and the remainder of the country is still increasing.

The new regional pattern that has emerged in Hungary as a consequence of the transition process can be briefly characterised as follows: economic growth became concentrated in a small number of metropolitan and Western areas of Hungary, whereas a large number of regions witnessed the erosion of their production capacity, and their potential to grow and transform seemed to vanish.

Iara and Traistaru (2003) find evidence for increasing regional manufacturing specialisation and increasing regional GDP differentials in Hungary. On the basis of taxable income, Nemes-Nagy (2000, 171–174) has examined the change in intranational (i. e. interregional) income dispersion at various levels of spatial aggregation for the end of the 1980s and roughly the first half of the 1990s (the 'transition decade'), i. e. the years 1988–1996. The spatial levels of the analysis are:

- seven planning-statistical regions (the proposed NUTS 2[6] units);
- 19 counties and the capital, Budapest (NUTS 3 units, actual regional authorities);
- 150 statistical microregions;
- 3,100 settlements, i. e. local authorities.

Table 2 shows that interregional income inequalities increased at all levels of aggregation in Hungary between 1988 and 1994. In 1995 and 1996, the figures show relative stability, albeit on a much higher level. Yet, neither in Hungary nor in other transition countries did the increase in interregional income inequalities come to a halt in 1995 – it continued during the second half of the 1990s. Samecki (2003, 2) e. g. finds that 'between 1995 and 2000 the diversity between the most prosperous and the least prosperous regions in the Member States of the EU-15 increased on average by only 2%, while the average increase in this diversity in the Visegrad group[7] amounted to 20%.' Table 3 shows the diversities measured as the ratio of GDP per capita at PPS between the richest and the poorest region in the Visegrad group countries as well as in some 'typical' old EU Member States.

Not only did regional disparities within the Visegrad countries sharply

Table 2: Regional inequalities in taxable income per capita at various levels of spatial aggregation: the case of Hungary

Years	Weighted standard deviation			
	Settlements	Microregions	Counties	Regions
1988	25.4%	22.2%	19.6%	17.3%
1989	27.6%	24.0%	21.2%	18.5%
1990	30.2%	26.1%	23.1%	19.9%
1991	30.8%	25.5%	21.2%	17.9%
1992	34.6%	29.8%	26.4%	22.1%
1993	35.6%	30.8%	27.1%	22.7%
1994	36.5%	31.5%	27.7%	23.5%
1995	35.9%	30.7%	26.7%	22.6%
1996	35.7%	30.5%	26.4%	22.3%

Source: Nemes-Nagy (2000, 174).

Table 3: Income disparities between the richest and the poorest region in the Visegrad group countries and in some old EU Member States

Country	Most prosperous region	Least prosperous region	A	B	C
1	2	3	4	5	6
Poland	Mazowieckie	Lubelskie	1.64	2.21	+35%
Hungary	Közep-Magyarország	Észak-Alföld	2.02	2.40	+19%
Czech Republic	Prague	Střední Morava	2.36	2.69	+14%
Slovakia	Bratislava	Vychodne Slovensko	2.51	2.76	+10%
Ireland	Border, Midland & Western	Southern & Eastern	1.44	1.51	+5%
Italy	Trentino-Alto Adige	Calabria	2.25	2.19	–3%
Germany	Hamburg	Dessau	2.88	2.83	–2%
Belgium	Brussels	Hainaut	3.00	3.07	+5%

A – ratio 2/3 in GDP/head (PPS), 1995; B – ratio 2/3 in GDP/head (PPS), 2000; C – change 4/5 (from 1995 to 2000). Sources: European Commission 2003a; Samecki 2003, 2.

increase, but they also reached a considerable level in absolute and relative terms (in spite of having been relatively low at the beginning of the 1990s due to the aforementioned reasons):as Table 3 shows, the ratios of GDP per capita at PPS between their richest and their poorest regions are already bigger than those of Italy (a country known for its huge interregional disparities) and even approach the very special case of Germany with its Western and Eastern parts. The European Commission (2004,

Table 4: Typology of Hungarian regions under transformation

		Position in the post-socialist transition and EU integration process	
		Good	Bad
Position in the socialist economy	Good	Positive continuity ('the leaders'), e. g. great urban agglomerations, mainly the capital city	Negative discontinuity, e. g. (old) heavy industry regions facing massive restructuring
	Bad	Positive discontinuity ('the newcomers'), e. g. Western regions, mainly those bordering old EU members like Austria	Negative continuity, e. g. the 'Eastern Wall', i. e. the Eastern peripheries with Ukraine or Romania as neighbours

Source: Gorzelak (2000, 135–139).

10) finds that 'in Hungary, the level of GDP per head in the regions with the most prosperous 20% of population is some 2.4 times the level in the least prosperous' – this is more than in any of the old EU Member States. More than before the transition process, Hungary is characterised by an East-West divide, but also by a core-periphery disparity caused by the economic dominance of Budapest (Bachtler et al. 1999, 72; Csé-falvay 1997, 64). Gorzelak (2000, 135) illustrates Hungary's new regional patterns (Table 4).

BUDAPEST AND THE WESTERN REGIONS BORDERING AUSTRIA: 'THE WINNERS'

Budapest and the Western regions bordering Austria were able to benefit from the transition process and the relocation of manufacturing activity and investment: many new companies, massive inflows of FDI and relatively low unemployment rates can be found in these areas. Generally speaking, Budapest and Hungary's Western parts are characterised by good infrastructure links (e. g. the M1 motorway), a dynamically growing private sector activity and by a great number of international joint ventures which act as connections to international networks (Bachtler et al. 1999, 74; Horváth 2002, 131). Whereas Budapest has attracted basically tertiary activities (mainly financial services), the counties of Győr-Moson-Sopron and Vas have become centres of specialised industrial mass-production (Rechnitzer 2000, 14).

In the mid-1990s already, Budapest had more joint ventures than the remainder of Hungary combined and nearly two-thirds of all FDI flowing into Hungary went to Budapest (Bachtler et al. 1999, 10, 72). During the 1990s, the capital city could not only retain its advantage over the rest of the country, but has further increased it. The Budapest agglomer-

ation has thus strengthened its dominance (Horváth 2002, 131). In fact, the Budapest region shows an outstanding performance with respect to income growth, the employment level and structure. Hungary's capital city is the clear centre of the country's service sector activity, with over 70 per cent of Budapest's total employment being now in the tertiary sector. Moreover, Budapest accounts for more than 50 per cent of Hungary's employees in research and development (Bachtler et al. 1999, 71–72). All of this however includes mainly Budapest, geographically close counties such as Nógrád or Pest were not able to benefit from Budapest's dynamic development.

Having been neglected for political-military reasons during the heavy industrial stage of socialist industrialisation, the Austrian border regions could enter the transition and EU integration period with a less obsolete and more flexible economic structure. In these Western regions, large-scale investment from EU and Hungarian companies transformed the various counties (Győr-Moson-Sopron, Vas, Zala) into a zone of dynamic activity, even if, geographically speaking, they are a periphery.[8] The complete opening of borders served as a catalyst for changes in the spatial structure: cross border co-operation began to replace the state monopoly and centrally organised international relations, massive FDI inflows (especially greenfield investment) played a significant role in the radical transformation of the regional pattern (Nemes-Nagy 2000, 171–176; Nemes-Nagy 2001, 52–54). The most significant factors of economic growth were thus the external activating effects of the relatively close, economically powerful South German, Austrian and North Italian regions (Nemes-Nagy 2000, 179).

In the city of Győr, for example, situated exactly halfway between Vienna and Budapest along excellent rail and road links, Hungary's first greenfield industrial site, the local business park, was opened already in 1991. Its geography and its well-educated and motivated workers have been and still are Győr's main selling points. The city could attract big investors such as Audi, Philips and Amoco Fabrics. Even now that most of the multinational investors are already there and only very few more come, Győr still attracts investors, this time of another kind: often home-grown companies, smaller, more diverse, requiring highly-educated people, whereas the big manufacturers have upgraded their production lines and added research and development (R&D) units. Like Győr, Western Hungary in general is trying to 'move up the value chain' (Condon 2004, 2).

RURAL AREAS, THE OLD HEAVY INDUSTRY REGIONS AND THE EASTERN, SOUTHERN AND NORTHERN PERIPHERIES: 'THE LOSERS'

Rural, old (declining) industrial areas and Eastern and Southern peripheries have suffered from the closure of outdated, inefficient firms and from the deteriorating economic situation in the neighbouring regions of Ukraine, Romania and Ex-Yugoslavia (Bachtler et al. 1999, 5–14; Iara and Traistaru 2003, 2–4). Along Hungary's Eastern and Southern borders, networks of illegal businesses sprang up: many economic activities are illegal.

The Eastern periphery (e. g. the counties of Szabolcs-Szatmár-Bereg and Hajdú-Bihar) suffers from a regional crisis in the manufacturing and agricultural industries which had been producing for the Soviet market: three Eastern Hungarian industrial counties account for around 35 per cent of the country's total unqualified and unemployed workers. The employment power of the weak service sector is still far too low to absorb those who lost their jobs due to the systemic change. The Southern border counties like Bác-Kiskun have been negatively affected by the Balkan crisis. Hungary's Northern counties struggle with their obsolete heavy industrial base (Nemes-Nagy 2000, 171–176; Nemes-Nagy 2001, 52–54). In all those areas that had been dependent on heavy industry, the privatisation process started late (or didn't start at all) (Rechnitzer 2000, 15) and consisted essentially of investors picking out the (very few) big companies that were viable.

In general, Hungary's Southern, Northern and (North-) Eastern counties have comparatively poor infrastructure connections, small numbers of joint ventures and a very weak private sector (Bachtler et al. 1999, 74). Among other factors, it is the lack of favourable transport connections that makes regions like North-East Hungary and the Great Hungarian Plain far less competitive (Rechnitzer 2000, 18). Hungary's Southern, Northern and (North-) Eastern border regions are all peripheries, their economic sources and potential are still moderate and limited (Rechnitzer 2000, 39).

A FIRST LOOK AT FUTURE PERSPECTIVES FOR REGIONAL DEVELOPMENT IN HUNGARY

The new regional patterns just described have been clearly a result of the transition from a centrally planned to a market economy, as well as a result of the beginning of intense economic integration with the EU. Now

that the transition process has been largely completed and Hungary has reached a degree of trade integration with the EU that even some old members haven't reached, we have to ask whether the evolved spatial pattern of economic activities in Hungary is a transitional or rather a permanent one.

It seems that the most dynamic Hungarian regions, i. e. Budapest and the Western counties have built by now the basis for utilising their increased indigenous potentials (the location advantage, the attraction and weight of the market, innovative capacities etc.), which enables them to benefit from sustainable endogenous regional development in the future. Hence, the lead of those regions over the rest of the country seems rather permanent. Yet, parallel to the development of the early 1990s, some multinational companies might close down their plants and move further to the East, in order to benefit from lower wages there (Nemes-Nagy 2000, 183). There are already first signs of FDI and economic activities moving Eastward. Some companies that previously located in Western Hungary are now moving to cheaper destinations (in 2002 and 2003, real wages in Western Hungary have risen by more than 20 per cent) such as Slovakia (Condon 2004, 2), but also to Eastern Hungary.

Besides such factors, the development of the lagging regions' neighbouring countries (Slovakia, Ukraine, Romania, Serbia) is of crucial importance for Hungary's less developed counties. Domestic regional policy schemes have not yet been able to improve the situation of these lagging regions (Nemes-Nagy 2000, 183–184). This is also due to the fact that so far, Hungarian regional policy has taken to a large extent a 'laissez faire' approach (Cséfalvay 1997, 108) and regional lobbies have not yet developed (Rechnitzer 2000, 65). As future EU cohesion policy interventions will be substantially directed to Hungary's disadvantaged counties, and as those interventions traditionally take on more of a redistributive approach (Cséfalvay 1997, 54–55), they might play a big part in trying to improve their situation. Yet, neither international resources nor central governmental funds alone will be able to make the lagging regions catch up. Ultimately, the disadvantaged regions, too, will have to be able to start a process of endogenous regional development, and local innovative power will be of particular importance (Nemes-Nagy 2000, 184).

4 Do Regional Policies Face an Equity-Efficiency Trade-off?

In Sections 2 and 3, we have shown that the enlarged EU is heavily characterised by the great economic and social differences between the old and

the new Member States. Moreover, the transition from centrally planned economies to market economies and the ongoing integration with the EU have led to a preoccupying rise in regional inequalities within the CEECs – these will be difficult to reduce, too. Both problems pose a major challenge to the Union. By its very definition, EU cohesion policy has to address both problems – national catching-up vs. the containment of regional disparities – very attentively in the enlarged EU.

Literature on European economic integration (e. g. European Commission 1997; 2000; Martin 2002; Lammers 2002; 2003) reveals that in Western Europe there has been a certain degree of convergence on the country level (i. e. between the GDP per capita of the Member States) over the past decades. Indeed, there is clear evidence of national convergence among the EU-15's Member States since the 1960s. This is particularly due to the catching-up process of the poorer Member States (European Commission 1997; 2000).

The results of studies are much more ambiguous at the regional level (Boldrin and Canova 2001). Even if there seems to be (weaker) convergence at the level of *all* the EU-15 regions, quite a few authors (e. g. Quah 1996a) argue that different groups or 'convergence clubs' are emerging, so that apparent regional convergence is simply generated by the richer and leading regions of the cohesion countries catching-up with the EU-average, effectively meaning that regional disparities within these countries increase.

Indeed, there is evidence that national convergence came along with increasing interregional disparities (within countries): whereas since the mid-eighties income inequalities among Member States have diminished by 25 per cent, regional inequalities within the Member States have gone up by 10 per cent. As a result, the majority of regional inequalities in Europe can be explained by inequalities within countries (Martin 2002, 2). Quah (1996b) finds that, among the cohesion countries (Greece, Portugal, Spain and Ireland), Portugal and Spain, who managed to converge toward the average EU GDP per capita, have also witnessed the most marked rise in regional divergence.

Especially between 1994 and 2001, the cohesion countries' convergence process was quite impressive on the country level. In this period, (national) growth was well above the EU average in Greece, Spain and Portugal. This was translated into significant growth in GDP per head compared to that in the rest of the EU, because their growth of population was only slightly higher than the average. From 1994 to 2001, growth of

GDP per head was over 3 per cent a year in Portugal and Spain, and just under 3 per cent in Greece. This compares to an EU average of just over 2 per cent a year. Hence, in this period GDP per head in these three cohesion countries together grew in real terms by nearly 1 percentage point a year above the EU average, and it increased to 79 per cent of that average in 2001 (in PPS) (European Commission 2004, 2–3).

However, the growth and convergence processes just described have been far from regionally balanced. Davies and Hallet (2002, 12) find a correlation between high growth rates and a rise in regional disparities, especially in the 1990s. Whereas Ireland and Spain have experienced higher growth rates and a widening of regional disparities, Greece before 1996 had a low growth rate (it even diverged with respect to the EU-average) but also witnessed low/falling regional dispersion (Davies and Hallet 2002, 12; Boldrin and Canova 2001, 246). The Spanish catching-up process (on the country level) was driven by the particularly rapid growth of its richest regions, especially Madrid and Cataluña, while other regions were relatively falling behind. Since around 1993 there has been a gradual rise in regional disparities within Spain. The high growth rates of Portugal in the 1990s have been accompanied by a rise in regional disparities during the second half of that decade (Davies and Hallet 2002, 13–15).

Summing up, there has been a certain degree of convergence on the country level in the EU-15 in the past decades, also due to the catching-up of the cohesion countries. Existing EU cohesion policy schemes such as the Structural Funds and the Cohesion Fund might have contributed to this convergence of national economies, but could not avoid the increase of regional inequalities within the (cohesion) countries.

In the new EU Member States in Central and Eastern Europe, a very similar development can be witnessed: there is a certain degree of convergence with respect to the average EU-15/-25 GDP per capita (see Table 1), but regional disparities within Poland, the Czech Republic, Hungary etc. have been and still are increasing. In the accession countries, growth of GDP averaged just over 4 per cent a year between 1994 and 2001 in all except Hungary (just below) and the Czech Republic (where growth was only just over 2 per cent a year). Over this period, growth of GDP per head in real terms in the new Member States was around 1.5 per cent a year above the EU-15 average (European Commission 2004, 9). This of course led to a certain catching-up in Central and Eastern Europe. Hungarian GDP per capita e. g. amounted to 48 per cent of the EU-25 average in 1995,

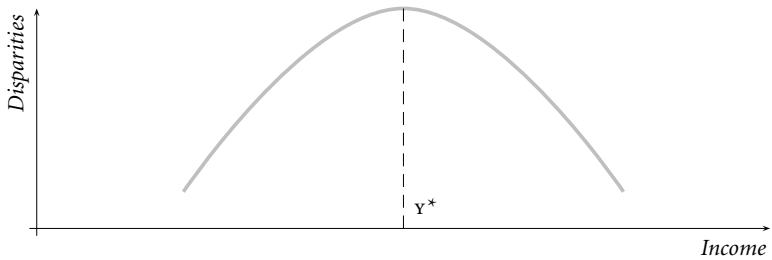

Figure 4: The Williamson hypothesis: the inverted U-curve
Sources: Williamson 1965, 9–10; Davies and Hallet 2002, 5.

to 54 per cent in 2000 and is at roughly 61 per cent in 2004 – at the same time, interregional income inequalities within Hungary increased at all levels of spatial aggregation in the 1990s, as we have shown in Section 3. However, not only in Hungary, but in all the transition countries, growth has been disproportionately concentrated in a few regions (especially in the main agglomerations such as the capital cities) and consequently regional disparities in GDP per head have widened significantly (European Commission 2004, 10).

In an early contribution, Williamson (1965) provided a formulation of the potential trade-off between national and regional development, predicting 'increasing divergence among geographic units *within* national borders and perpetuation of "pôles de croissance"' (Williamson 1965, 5) in catching-up countries, whereas later during the course of development, 'instead of divergence in interregional levels of development, convergence becomes the rule' (Williamson 1965, 9). According to the Williamson hypothesis, the relationship between national growth and regional inequalities takes the form of an inverted U-curve (Figure 4).

Williamson's main argument is that in the catching-up process of countries, interregional linkages, factor movements and public policies interact in favour of growth pole effects and the main agglomerations. Hence, more rapid growth in the growth pole areas (e. g. the capital city regions) leads to an increase of regional disparities. In later stages of development, however, regional disparities may decrease due to a higher aggregate level of income and spread effects: diseconomies of agglomeration (e. g. high labour costs or congestion effects) may emerge in the growth poles, and the lagging regions of the by now mature country might benefit from technological diffusion (Williamson 1965, 3–10; Davies and Hallet 2002, 4–5).

Most economists would probably classify the new EU Member States in Central and Eastern Europe under the heading 'catching-up countries': hence, in Williamson's scheme, they would belong to the group of countries experiencing increasing regional disparities, and they would find themselves to the left of the income level y^* in Figure 4. This classification seems to be justified, because in the CEECs public investment is often focused on the main agglomerations, and the maximisation of national growth (i. e. national catching-up) is mostly given priority, at the expense of lagging, peripheral regions. In later stages, the priorities may be shifted and given to spatial equity.

It is very likely that, thanks to the strong mechanisms of convergence implied by deep economic integration, a certain degree of national convergence towards EU income levels will occur in the CEECs. However, further market integration in the context of EU Eastern enlargement will also foster divergence forces in the new EU Member States and hence lead to a further increase in regional disparities. Hence, the Community and the (old and new) Member States will have to elaborate a cohesion policy approach that is able to contribute to the catching-up process of the CEECs and, at the same time, to the containment of regional disparities within the new Member States. This task will have to go hand in hand with a reorientation of the contents of cohesion policy, and with a better management of the Funds. This is even more true in view of the fact that firstly the EU has firmly established the objective of 'economic and social cohesion' in its policies,[9] that secondly the huge widening of regional economic disparities brought about by the Eastern enlargement presents an unprecedented challenge for the EU's economic and social cohesion, and that thirdly existing cohesion policy schemes have at best contributed weakly to the convergence of national economies in Western Europe in the recent past, but could not avoid the increase of regional inequalities.[10]

Regional policies seem to face a trade-off between equity and efficiency, and policy makers seem to be confronted with the choice between the objective to foster national catching-up and thus national growth and efficiency or to decrease inequalities between the different regions inside countries and therefore enhance a balanced development and spatial equity. In the case of the acceding CEECs, this suggests that it will be difficult to attain through these policies the objective of higher national growth (and therefore convergence towards the EU-15) and at the same time the objective of a decrease in regional inequalities. Yet, the European Com-

mission aims to achieve both objectives with its current policies, and justifies its regional interventions not only on equity grounds (see above), but also on efficiency grounds – according to its First report on economic and social cohesion, 'the disequilibria indicate under-utilisation of human potential and an incapacity to take advantage of the economic opportunities that could be beneficial to the Union as a whole' (European Commission 1996). In its Third report on economic and social cohesion, the European Commission (2004, vii–viii) takes up the same argument, stating that 'the cost of not pursuing a vigorous cohesion policy to tackle disparities is, therefore, measured not only in terms of a loss of personal and social well-being but also in economic terms, in a loss of the potential real income and higher living standards.'

This efficiency argument is much less clear than the equity based motivation: It may demand more or less spatial concentration (and hence regional inequalities) – on the one hand, there are the economic gains produced by agglomeration processes, and on the other there can be over-agglomeration and congestion. According to the theories of new economic geography and endogenous growth, efficiency gains (in terms of economies of scale or localised technological spillovers) accrue from economic agglomerations – and hence from an economic geography often characterised by significant regional inequalities. The European Commission might be wrong in thinking that containing regional disparities will lead to a higher overall growth rate in the EU, hence to EU-wide efficiency gains. Indeed, the empirical evidence in Europe (convergence of countries, divergence within countries/between regions) and the transition process in the CEECs clearly tell another story: a trade-off between equity and spatial efficiency appears inevitable.

One of the central aims of this work is to derive whether on theoretical grounds (mainly on the basis of new economic geography and endogenous growth theory) there is an approach to regional policy able to foster the catching-up process of the CEECs and, at the same time, take account of the increased regional disparities within the new Member States. The respective model will be developed in Section 5. It will be shown that there is a cohesion policy approach able to reconcile the two objectives of reduced regional disparities and a higher national growth rate or, in other words, to solve the equity-efficiency trade-off that cohesion policy seems to face. However, only under certain conditions do these theoretical results have real-life economic policy implications, as we have to scrutinise whether their main underlying assumptions and their results

are compatible with the economic realities of Hungary – our 'case study country' – and its accession to the EU.

5 A Theoretical Case for an Innovation-Oriented Regional Policy

Martin (1999) shows that some regional policies, such as subsidies to poor regions or the reduction of transaction costs within the poor region, can have unfortunate consequences, including a reduction in the rate of growth, or the same effect coupled with an increase in income inequalities, or the relocation of firms to the richer regions. However, a policy that reduces the cost of innovation, or increases the diffusion of innovation, reduces regional income inequality and agglomeration, and also increases growth.

Based on Martin (1999), we use a two-region theoretical scheme – firms can locate either in the capital-rich region (in our case e. g. the capital city region of Budapest) or in the 'poorer' region (e. g. Borsod-Abaúj-Zemplen, which is situated at the North-Eastern periphery of Hungary and is one of the poorest Hungarian counties). The geographical concentration of firms in the rich region increases when transaction costs between the regions fall. The logic (which is common to the approaches of new economic geography, e. g. Krugman 1991) is that it is always more profitable to produce in the richer area, the larger market, in order to maximise the benefits of economies of scale. When transaction costs between the regions fall, businesses can then exploit these economies of scale while also selling on the 'small market' now less protected by high transaction costs. Moreover, when regional inequality in terms of income increases, regional inequality in terms of spatial distribution of firms (industrial agglomeration) likewise increases, since economies of scale encourage firms to locate where demand is strongest and thus income highest. Equilibrium geography is such that the profits of businesses are identical in both regions, which eliminates any incentive to relocate. This relationship, which can also be called the 'home market effect', can be written as follows (curve AA in Figure 5):

$$A = A(R), \tag{1}$$

where $A(R)$ is a growing function of R and where A is an agglomeration index (e. g. the ratio of the number of firms in the rich region to the total number of firms). R is an index of inequality of regional incomes (e. g. the ratio of income in the rich region to income in the poor region, hence very similar to the ratio calculated in Table 3, see above).

Spatial concentration in turn has an impact on the rate of innovation and hence on the long-term growth of the overall economy, because the cost of innovation in the richer region falls as the agglomeration of economic activities increases (due to positive externalities arising from spatial concentration, the existence of localised technological spillovers etc.). In fact, geographical concentration of production activities increases opportunities to reduce the cost of innovation and consequently to increase its rate of growth, with beneficial effects for the territory as a whole. In endogenous growth models this is an equilibrium relationship, because when the cost of innovation falls this induces new entrepreneurs/researchers to enter the innovation market (which is seen as being competitive). This relationship between the long-term growth rate and the agglomeration index – which can also be called the 'spillovers effect' – is shown by the following equation (curve SS in Figure 5):

$$g = g(A), \tag{2}$$

where $g(A)$ is an increasing function of A, the index of industrial agglomeration.

The rate of innovation itself has an impact on regional income inequalities: a high rate of innovation accelerates market entry by new businesses, which then compete with existing businesses and hence reduce their profits. One effect therefore is to reduce existing incomes. From this point of view, an increase in the rate of innovation reduces income disparities between regions by reducing the profits of monopolistic firms, which are more numerous in a rich region. This last equilibrium relationship ('competition effect') is encapsulated in the following relationship (curve RR in Figure 5):

$$R = R(g), \tag{3}$$

where $R(g)$ is a negative function of the growth rate g.

Figure 5 sums up these different equilibrium relationships. The upper part shows the spatial equilibrium, where income inequalities and industrial agglomeration are determined. The curve AA shows that agglomeration tends to increase when income inequalities increase, because firms locate in markets with high purchasing power (Equation 1).

The curve RR shows that when industrial agglomeration increases competition intensifies, thereby tending to reduce the profits of monopolistic businesses and income inequality between regions (Eq. 2–3). The equilibrium level of agglomeration and the equilibrium level of income inequality is indicated by the intersection of the two curves AA and RR.

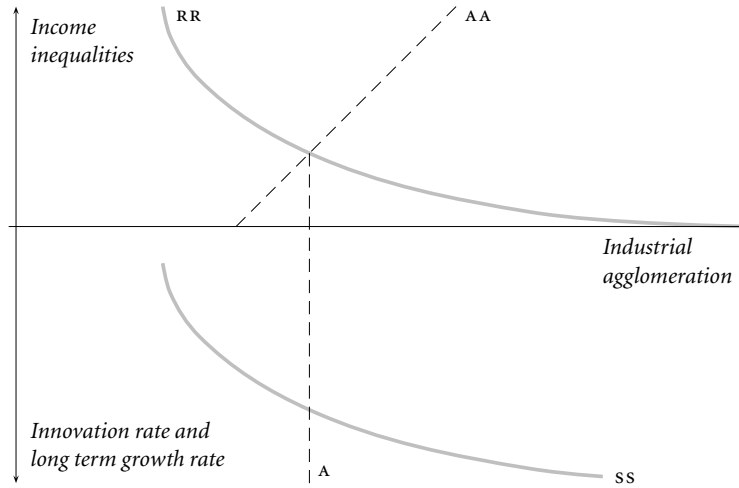

Figure 5: Relationship between innovation, regional income inequalities and agglomeration. Source: Martin 1999, 14.

The lower part of the graph shows how spatial equilibrium in its turn influences the rate of innovation. The equilibrium level of agglomeration A is given by the spatial equilibrium. The curve SS shows the positive relationship between innovation and agglomeration, due to the existence of localised spillovers (Equation 2). The equilibrium rate of innovation and the equilibrium level of income inequalities are indicated by the intersection of the line A and the curve SS.

Martin (1999, 16–17) shows that a simple monetary transfer (e. g. a subsidy) from the richer region, say Budapest, to the poorer region, e. g. Borsod-Abaúj-Zemplen county, ultimately reduces agglomeration and income inequalities between the two, but it also reduces the national growth rate:

$$R(g)\downarrow \rightarrow A(R)\downarrow \rightarrow g(A)\downarrow .$$

This is hardly an efficient outcome, in the truest sense of the word.

More often, EU cohesion policy comes in the form of funding allocated to the financing of (transport) infrastructure i. e. with the objective to reduce transaction costs and to bring remote regions closer to the Single Market. The analysis of the economic impact of large-scale infrastructure investment depends largely on the question whether the investment leads to reduced transaction costs within the poorer region or to reduced costs between the regions. If the result is a reduction of transaction

costs within the receiving region, increased effective local demand for locally produced goods will attract new companies into this lagging region, say Borsod-Abaúj-Zemplen. Martin (1999, 17–19) shows that in this case, Borsod-Abaúj-Zemplen would benefit from reduced industrial agglomeration (manufacturing processes being now more dispersed), but the innovation rate and hence the national growth rate would be lower. In addition to this, regional disparities would increase, as firms in Budapest, now facing fewer competitors, would increase their profits:

$$A(R)\downarrow \rightarrow g(A)\downarrow \rightarrow R(g)\uparrow .$$

This example shows that industrial location disparities do not always go hand in hand with regional income inequalities.

If, however, the infrastructure project contributes to reducing the transaction costs between Budapest and Borsod-Abaúj-Zemplen, the opposite happens: Firms from Borsod-Abaúj-Zemplen are encouraged to move to Budapest, where they can exploit economies of scale, while continuing to sell their products in Borsod-Abaúj-Zemplen, thanks to the reduced transaction costs between Budapest and Borsod-Abaúj-Zemplen. With competition in Budapest increasing, monopolistic business profits and hence income inequalities between Budapest and Borsod-Abaúj-Zemplen are ultimately reduced.

$$A(R)\uparrow \rightarrow g(A)\uparrow \rightarrow R(g)\downarrow .$$

This agglomeration-increasing outcome can be found in numerous authors' articles (the most prominent maybe being Krugman 1991). The seemingly paradoxical result: improving access to the lagging region via transport infrastructure investment comes at the expense of the receiving region that is even more deprived of industrial activities. This theoretical result finds an empirical confirmation in the unsuccessful Italian efforts to foster economic growth in the Mezzogiorno (Martin 1999, 18; Faini 1983). Nearly half a century ago, Myrdal (1957) formulated the same result in his theory of 'circular cumulative causation'.

In all the regional policy approaches looked at so far, there is an unfortunate consequence: a reduction in the rate of innovation and hence in the country's rate of growth (direct transfer/subsidy to the poorer region), or the same negative effect together with an increase of regional income disparities within the country (infrastructure projects within the poorer region), or the relocation of companies to the richer region and hence an increase in agglomeration (infrastructure projects connecting

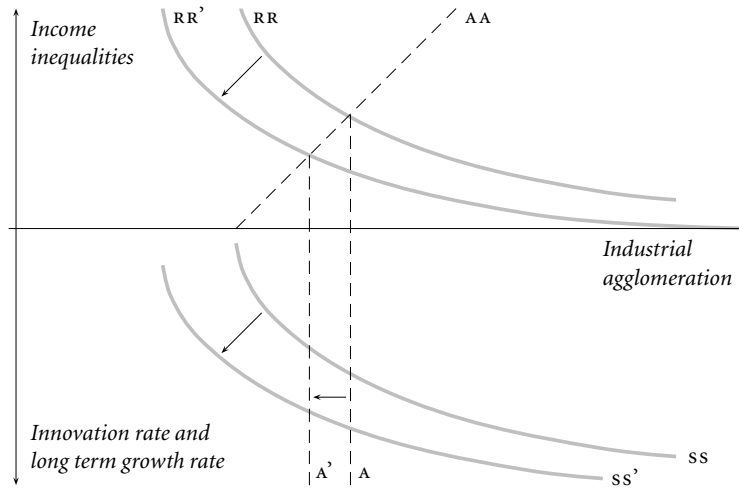

Figure 6: Effect of a reduction in the cost of innovation or of an increase in the diffusion of innovation. Source: Martin 1999, 19.

the capital city region and the periphery). Thus, as indicated above, regional policies evidently face a trade-off between equity and efficiency – none of the briefly described approaches to regional/cohesion policy is able to reconcile the abovementioned trade-off.

Now it can be shown that, in contrast to a general transfer policy or a diminution of transaction costs between the richer and the poorer area or within the poorer area, a policy aimed at reducing regulatory barriers to innovation or the costs of innovation makes it possible simultaneously to achieve objectives of reducing regional inequalities and increasing the rate of growth. The regional policies involved could be R&D subsidies, education infrastructure or making capital markets more conducive to new start-ups.

In this case (Figure 6), it is the dynamic equilibrium (lower part of the graph) that is first affected. A reduction in the cost of innovation tends to increase the rate of growth: The curve SS (which shows the positive relationship between innovation and agglomeration, due to the existence of localised spillovers) shifts downwards (the rate of growth increases for a given level of agglomeration). By boosting competition, this increases the rate of innovation, reduces business profits and hence income inequalities between the two regions (again, we can think of Budapest as the richer region and of Borsod-Abaúj-Zemplen as the poorer one). The induced effect means that spatial equilibrium is also affected: The curve

RR (which shows that when industrial agglomeration increases competition intensifies, thereby tending to reduce the profits of monopolistic businesses and income inequality between the regions) shifts leftward, and industrial agglomeration in Budapest diminishes. In the final equilibrium state, agglomeration and regional income disparities have diminished while the national growth rate has risen; the equity-efficiency trade-off problem has been solved – there is hence a case for a cohesion policy that reduces the cost of innovation or increases the diffusion of innovation (Martin 1999, 18–19):

$$g(A)\uparrow \rightarrow R(g)\downarrow \rightarrow A(R)\downarrow .$$

Another policy can have the same effects: An infrastructure-improvement policy focusing on lowering the cost of conveying information rather than the cost of transporting goods fosters the effect of interregional spillovers and hence enables the rate of innovation to be stepped up, since the innovation sector benefits more from spillovers generated by geographically remote firms. Such a policy would have the objective of increasing the capacity of lagging regions to absorb new technologies and to increase the spatial diffusion of innovation. This could be done by financing infrastructure in information and communication technology (ICT) and education. The impact is then similar to that illustrated in Figure 6.

6 Regional Policy Prescriptions of Martin (1999) in Light of Hungary's Economic Reality

AN AGGLOMERATION-DRIVEN GROWTH PATTERN AND NATIONAL CATCHING-UP AS MAIN GOAL

Suppose a regional policy is implemented in a certain country, following the 'prescriptions' of the model of Martin (1999), i. e. a regional policy reducing the cost of innovation or increasing the diffusion of innovation. As one of the desired outcomes, this policy leads to reduced interregional disparities and a more balanced spatial pattern of economic activities, hence less agglomeration. Yet, if the respective economy's growth patterns are characterised by a very high agglomeration-elasticity of growth g (i. e. a growth function that is very responsive to changes in the patterns of industrial concentration), the growth rate might increase only insignificantly or not at all (even if it does not decrease).

In fact, during the whole transition process, Hungarian growth has been and still is agglomeration-driven. The country's very high agglome-

ration-elasticity of growth is embodied by the absolutely dominant core role of Budapest as its capital city region and, to a lesser extent, its Western regions bordering Austria (see Section 3). As in the Czech Republic or in Slovakia, there is no centre that could rival the capital city. In the mid-1990s already, Budapest had more joint ventures than the remainder of Hungary combined and nearly two-thirds of all FDI flowing into Hungary went to Budapest, whereas the country's peripheries are characterised by high unemployment rates. As GDP growth, productivity growth and employment are mainly created in the Budapest agglomeration, it might be harmful to reduce agglomeration or do anything which doesn't have the best possible effects on the country's main growth pole and its catching-up process.

Carried to an extreme, a spatial equity-oriented regional innovation policy in Hungary might be tantamount to a renouncement of a higher overall growth rate, and hence an impediment to the catching-up process. This evidently would be an arguable – if not undesirable – outcome. In this case, a regional policy that reduces the transaction costs between the richer region and the poorer one (e. g. by improving roads or railways) might be preferable, as it implies reduced regional disparities, a higher growth rate and increased agglomeration, which is ultimately pushing up the overall (agglomeration-sensitive) growth rate.

In addition to this, the national catching-up process to EU-15 income levels seems to be the priority for Hungarian as well as EU policy makers, i. e. it seems to be more important than the immediate containment of regional disparities within the country. A higher overall per capita income level (even if very unevenly distributed across regions) might even be a conditio sine qua non to be able to fight regional disparities and possible over-agglomeration at later stages of the development process. In this case, any policy involving a renouncement of a higher overall growth rate might be undesirable.

THE FINANCIAL BURDEN OF THE POLICY

It is clear that we may not ask a too costly regional policy from Hungary, i. e. one that would overcharge the country financially. As a transition and EU accession country, it has to set aside many Government funds for reforms, environmental investment etc. In 2002, the Hungarian Government reached a record budget deficit of 9.4 per cent of GDP (!), and for 2003 and 2004 forecasts predict deficits of around 5 per cent – all far beyond the Maastricht criterion of 3 per cent that the country will

most likely have to stick to soon, if it wants to accede to Euroland. In this context, any financial burden is problematic. If, however, the financial burden of the policy were so high that – in the case of an innovation-supporting regional policy as described above – the endogenous effect on incomes and geography dominates the exogenous effect on the cost of innovation, the net effect on growth might be negative. Hence, the cost of such an innovation-oriented regional policy must not be too high (and yet it is relatively likely to be), if (apart from the reduction of agglomeration and regional inequalities) the desired impact on the national growth rate is to be positive. Thus, in the framework of its cohesion policy, the EU will have to continue to considerably co-finance its poorer countries' regional policy projects. Distinct calls for lower EU co-financing (in order to increase the receiving regions' 'sense of ownership') run contrary to the financial feasibility of a true regional innovation and education policy in Hungary.

THE SITUATION OF INNOVATION, R&D AND SCIENTIFIC EDUCATION IN HUNGARY

Hungary has – like the other CEECS – a developed educational system and a relatively solid base of science and technology (S&T). The education levels are comparatively high, especially concerning scientific and technical skills. The Hungarian skills and competence base offers good opportunities for competitive research, development and manufacturing clusters. In addition to this, it is higher education that facilitates technology transfer (e. g. Tondl and Vuksic 2003). Contrary to other CEECS, agriculture is not more important than in the EU-15 countries, and Hungary has a higher share of sophisticated engineering industries and a lower share of labour-intensive industries than other EU countries such as Portugal or Greece. Even if Hungary partly still lacks appropriate domestic strategies to continuously support technological change, innovation processes and related training measures, it has taken a more proactive approach to S&T policy and technology-related education in the second half of the 1990s and in recent years: the S&T Policy College of the Hungarian Government has presented a 'Science and Technology Policy 2000' programme, and very recently, the governmental programme 'A Chance for the Future' has placed the focus on computer skills, teleworking and the development of small and medium-sized enterprises (SME) – just to mention two examples. And yet, the overall picture is not that bright . . . .

The programmes just mentioned seem to be more than justified, be-

cause in Hungary – as in other accession countries – the former centrally planned, simple 'linear model' of innovation had been widely dissolved and made obsolete: the country's S&T system has suffered from a decline both in government support and in industrial research – during the 1990s, the S&T system lost more than half of its industrial researchers. In the first half of the 1990s, R&D expenditure per unit of GDP sharply decreased, and only slowly stabilised thereafter. Publicly funded scientific facilities and research institutes are still hardly integrated into private companies' innovation activities, which anyway are weak. High-tech production is still limited to very few specific regions and sectors, and has not spread to the country or industry as a whole. Even if there are many skilled workers, engineers and highly educated scientists in Hungary, their competencies have been partially made obsolete by the systemic change and economic restructuring (Meske and Weber 2001).

At the outset of the transition and accession process in Hungary, major hopes for knowledge spillovers, technology transfer and innovation were pinned on foreign direct investment (FDI). Multinational corporations were expected to be multipliers of modern production and management know-how in the country. These hopes cherished by many Hungarians have been broadly dashed: even if FDI might contribute to aggregate output growth (Tondl and Vuksic 2003) and overall labour productivity, there is much evidence that foreign owned companies in Hungary – due to their strong technical superiority – operate in virtually isolated 'cocoons'. There are hardly any technological spillovers, and FDI has not played the role of an innovation-stipulating means for domestic firms (Günther 2002). Foreign companies are hardly willing to 'give access' to innovations. By buying up domestic companies, they rather absorb knowledge than distribute it. Typically, products and technologies are imported by the foreign companies, and so are their production inputs – there is hardly any room for Hungarian R&D. The technological disparities between the Western multinationals and the Hungarian economy have not decreased. On the contrary, they seem to be deepening (Farkas 2000). Hence, the situation of innovation, R&D and technological knowledge in Hungary has hardly been improved by the massive inflows of FDI so far.

From what has been said, it seems that the use of indigenous capacities in investments, skills and science has to be broadly strengthened. If FDI doesn't play a multiplier role concerning technological innovation and knowledge spillovers, then those domestic capacities have to be enhanced

involving academia, research institutions, enterprises and regional authorities, in order to develop the kinds of networks that have contributed to the competitiveness of many EU-15 regions (Meske and Weber 2001). Hungary has to take an 'endogenous' approach to regional policy (e. g. Cappellin 2002), consisting of interregional innovation networking, intense co-operation between the different counties, the improvement of information and communication links for technology transfer, SME development, vocational training for the labour force etc. But still, the number of enterprises producing for local markets is low, and so is the co-operation between the producers and between the counties (Rechnitzer 2000, 52).

Summing up, the approach advocated by Martin (1999), i. e. policies supporting e. g. innovation diffusion, R&D subsidies, the creation of small high-tech sectors and human capital only partially fall on fertile soil in Hungary, as the country's innovation, R&D and scientific education system is still in a problematic situation – the environment for high-tech production and technological innovation has to be improved, before such a regional policy approach really can bear fruit.

A REGIONAL INNOVATION POLICY IN HUNGARY'S PERIPHERIES?

What has just been said is even more true for Hungary's peripheries, i. e. the North-Eastern, Eastern and most Southern regions of the country. In those regions, that had strongly depended on heavy industries in the socialist period, the decline and disappearance of outdated enterprises has made the workforce's skills mismatch even worse. Three Eastern Hungarian industrial counties account for around 35 per cent of the country's total unqualified (and unemployed) workers. Even if there were FDI in those regions, and even if the foreign companies were 'willing' to give access to innovations, the lack of higher education would make technology transfer highly difficult. In the counties of Pest, Nógrád and Szabolcs-Szatmár-Bereg there are significantly fewer education places than on average in Hungary (Rechnitzer 2000, 48). Hence, in these areas, extended funding for training measures and technology- as well as computer-related education is strongly needed, and so are qualified teachers and a better equipment of schools with modern computers, of companies with modern machinery etc. Any form of technological development can only be adopted if those who are supposed to adopt it can be directly familiarised with it. However, in Hungary's peripheries, there

is a lack of even the most elementary information and communication infrastructure (and transport infrastructure, too).

Yet, the Government has begun to deal with the problems of the most lagging regions, also with respect to their technological backwardness. The aforementioned Government programme A Chance for the Future aims at improving the most disadvantaged regions' development, employment and innovation potential. In this context, especially support to the education infrastructure would be an important regional policy approach, as information and communication infrastructures or R&D subsidies could only be utilised if workers, engineers, scientists etc. were adequately qualified.

The nearly complete lack of FDI inevitably requires Hungary's lagging regions to take on an 'endogenous' approach to regional policy. Even if, as described above, the conditions for that have to be clearly improved, a regional innovation policy even in the country's periphery is not a hopeless venture. The Government has made some important steps, e. g. also by supporting many business incubators and innovation centres in backward regions with high unemployment (Gulácsi 1997). More regions (and nearly all the lagging ones) than in any other accession country have become active members of the Innovating Regions in Europe (IRE) Network, which aims at interregional networking on regional innovation policies, best-practice exchange etc. And yet, a true regional innovation policy and the creation of small high-tech sectors will only be successful if the transport infrastructure as well as the business opportunities are improved and the education and training systems renewed.

THE POLITICAL ECONOMY OF SHIFTING PRIORITIES: THE LAW OF INERTIA APPLIES

The huge sums spent in the framework of the EU's Structural and Cohesion Funds (roughly 240 billion EUR in the financial framework 2000–2006, which is a third of total EU spending) have traditionally aimed at financing public infrastructures, mainly transportation infrastructures. This approach has been partly justified by the considerable disparities in infrastructure in the EU and the objective to bring remote regions closer to the Single Market. In addition to this, there is a deeply entrenched belief in Brussels that the so-called Trans-European Networks (TENS), i. e. mainly roads and railways connecting different EU Member States, are one of the most important engines for growth. They are prioritised, as they are seen to create a 'pan-European value-added'. The 'growth initiative' of the Italian EU Presidency in the second half of 2003, which placed

the emphasis on investment in transport infrastructure, produces testimony of this belief.[11] Pinzler (2003) questions why these measures of all possible measures should foster growth – in fact, the EU doesn't provide any reasonable explanation.

This conviction is being exported to the new Member States: the so-called TINA[12] list is seen as the most important economic and regional policy priority in Central and Eastern Europe (e. g. Tartler 2003). In their National Development Plans for the first three years of EU membership (2004–2006), the accession countries hardly prioritise R&D, innovation policy and human resources development, but instead emphasize infrastructure projects. Poland e. g. only foresees 17 per cent of EU support for education and human capital, whereas 55 per cent (!) of the Funds are supposed to be set aside for (partially prestigious) infrastructure projects (Samecki 2003). The figures for Hungary are not very different – in its famous 'Széchenyi Plan', a National Development Plan presented in 2000, the Hungarian Government dedicated 120 billion HUF to motorway construction, more than for innovation policy, SME development and regional development policy together. So, after all, it doesn't look as if the prescriptions of the model of Martin (1999) and other theorists and empiricists really have a fair chance of being considered as viable alternative approaches for long-term growth, competitiveness and spatial equity. In the political economy of shifting priorities, the law of inertia undoubtedly applies – and to hope that this will soon change would be a rather illusory claim.

7 What can EU Policies Do? And What Are They Already Doing?

What are the lessons of the model discussed? What could be promising starting points to incorporate these new priorities into already existing EU cohesion policy schemes? For the new EU Member States and their regions, two sources of EU regional funding are particularly relevant: the Structural Funds' Objective 1 funding and the Cohesion Fund. All the regions that have a GDP per capita below 75 per cent of the EU average GDP per capita are eligible for Objective 1 funding, and all the countries whose GDP per capita is below 90 per cent of the EU average are eligible for support from the Cohesion Fund. As we have shown in Section 2, all the new Member States currently meet the conditions for support from the Cohesion Fund. Moreover, nearly all their regions (with very few exceptions) are eligible for Objective 1 support.

In 2000–2006 – as in previous periods – both the Structural Funds'

Objective 1 and the Cohesion Fund are setting the major focus on infrastructure measures, namely transport infrastructure. Between 2000 and 2006, 137.8 billion Euros are spent under the heading of Objective 1 – clearly more than half of the overall EU cohesion policy budget, which amounts to roughly 240 billion Euros in the same period. 24.4 per cent of these 137.8 billion Euros of Objective 1 funding are spent on infrastructure (especially transport infrastructure), whereas only 5.9 per cent are spent on research, technological development and innovation. The Cohesion Fund doesn't dedicate any money at all to research and innovation: it is equally split between infrastructure and environmental investments (European Commission 2003c, 21). This clearly violates the regional policy prescriptions which we derived in Section 5, and which would be able to overcome the equity-efficiency trade-off that regional policies often seem to face.

However, the projects supporting research, technological development and innovation in the framework of Objective 1 funding could be promising starting points to incorporate the new priorities derived in Section 5 into already existing EU cohesion policy schemes. The European Regional Development Fund (ERDF) innovative actions contribute to the implementation of regional innovation strategies (RIS/RIS+) throughout the EU. The three strategic themes of the innovative actions co-funded by the ERDF are:

- regional economies based on knowledge and technological innovation;
- e-EuropeRegio: the information society at the service of regional development;
- regional identity and sustainable development (European Commission 2002).

Moreover, the European Social Fund is an important pillar of EU cohesion policy: it contributes to human resource development, modernises the education systems and provides funding for vocational schooling, taking account of the emergence of the knowledge-based economy.

Yet, these important and promising programmes are not sufficiently emphasized and funded. The budget of the ERDF innovative actions e. g. amounts to only 0.4 per cent of the ERDF budget, which corresponds to approximately 400 million Euros over the entire period 2000–2006 – compared to 34 billion Euros spent on infrastructure projects under Objective 1 funding alone (European Commission 2002; European Com-

mission 2003c, 21). Too much money is still invested in financing highways and prestigious infrastructure projects (with temporarily positive Keynesian effects). It is clear that investment in physical infrastructure will remain of utmost importance in the CEECs for years to come – yet, on its own it can not enable lagging regions or countries to catch up, and, as the model above has shown, it might have very unfortunate consequences. Cohesion policy in the accession countries will have to take a more complex approach: human skills have to be adapted, R&D and innovation as well as the knowledge-based economy have to receive more attention, and employment opportunities in the services sector must be created.

The Irish growth miracle's determinants confirm the essential contributions that FDI, 'knowledge/technology sourcing', investment in human capital and ICT can make to foster productivity growth (maybe the most essential and prevalent objective for the CEECs), catching-up as well as regional and social cohesion. Not by chance, Ireland was among the countries that allocated the biggest proportion of Structural Funds to human resources development, high-tech oriented education and vocational schooling – 36 per cent.

Unfortunately for the first three years of EU membership (2004–2006), in many accession countries' National Development Plans it doesn't seem that the priorities of R&D, innovation policy and human resources development are being properly addressed. As shown above, Poland e. g. only foresees 17 per cent of EU support for education and human capital, whereas 55 per cent (!) of the Funds are supposed to be set aside for infrastructure projects. Expenditure on education as a share of GDP is more than 30 per cent lower in the CEECs than in the EU-15. Expenditure on R&D as a share of GDP is 5 to 6 times higher in the EU than in the Visegrad group (Samecki 2003, 4–6). If the EU-25 is to take seriously the Lisbon agenda of economic modernisation and competitiveness (e. g. European Commission 2003b), these data could soon become a big problem. Hence, there is broad room for reflection and improvement in the run-up to the next generation of EU cohesion policy and national regional policies as well as the next EU budgetary framework (2007–2013).

Finally, we should briefly ask the question why, after all, the location of economic activities has become such an important policy issue in the EU, but not in the United States. Or, in other words, why is it that regional income disparities are much more important in the EU than in the US?

The most important reason for this is the marked mobility of economic agents in the US, whereas in Europe workers are hardly mobile, not only among countries, but also among the regions within a country. Whereas the workers in the United States follow the companies (and thus contribute to the adjustment of regional inequalities), the 'European model' is to move activities to where the people are rather than to move people to where the companies (and hence the jobs) are located.

Since European economic agents do not follow mobile capital from regions in decline to regions experiencing growth, the problem of regional disparities is so acute. Hence, housing and tax policies that facilitate the mobility of workers should be strengthened and fully regarded as regional policies. In transition countries such as Hungary, the State has completely withdrawn from the construction of state rentals and condominiums, and the end of the rent controls has made rented flats too expensive. New housing construction has dramatically declined and the housing shortage inherited from the old regime has become pervasive. The privatisation of State rentals and gradually increasing rents have aggravated this general housing shortage. Problems of over-occupancy, rent arrears, evictions and homelessness have multiplied during the transition process (Sailer 2001, 329–330). As a result, workers' mobility has nearly come to a standstill, which is one of the most important reasons for growing regional unemployment and income disparities. Whereas, e. g. in Hungary's Western counties, employers already lament a lack of workers, in the Eastern parts of the country unemployment reaches more than 20 per cent (Rosenkranz 2002) – and yet the workers don't move.

Given the inertia of what has been called the 'European model' above, it seems to be an illusory claim to voice our support for a mobility and housing policy on equal footing. It has to be clear, however, that the specialisation of regions in certain industries suggests that low-intersectoral mobility of workers increases the welfare cost of spatial concentration. Policies involved to increase intersectoral mobility could be adequate housing schemes and policies as well as education and training policies, i. e. policies that have also been recommended above (Martin 1999, 20; Martin 2002).

8 Conclusions

This paper has highlighted the two big challenges EU cohesion policy has to face in an enlarged Europe. On the one hand, due to the legacy of the socialist era, there is a general economic and social backwardness in Cen-

tral and Eastern Europe with respect to the old EU Member States (with very few exceptions). Hence, EU cohesion policy will have to contribute to the catching-up of the new Member States' economies if the Treaty objectives of economic and social cohesion are to be respected. On the other hand, the transition from centrally planned economies to market economies and the ongoing integration with the EU have led to a pre-occupying rise of regional inequalities within the CEECs. In this respect, Hungary is a 'typical' example. By its very definition, EU cohesion policy has also to address this problem very attentively.

Yet, in many ways, regional policies seem to face a trade-off between equity and efficiency. In the case of the acceding CEECs, this suggests that it will be difficult to attain through these policies the objective of higher national growth (and therefore convergence towards the EU-15) and at the same time the objective of a decrease in regional inequalities. The theoretical approach discussed in this paper shows that some regional policies can have unfortunate consequences, including a reduction in the rate of growth, or the same effect coupled with an increase in income inequalities, or the relocation of firms to the richer regions. However, a policy that reduces the cost of innovation, or increases the diffusion of innovation thereby reduces regional income inequality and agglomeration, and increases the national growth rate. The regional policies involved could be R&D subsidies, investment in education and ICT infrastructure or making capital markets more conducive to new start-ups.

Some promising EU programmes already exist in this direction. However, they are clearly neither sufficiently funded nor recognized by the CEECs as a key priority for productivity growth and competitiveness. In order to take adequate account of what can be most generally called 'globalisation', EU cohesion policy's focus on large-scale, direct business support and infrastructure projects ought to give way to 'softer' policy approaches, i. e. SME development, the creation of employment opportunities or the fostering of innovation. Adequate housing policies and approaches increasing workers' mobility would also be most appropriate.

Notes

1. Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia.
2. Bulgaria and Romania will add a further 8 per cent to EU population, but under 1 per cent to GDP (!) (European Commission 2004, 10).

3. EU-25 includes the eight accession countries from Central and Eastern Europe plus Cyprus and Malta (i. e. all the countries that acceeded on 1 May 2004).
4. Currently, regions whose per capita GDP is less than 75% of the EU average are eligible for 'Objective 1' structural funding. Countries whose per capita GDP is less than 90% of the EU average are eligible for support from the EU Cohesion Fund.
5. Clearly, Hungary's new spatial patterns follow the organic, historically born pre-socialist spatial structure, in which the division line was the Danube River: in the regions West of the Danube, more industrialised areas following (Western) European trends had evolved before World War II, whereas in Eastern Hungary agriculture had always been the dominant factor in shaping the economic structure. Whereas the Western Hungarian regions could build on their historical, market-oriented development in the 1990s, Eastern Hungary's heritage of a large socialist monocultural company system transformed that part of the country into a crisis zone (Hrubi 2002, 62–63).
6. NUTS stands for Nomenclature des unités territoriales statistiques. This nomenclature of territorial units was drawn up to be a single, cohesive system of territorial groupings for the compilation of EU regional statistics. The NUTS nomenclature subdivides the EU economic territory into regions at three different NUTS levels.
7. The Visegrad group consists of Poland, Hungary, the Czech Republic and Slovakia.
8. In economic terms, Hungary's Western 'periphery' can't be considered a periphery – together with Budapest, it should rather be considered the most dynamic part of the country.
9. Article 158 of the Treaty establishing the European Community states that 'in order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.'
10. Overall many authors (e. g. Boldrin and Canova 2001; Boldrin and Canova 2003; Arevalo 2002; Ederveen et al. 2002) criticise the lack of effectiveness of current EU regional and structural policy schemes.
11. More generally, the 18 priority transport infrastructure projects that have been suggested by the 'High Level Group on the Trans-European Network' chaired by former EU Commissioner Karel van Miert, amount to an investment volume of 235 billion EUR (!). And yet, they're a done deal: the European Transport Ministers have voted positively on the list.

12. TINA stands for Transport Infrastructure Needs Assessment (papers initiated by the European institutions).

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Learning Organization Characteristics Contributed to its Readiness-to-Change: A Study of the Thai Mobile Phone Service Industry

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This paper aims to verify the relationship between Learning Organizations (LO) characteristics and an organization's readiness-to-change. LOs, based on a review of the literature, seem to have the competitive advantage of high readiness-to-change in today is economic business environment. The mobile service providers in Thailand are selected for this study. The results have shown a substantial relationship between readiness-to-change and the LO characteristics of cultural values, leadership commitment and empowerment, communication, knowledge transfer, employee characteristics, and performance upgrading. This study confirms that LO characteristics are correlated to an organization's readiness-to-change, suggesting that it is essential for organizations to develop into LOs in order to survive and/or prosper in a competitive and ever changing in business environment.

Introduction

The notion of a learning organization (LO) has been familiar to business organizations for decades (Watkins and Golembiewski 1995; DiBella 1997; Roth and Kleiner 1998; Van der Bent et al. 1999). Some evidence shows that organizations that apply the LO concept such as Corning, General Electric, Honda, British Petroleum, and Xerox, can keep moving ahead of change (Nonaka 1991; Garvin 1993; Prokesch, 1997). Therefore, it has been proposed that becoming an LO is an opportunity for organizations not only to gain a competitive advantage in an unstable business environment, but also to keep ahead of the dramatic rapidity of change (Stata 1989; Senge 1990a; Hedgetts et al. 1994; Hitt 1995).

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The purpose of this paper is to propose an inventory of LO characteristics as a tool for measuring an LO for the further benefit of research and practices, as well as to confirm whether an organization with these LO characteristics possesses organizational readiness-to-change. The paper begins with an examination of the LO concept, then moves on to developing measurements for LO characteristics and organizational readiness-to-change. After that, the research methodology is suggested. Finally, the results of the study are presented and discussed.

Learning Organization

For the purpose of this paper, an LO is defined as *an organization that continuously learns through its members individually and collectively to create a sustainable competitive advantage by effectively managing internally and externally generated change* (Senge 1990b; Nevens 1992; Ulrich and Van Glinow 1993; Bennett and O'Brien, 1994; Watkins and Golembiewski 1995; Gephart and Marsick 1996; Appelbaum and Reichart 1997; DiBella 1997; Ahmed et al. 1999; Porth et al. 1999; Popper and Lipshitz 2000).

LO Characteristics

From the review of the literature, to be able to develop itself into an LO, an organization requires a set of specific characteristics. They are described as 'LO characteristics' that can be categorized into cultural values, leadership commitment and empowerment, communication, knowledge transfer, employee characteristics and performance upgrading. Each characteristic builds up organizations' capability to become learning organizations that can effectively manage change.

Cultural values involve the learning culture in organization. Scholars and practitioners have pointed out that continuous learning in order to acquire new skills for the organization to meet ever-changing customer demands is an important capability of LOs (Nevens 1992; Barrett 1995; Leitch et al. 1996; Wong 1996; Appelbaum and Reichart 1997; DiBella 1997; Robinson et al. 1997; Teare and Dealtry 1998; Porth et al. 1999; Addleson 2000). Along with continuous learning and training, allocating resources for these processes is essential since the ability to learn is not sufficient. An organization also needs to emphasize its continuous improvement (Barrett 1995; Huang 1998). An organization with a learning culture displays a number of features. Firstly it has a set of life long learning processes, covering continuous learning and training, as

well as encouragement and facilitation of members' learning and experimentation (Barrett 1995; Leitch et al. 1996). Secondly, it is an organization with a learning environment, demonstrated by the freedom to try things and fail, acceptance of mistakes and failure without punishment (Barrett 1995; Mayo and Lank 1995; Ahmed et al. 1999). Thirdly, it is a boundaryless organization, in which members desire learning and are forced to share, thereby facilitating a learning culture (Ulrich and Van Glinow 1993; Abernathy 1999). Finally, continuous innovation (Hitt 1995; Waldersee 1997) is also one of the characteristics of an LO.

Cultural values in an organization need to be supported by managers or leaders. Leaders have important roles in an LO since they not only originate commitment to change (Senge 1996) but also enhance the employees' ability to learn. Leaders' actions will shape organizational structure, decision-making processes, the teamwork (Ulrich 1993). Therefore, leadership commitment and empowerment is suggested as one of the LO characteristics. Leaders in an LO instill a clear, shared sense of purpose to encourage teamwork, empowerment investigation and risk-taking (Locke and Jain 1995). They provide role models for employees' learning and continuous improvement as well as encouraging an experimental culture (Gephart and Marsick 1996; Goh 1998; Ahmed et al. 1999; Popper and Lipshitz 2000). They create vision and an atmosphere of trust, scan the environment for opportunities and threats, and develop employees (Johnson 1998). Moreover, leaders in LOs should pursue the aim of empowering all members to take part in the organization's goal (Roberts 1997), give power to affiliates so that they understand their roles within the organization (Nesan and Holt 2002). Therefore, leadership commitment and empowerment is a key to developing LOs.

Leaders in LOs have the responsibility for communicating organizational missions and goals to all organizational members. As a result, members can head in the same direction. Communication among organizational members is essential in supporting learning in an organization. It means giving as well as receiving information (Beck 1989). West III and Meyer (1997) propose that an effective and efficient communication network in an organization promotes learning by providing access to tacit knowledge which leads to the creation of new knowledge. Communication between management and employees, both upward and downward and among members, allows advanced development of knowledge, insight and meaning within an organization (Stambaugh 1995; King 1996; West III and Meyer 1997; Nesan and Holt 2002).

Additionally, communication provides the link between individuals' behaviour and organizational performance (Senge 1996). Communication in LOs must be:

- free and open between members, customers, suppliers, competitors and all stakeholders;
- fast, clear, and focused;
- open and shared;
- expect and accept conflict;
- view mistakes as a shared opportunity for learning, entail a willingness to share ideas and opinions;
- conducted in a climate of trust, a blame free culture in which members feel free to report errors. Therefore, communication is a condition for an LO.

The more knowledge is communicated, the more is the expansion of knowledge (Sunoo 1999). Hence, knowledge transfer is an important characteristic of LOs. Knowledge transfer arises when knowledge is circulated from one individual to others (Roberts 2000). The more interactions between individual employees are encouraged, the higher is the level of knowledge transfer (Bresman et al. 1999). The transfer of knowledge provides opportunities and is an information base for members, groups or teams in organizations who are learning so that they can continually innovate products or services and processes. Knowledge transfer can be observed in the speed and efficient spread of knowledge throughout an organization (Garvin 1993). Advanced technology and the web are suggested as a means to obtain and distribute knowledge.

Employees are the most significant assets of an organization (Hedgetts et al. 1994). In an LO, employees not only know how to do their job, they also understand why they are important and how they contribute to the organization's goals (Stambaugh 1995). Thus, all employees are heading in the same direction and are in line with the organization's objectives. To have such employees, firstly the organization must have an appropriate selection process as well as the human resource policy, which emphasizes planning, recruiting, selecting and hiring people who fit the organization. These have to be reinforced through continuous educating, training and upgrading of employees' skills. The skill sets required in an LO include shared leadership and coaching behaviour (Goh 1998), ability in teamwork and problem solving (Bhasin 1998), a strong commitment to generating and transferring new knowledge and technology (Hedgetts

et al. 1994), and a commitment to lifelong learning (Hill 1996). As a result, there is a high percentage of people in the organization who take pleasure in well honed, self-development and learning-to-learn skills in an LO.

Last but not least, performance upgrading is included as one of the LO characteristics. It is an important indicator for checking whether an organization is on the right track. Performance upgrading means continuous improvement and innovation, both of which can be achieved in processes, products and services (Buckler 1998). The former is doing things better over time, while the latter is doing better things. Gill (1995) suggested that high organization performance can be observed by:

- the integration of all business functions and all activities as a part of processes of continuous improvement;
- no assumption about quick fixes; attention given to analytical problem solving and a long-term view for meaningful results;
- emphasis on leverage change and employees' responsibility for the systems in which they work.

Meanwhile, Bennett and O'Brien (1994) suggest benchmarking as a tool for measuring change in behaviours. Hitt (1995) and Garvin (1993) recommend a balance scorecard in which critical indicators for performance include excellence in:

- on-time and better delivery,
- superior quality,
- increased market shared and zero rejection,
- financial performance improvement which can be seen from revenue, cost and project overruns,
- organization renewal, cross fictional teams, networking,
- staff development,
- investment in research and development, and process design.

Organizational Readiness-to-Change

Organizational readiness-to-change is defined as an organization's ability to manage change. To assess the organizational readiness-to-change, this study applies available tools from Stewart (1994), Trahant and Burke (1996), Parker (1997), and Maurer (2001), which claim that an organization with a high degree of change readiness should have seven attributes. Firstly, it should recognize the business environment. The orga-

nization needs to look to the future in order to understand and predict possible changes in technology, the economy, demographics, lifestyle and public policies. Secondly, leadership is regraded as an important influence on readiness-to-change. Leaders should lead and motivate strategic initiatives for their organization. Thirdly, organizational culture that views change as the normal, ongoing practice of extending organizational capabilities is another important attributes of readiness-to-change. Fourthly, management practices are observed as an aspect of readiness-to-change since they will have an influence on organizational change. Fifthly, skill and job matching is vital as a checklist for employees' skill and competencies, so that it can be sure that the employee will have the ability to adjust to the changing situations. Sixthly, reward and recognition is recognized as a key success factor for change implementation. Maurer (2001) advocated that people are willing to change if that change is directly beneficial to them. Seventhly, an organizational structure that support members to perform their work, so that they can adjust to new situations.

Scholars such as Drew and Smith (1995), Garvin (2000), and Edmondson (2002) agree that concepts of LO need to include change, because an organization that learns and changes can adapt itself by appropriately applying new knowledge to actions. This study argues that if an organization has acquired a high level of LO characteristics, it should also possess a high level of organizational readiness-to-change.

From the preceding discussion, LO characteristics of cultural values, leadership commitment and empowerment, communication, knowledge transfer, employee characteristics and performance upgrading are found in the existing literature to be vital characteristics of LOs. Meanwhile, organizational readiness-to-change is required for survival and prosperity in a rapidly changing business environment. The argument is that these two concepts are highly correlated and that an organization with LO characteristics should also display a high level of readiness-to-change.

Methodology

This study has focused on mobile phone service providers in Thailand. The Thai mobile phone industry is chosen for the study as it is going through a period of rapid change due to privatisation. Thailand is chosen, since relatively few studies on learning organizations have been conducted outside the more developed economies. Two companies have

been selected, as they are the market leaders in the industry. However, at the companies' request, their names have been suppressed. Together the two companies have acquired ninety percent (90%) of the total mobile phone service market in Thailand, hence their selection for this study.

A self-administered, delivered and collected questionnaire (Saunders et al. 2000) is distributed to employees in the two companies in which the authors were permitted to conduct the survey. The sample of this survey is both management and non-management personnel in the companies.

The questionnaire has been developed following an extensive review of the literature by the authors under the auspices of 'the inventory of LO characteristics'. The inventory covers cultural values, leadership commitment and empowerment, communication, knowledge transfer, employee characteristics as well as performance upgrading. For assessing organizational-readiness-to-change, the authors integrate questions from existing instruments developed by Trahant and Burke (1996), Laczniak and Lusch (1997), Parker (1997), Smith and Mourier (1999), Maurer (2001), Rowden (2001), Coutu (2002) to form part of the questionnaire.

A Multiple Rating List Scale is selected for this study. The scales are assigned as: Strongly agree (7), Agree (6), Mildly agree (5), Indifferent (4), Mildly disagree (3), Disagree (2) and Strongly disagree (1). The purpose was to record attitudes, behaviour, and behaviour intention (Cooper and Schindler 2001) under the headings of: cultural values, leadership commitment and empowerment, communication, knowledge transfer, employee characteristic, performance upgrading and readiness-to-change assessment. A pilot test of the questionnaire was conducted in the second week of January 2003 before the actual survey process during mid-February mid-April 2003, and the intention was to review errors in the design and translation (Thai–English), and to refine the instrument for local contexts. The back-translation was also conducted to verify the differences from the original English version questionnaire. The questionnaire consists of 129 questions. The authors have received return rates of seventy-six point four percent (76.4%) and fifty-two point eight percent (52.8%) from company A and B respectively.

This paper hypothesizes that if an organization possesses LO characteristics of cultural values, leadership commitment and empowerment, communication, knowledge transfer employee characteristics and performance upgrading, then it should also embrace a high level of organizational readiness-to-change.

Results of the Study

This paper illustrates the survey results of LO characteristics and organizational readiness-to-change in two companies. It aims to establish the relationship between independent variables of LO characteristics and the dependent variable of readiness-to-change.

LO Characteristics

From the Factor analysis using SPSS11 for Windows, the LO characteristics of cultural values, leadership commitment and empowerment, communication, knowledge transfer, employee characteristics and performance upgrading are assessed through factors according to Table 1. The LO characteristic of cultural values at company A is determined by two factors of enhancement learning culture and knowledge expanded through resources; the Cronbach alpha coefficients for these factors are 0.817 and 0.702 respectively. Company B is appraised from three factors, which have slight grouping difference according to the factor analysis. The factors are supportive learning culture, training background and learning from resources; the Cronbach alpha coefficients are 0.853, 0.719 and 0.490 respectively.

One factor is extracted from the LO characteristic of leadership commitment and empowerment in both companies. However, variables drawn under this factor are different between Company A and B; the Cronbach alpha coefficient of leaders' role and empowerment of company A is 0.947, whereas leadership and empowerment at company B is 0.957.

In regard to communication, two factors are extracted at company A: the extracted factors are supportiveness and willingness, and openness and shared communication which are presented by the Cronbach alpha as 0.812 and 0.677 respectively. At company B, only one factor is extracted, which is openness communication (culture). The Cronbach alpha is presented at the level of 0.884.

Three factors are extracted from the LO characteristic of knowledge transfer at company A. The extracted factors are accessible storage system, willingness to share knowledge and supportive data system, the Cronbach alphas for these factors are 0.858, 0.846, and 0.642, respectively. At company B, the two extracted factors are knowledge distribution and memory system, and willingness to share knowledge, with Cronbach alpha at 0.913, and 0.848 respectively.

Factor analysis of employee characteristics involves two factors extracted from both companies. Employee proficiency is a shared factor in both companies A and B. Another factor at company A is human resource highlighting. while another factor at company B is human resource emphasis. At company A, the Cronbach alpha for employee proficiency is 0.889 and for human resources highlighting is 0.840. At company, B the Cronbach alpha for employee proficiency is 0.907 and for human resource emphasis is 0.809.

Regarding performance upgrading, two factors are extracted from both A and B. At company A, the factors extracted are improvement approach and performance outcome, and the Cronbach alpha coefficients are 0.796 and 0.753 respectively. At company B, the factors extracted are improvement outcome and performance driving, for which Cronbach alphas are presented at 0.853 and 0.798 respectively.

The Cronbach alpha coefficients of these factors are all acceptable which means that these factor reliably measure each of the LO characteristics of cultural values, leadership commitment and empowerment, communication, knowledge transfer, employee characteristics and performance upgrading respectively.

Organizational Readiness-to-Change

At company A, the extracted factors are leaders' role in change, change understanding, and company position, with the Cronbach alpha at 0.956, 0.884, and 0.732, respectively. At company B, the four extracted factors are leaders' role in change, employee awareness, change communication and company position, with the Cronbach alpha at 0.948, 0.800, 0.865 and 0.649, respectively.

By the same token, the Cronbach alpha coefficients of organizational readiness-to-change are all acceptable in both companies; hence, these factors are reliable in measuring organizational readiness-to-change.

To determine the relationship between LO characteristics and organizational readiness-to-change, the correlation coefficient of the variables is presented in Table 2: Correlation matrix of LO characteristics and organizational readiness-to-change.

Conclusion

In this study, it is proposed that LO characteristics can be measured by an inventory covering cultural values, leadership commitment and empowerment, communication, knowledge transfer, employee characteristics,

Table 1: Factor analysis of LO characteristics and organizational readiness-to-change

	Factor	α	Factor	α
Cultural values	F1 – Enhancement learning culture	0.817	F1 – Supportive learning culture	0.853
	F2 – Knowledge expanded through resources	0.702	F2 – Training background	0.719
			F3 – Learning sources	0.490
Leadership commitment and empowerment	F1 – Leaders' role and empowerment	0.947	F1 – Leadership and empowerment	0.957
Communication	F1 – Supportiveness and willingness to share ideas	0.812	F1 – Openness communication (culture)	0.884
	F2 – Openness and shared communication	0.677		
Knowledge transfer	F1 – Accessible storage system	0.858	F1 – Knowledge distribution and memory system	0.913
	F2 – Willingness to share knowledge	0.846	F2 – Willingness to share knowledge	0.848
	F3 – Supportive data system	0.642		
Employee characteristics	F1 – Employee proficiency	0.889	F1 – Employee proficiency	0.907
	F2 - Human resource highlighting	0.840	F2 – Human resource emphasis	0.809
Performance upgrading	F1 – Improvement approach	0.796	F1 – Improvement outcome	0.853
	F2 – Performance outcome	0.753	F2 – Performance driving	0.798
Organizational readiness-to-change	F1 – Leader's role in change	0.956	F1 – Leader's role in change	0.948
	F2 – Change understanding	0.884	F2 – Employee awareness	0.800
	F3 – Company position	0.732	F3 – Change communication	0.865
			F4 – Company position	0.649

α – Cronbach Alpha Coefficient

Table 2: Correlation matrix of LO characteristics and organizational readiness-to-change

LO characteristics		Organizational readiness-to-change	
		Company A	Company B
Cultural values	Pearson correlation	.661*	.640*
	Sig. (1-tailed)	.000	.000
	N	247	160
Leadership commitment and empowerment	Pearson correlation	.721*	.735*
	Sig. (1-tailed)	.000	.000
	N	246	153
Communication	Pearson correlation	.647*	723*
	Sig. (1-tailed)	.000	.000
	N	253	164
Knowledge transfer	Pearson correlation	.695*	.674*
	Sig. (1-tailed)	.000	.000
	N	254	160
Employee characteristics	Pearson correlation	.750*	.608*
	Sig. (1-tailed)	.000	.000
	N	248	161
Performance upgrading	Pearson correlation	.683*	.642*
	Sig. (1-tailed)	.000	.000
	N	252	163

* Correlation is significant at the 0.01 level (1-tailed)

and performance upgrading. As can be seen in Table 1, the Cronbach alpha coefficient of each factor represented reliability of its measure under each construct of cultural values, leadership commitment and empowerment, communication, knowledge transfer, employee characteristics and performance upgrading. Existing tools to measure the organizational readiness-to-change are used to assess the relationship between readiness-to-change and organizations with LO characteristics. The two major mobile phone service providers in Thailand are applied to examine the hypothesis. The correlation between LO characteristics and organizational readiness-to-change is depicted to verify the hypothesis that if an organization possesses strong LO characteristics, it should also have acquired a high level of organizational readiness-to-change.

The paper summarizes the results of the factor analysis of LO characteristics, finding that these factor are vital measurements of LO characteristics. The respondents of both companies 'mildly agree' with the questions asked; meaning that LO characteristics have been found in the mobile phone service providers in Thailand.

Moreover, this paper also verifies the relationship between LO characteristics and the company's readiness-to-change. The correlation matrix indicated that at company A, there is moderate correlation between LO characteristics and organizational readiness-to-change in some constructs of cultural value, communication, knowledge transfer and performance upgrading; while, there is high correlation between LO characteristics of leadership commitment and empowerment and employee characteristics and organizational readiness-to-change. As a result, the drawback here is a substantial and marked relationship between these variables.

At company B, there is high correlation between LO characteristics of leadership commitment and empowerment and organizational readiness-to-change and communication; while, moderate correlation is shown at cultural values, knowledge transfer, employee characteristics, and performance upgrading. Either at company A or B all of the correlation coefficient's are significant at the level of 0.01 (1-tailed), 99.9% confident. Therefore, it can be concluded that there is a substantial relationship between these variables of LO characteristics and of organizational readiness-to-change.

It is clear from the study of the companies A and B that there is a moderate to high correlation between LO characteristics and organizational readiness-to-change in the positive direction, as well as a substantial and marked relationship between the relevant variables. Accordingly, the evidence supports the hypothesis that if an organization possesses a high level of LO characteristics, then it should also have a high level of organizational readiness-to-change. Therefore, to cope with change, LO is one of tools to survive and grow in a rapidly changing business environment. The extent to which organizations can succeed depends on their emphasis on developing specific LO characteristics. This study has contributed to the development of 'the inventory of LO characteristics' as a measurement tool for practice and further research.

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A Comparative Study of Metaphor in English and Slovene Popular Economic Discourse

Silva Bratož

This paper is aimed at analysing and comparing linguistic and conceptual metaphors identified in Slovene and English economic and business articles. It is focused on two important aspects of metaphor, namely its systematicity and organisation in hierarchical structures. The findings indicate much similarity in conceptual and linguistic metaphors between the two languages, but some differences in the frequency of particular linguistic metaphors. For example, both languages share conceptualisations of the economy as an organism and downward market movements as natural disasters. While these conceptual metaphors are often linguistically rendered with similar lexical metaphors, there are a few examples in which the linguistic realisation of a metaphor is culturally and/or linguistically conditioned. It has been argued that the metaphors identified in the Slovene popular economic discourse are largely influenced by the Anglo-American tradition.

Introduction

Motivations for undertaking metaphorical analyses differ. While figurative language, of which metaphors are a prime example, has traditionally been the concern of general philosophy and linguistics, today a number of diverse academic disciplines are recognising the importance of metaphorical research. Metaphors have long been viewed as a matter of mere language rather than primarily as a means of structuring our conceptual system and the kinds of everyday activity we perform. Claims for the cognitive nature of metaphor that were seen as new and dramatic less than twenty years ago, are now taken as obvious. This shift in metaphor studies, which was prompted by Lakoff and Johnson's book *Metaphors we live by,* published in 1980, arose from the perception of inadequacies of formal logic-based approaches, and the need to take into account new findings about the psychology of categorisation. The work of Lakoff and others fostered an array of interesting publications on metaphor in cognitive linguistics, as well as in other disciplines such as psychology,

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computer science, economics, organisation theory, business and management studies, to name but a few.

An advantage of working with metaphors is indeed the potential link with many other disciplines. This is especially evident in the numerous interdisciplinary studies, which have addressed diverse economic and socio-economic issues from a metaphorical perspective. On the one hand, there are authors whose primary concern lies with the study of language and whose work in this field has been closely connected to their interest in applied linguistics (Henderson 2000; Boers 2000; Charteris-Black 2000; Charteris-Black and Ennis 2001). On the other hand, Morgan (1996; 1997), Grant and Oswick (1996) and others have been concerned with the legitimacy and value of metaphor in social and economic sciences, especially in relation to organization science, as researchers whose concern for language is second only to their interest in the field under consideration. Common to the efforts of both is the belief that metaphors play a significant and powerful role in understanding social and economic phenomena.

This paper offers a cognitive analysis of conceptual metaphors identified in Slovene and English articles dealing with business and economic topics, often referred to as popular economic discourse (Boers 2000). In this respect, we have found that research of metaphor based on contrastive analysis can provide valuable insights into the importance, role and implications of metaphor in business and economic texts. Following scrutiny of a great number of articles from selected English and Slovene magazines, the analysis of results revealed two aspects of metaphors worth looking at, namely the systematicity of metaphor and different levels of metaphors.

Several authors have pointed out that the development of the framework of models through which economic phenomena are interpreted has been almost entirely Anglo-Saxon and largely Anglo-American. This has had a powerful influence in causing similar conceptual metaphors to be established across languages (Charteris-Black and Ennis 2001, 251). It is sometimes even possible to trace the source or the author of the metaphorical concept, such as in the case of the metaphor used in relation to the activity in which money that has been obtained illegally is put into legal business and bank accounts in order to hide the source from from which it was obtained. Allegedly, the metaphor 'money laundering' first appeared in the press in 1973 in relation to the scandal that brought down the Nixon administration, often referred to as the 'Water-

gate affair'. Today we can find this conceptual metaphor in a number of languages, including Slovene: *pranje denarja, blanchiment d'argent, Geldwasche, riciclaggio di denaro sporco, penge vasking, pranie brudnych pieniedzy, lavado de dinero,* etc. (Pranje denarja, *Kapital,* 16 August 1999)

In this respect, it can be argued that a number of conceptual metaphors identified in the Slovene corpus have been either transferred from English or at least influenced by it. This process, which might be termed conceptual metaphorical transference, works at the conceptual level and does not necessarily yield linguistic expressions in terms of translation equivalents. On the contrary, a number of conceptual metaphors identified both in English and Slovene articles have different linguistic renderings in the two languages.

Method and Sources

Lakoff and others have strengthened the connection between metaphor and thought by proposing that the conceptual system is not only involved in the processing of metaphor, but that thought is itself structured metaphorically, and that the systematicity of metaphor on the surface of language merely reflects the underlying conceptual structure in which something is understood, stored and processed in terms of something else. Metaphors involve a *source domain* (usually concrete and familiar), a *target domain* (usually abstract or less structured), and a set of *mapping relations* or *correspondences.* The mapping relations involved in metaphor are of two kinds: ontological, involving entities in the two domains, and epistemic, involving relations of knowledge about the entities (Lakoff 1993).

The main aim of our research was to identify conceptual metaphors through the analysis of ontological and epistemic correspondences on the basis of collected examples of conventional metaphors found in business and economic articles in Slovene and English. We did not attempt exhaustively to identify every metaphor in the text, but rather just certain key metaphors that particularly stand out either in Slovene or English texts, or in both. While we disregard the various typologies dealing with different types of metaphors, we need to emphasise that we will be especially concerned with 'live' metaphors,[1] i. e. 'those which require both a certain context and a certain creativity to interpret adequately and that lend themselves to further conceptual development' (Grant and Oswick 1996, 9–10). The data for this study were collected from two English business magazines *(The Economist, Business Central Europe)* and

two Slovene business magazines *(Kapital, Gospodarski vestnik)*. Among the selected publications, *The Economist* has the widest readership since both the political and the economic section deal with current affairs on a global level. *Business Central Europe* is focused on political and economic events in Eastern and Central Europe, while *Kapital* and *Gospodarski Vestnik* are among the most widely read business and economic magazines in Slovenia, covering a wide variety of topics, from financial reports and news on local and international markets to commentaries and opinions on local and worldwide economic and business issues. Examples of metaphors from sources other than the above mentioned are indicated accordingly.

Results of the Study

SYSTEMATICITY IN METAPHOR STRUCTURE

The following conceptual metaphors stand out as especially conspicuous both in English and Slovene economic articles owing to their clear and solid structure: MERGERS ARE LOVE RELATIONSHIPS, THE ECONOMY IS A SHIP, THE STOCKMARKET IS A BUBBLE. The transparent structure of the conceptual metaphor MERGERS ARE LOVE RELATIONSHIPS can be analysed as follows:

1. *Entological correspondences.* Entities in the domain of love relationships correspond systematically to entities in the domain of mergers:

source: LOVE RELATIONSHIP	target: MERGER
lovers	companies
love relationship	business relationship
courtship	negotiations
wedding	signing the contract
marriage	merger

2. *Epistemic correspondences.* Our knowledge about love relationships is mapped onto knowledge about mergers. These two sentences give an example of the kind of knowledge that might be evoked:

   A man and a woman find each other attractive and they decide to get married.
   Two companies find a common interest and they decide to form a merger.

The clear correspondences in the above metaphor suggest that it is a metaphor with great generative power as it seems to be an almost inexhaustible source for new and creative metaphorical expressions. These

can often be found within one single article, as the example below will show. If we insert the following words in the missing spaces below: (1) merger brief, (2) Bayerische Vereinsbank (3) Bayerische Hypotheken-und-Wechselbank, (4) corporate, (5) the rivals, (6) banks, (7) merger, (8) cross-town rivals, (9) Vereinsbank, we can see that the article does not talk about a blazing love affair, but about the merging of two banks.

> Our (1) . . . is a reminder that, when couples mate in a hurry for the wrong reasons, things can go wrong. . . . the marriage of (2) . . . and (3) . . . was announced in July 1997 . . . It serves as a lesson of what can go wrong if (4) . . . couples leap too hastily into each other's arms. It is also a reminder that old (5) . . . can turn out to know much less about each other than they thought . . . (6) . . . were scrambling to the altar. The (7) . . . was touted by some as a match made in heaven. Here were two (8) . . . that had long known and respected each other, but had only just realised they were in love. Yet this was not a love match. (9) . . . went a-wooing mainly because it was the object of an unwanted suitor. (A Bavarian botch-up, *The Economist,* 5 August 2000)

This metaphor is fairly conspicuous also in the Slovene corpus, generating a number of interesting conventional metaphors which support the metaphorical concept. Similarly as above, the metaphor has often been identified as a leitmotif within one single article. By inserting (1) *dosedanjimi konkurenti,* (2) *združitev,* (3) *združitve,* (4) *namestnik,* (5) *tiskovni konferenci,* (6) *računovodje in kadrovniki obeh podjetij* in the missing spaces below, we can see that the words and expressions usually associated with weddings in reality refer to the merging of Daimler-Benz and Chrysler.

> Obstoj . . . v poroki z . . . (1) po ameriških analizah je bilo lani povprečno po dvesto . . . (2) na teden in le polovica je uspešnih. Uverture v . . . (3) pa poznamo: previdno in tiho snubljenje, namesto podoknice 'podšankica', po kateri se partnerja vdata drug drugemu, nato je na vrsti veličastna poroka, na kateri se še ne ve, kdo je v zakonu glavna in kdo njen . . . (4); poroko objavijo na veličastni . . . (5) . . . Po sijajnih medenih tednih seveda pride streznitev z vsakdanjimi problemi, ki naj bi jih na prvi pogled reševali predvsem . . . (6). (Vsaka poroka ni hazard, *Manager,* 25 January 1999.)

While it can be argued that the marriage concept with regard to mergers was transferred from English to Slovene, the example also shows that once transferred, the metaphor develops in accordance to the cultural and linguistic paradigms of the target language. It therefore becomes

linguistically and culturally conditioned by taking into account, for example, the wedding customs in the target culture. The wordplay in the Slovene article which suggests that the 'singing beneath the window of the beloved' (Slo. *podoknica*) was more like 'singing underneath the bar' could be seen as culturally specific.

The conceptualisation of the economy as a ship, which is based on a solid and systematic structure, was frequent in both English and Slovene articles. The captain is usually the president of the central bank, his assistants are his crew, the sea is the socio-economic environment of a country, obstacles (reefs, storms) are critical situations in economy, nautical instruments (anchors, compasses, maps) are various guidelines and directives. Implicit in all these nautical titles is the assumption that central bankers know exactly where they are heading, how their craft works, and how their actions will affect its course. Yet it can be argued that they operate in a world of huge uncertainty, with no reliable maps or compasses. If we just look at some recent events in the socio-economic environment, consequences brought about by 11 September, the collapse of American corporations, stock market crashes, etc., we can see that some of the policy dilemmas they face are the equivalent of not knowing whether the earth is round or flat. This suggests that it is often not the quality and number of correspondences that are questionable, but rather the part of the source domain which cannot possibly be mapped onto the target domain.

> *English corpus:* 'domain names' have been the *Gordian knot* of the Internet (E3, 59), Mr Grasso needed further warning that he *is steering* a potential *Titanic,* the NYSE's fattest rats have been preparing to *jump ship* (E3, 61), in this increasingly *foggy* world, the chances of *navigational errors* are high (E6S), instead, new hazards are looming which the *navigators,* still euphoric about their defeat of inflation, have been slow to spot. (E6S), the *seas* ahead could *get* much *rougher* ... if and when investors realise that Mr Greenspan *has not discovered a new world,* America's bubble could burst, painfully (E6S), the whole economy could *sink* (E6S), Mr Greenspan and the rest of his *crew* (E6S), some sort of nominal *anchor* to *guide* policy and tie down inflationary expectations ... the gold standard proved the firmest possible *anchor,* but at the cost of unacceptable *swings* in output (E6S), the options are either to fix exchange rates permanently or to *float* (E6S), central banks cannot use the money supply *to sail on auto-pilot,* but they would be foolish to ignore its *warning lights* (E6S), their *instruments are blunt* (E6S)

> *Slovene corpus:* so on (predsednik Evropske osrednje banke) in njegova *posadka* doživeli resno lekcijo (GV4, 47), da je Slovenija lani dokaj uspešno *krmarila svojo* gospodarsko *barko* (GV5, 18), čeprav smo se v preteklosti *čerem* presenetljivo uspešno izogibali (GV5, 18), pravi *potop* evropske valute (K3, 55), *pot čez Atlantik* je za druge lahko mučna, težka in dolgotrajna, v EU je čedalj manj kruha, o Balkanu in preostanku Evrope pa je odveč vsaka beseda (GV3, 61)

The metaphor THE STOCKMARKET IS A BUBBLE, whereby 'bubble' usually refers to a situation in which the price of shares becomes much higher than their real value, has become so common in English business and economic articles that it can be seen as a conventional metaphor. In addition, most modern English dictionaries give examples or definitions of its metaphorical meaning in an economic context, while contemporary business English dictionaries have separate entries explaining the metaphorical meaning of 'bubble' (*Longman business English dictionary* 2000). In the selected Slovene articles, only one example of such a metaphor was found, whereby the key word was written in inverted commas. This suggests that the concept is relatively new in the Slovene economic discourse. However, the conceptual metaphor is slightly different in Slovene as it uses the concept of 'balloon' (Slo *balon*) rather than 'bubble' (Slo. *mehurček*). The two concepts are analogous in many ways, i. e. as air is blown into them they both get larger and rounder and they burst at a certain point. Compared to a balloon, however, a bubble is much more delicate and bursts more easily, a quality that is partly lost in the Slovene examples below.

> *English corpus:* the Fed has allowed the stock market *bubble to develop* (E6S), to raise interest rates to *deflate a bubble* in its early stages (E6S) most central bankers are hostile to the idea to try *to puncture bubbles* (E6S), central bankers offer three reasons why they should not attempt *to prick bubbles* (E6S), in their time, tulips, canals, railways, gold, silver, property and share prices have all *bubbled up* and then *gone 'pop'* (E6S), a second problem with *prickling bubbles* is that central bankers have no laser-guided weapons for the purpose (E6S), there are two examples of central banks deliberately trying *to burst a bubble* (E6S), history shows that markets do *overshoot* and that *bubbles can persist* for some time . . . it also shows that *the bigger a bubble gets, the greater the excess* it creates in the economy – and *the bigger the bang when it eventually pops* (E6S), Wall Street will slide slowly downwards, *letting air* gently *out of the bubble* (E6S)
>
> *Slovene corpus:* mnogi trgovci že nekaj časa svarijo pred tem, da bi se

> '*balon*' lahko *razpočil* . . . mnogi znani analitiki se strinjajo v tem, da '*balon*' dejansko obstaja, vendar si nihče ne upa napovedovati, kdaj *bo* tudi *počil* . . . *se bo* '*balon*' še kar nekaj časa *napihoval* (K2, 50)

DIFFERENT LEVELS OF METAPHORS

Metaphorical mappings do not occur isolated from each other. They are sometimes organised into hierarchical structures, in which lower mappings in the hierarchy inherit the structures of the higher mappings. The research revealed two such higher level metaphors, i. e. THE ECONOMY IS AN ORGANISM and DOWNWARD MARKET MOVEMENTS ARE NATURAL DISASTERS, with a number of conceptual metaphors on the lower levels which correspond to them (Tables 1 and 2).

The metaphor THE ECONOMY IS AN ORGANISM reflects an important underlying cognitive model for the conceptualisation of the economy as a whole. An extension of this higher-level metaphor was found in a number of lower-level metaphors in both languages. The most conspicuous among them was clearly the conceptualisation of the economy as a patient, with a number of conventional metaphorical expressions which could be directly translated from English into Slovene and vice versa: recovery, healthy, qualms, flu, limping along/hobble, sweat, depressed (Slo. *okrevanje, zdrava, slabotnost, prehlad, je ohromljena, potenje, depresija*) and others. Charteris-Black argues that the underlying notion expressed in the conceptualisation of the economy as a patient implies that the economy is a passive entity whose condition can be influenced by the right decisions; this perception permits the economist to present himself as a doctor or surgeon who can take an active role in influencing economic events (Charteris-Black 2000, 157). The doctor-patient metaphor system is reflected in a number of articles analysed in this research.

The metaphor LEAN IS HEALTHY / FAT IS UNHEALTHY is closely related to the conceptualisation of the economy as a patient and it can also be seen as supporting the overwhelmingly dominant image of the organisation as a body. Our research revealed some examples of this metaphor only in the English corpus, all associated with the concept and practices of downsizing, an expression which can be seen as a metaphor in its own right. However, an example of a related metaphor was identified in another Slovene source (*Primorske novice,* 17 August 2001), which can be perceived as evidence that the concept exists in the Slovene language. The expression *kadrovska podhranjenost* (Eng. human resources malnutrition), which is here used to discuss the problems of an understaffed

Table 1: Conceptualisation of the economy as an organism

Higher-level metaphor: THE ECONOMY IS AN ORGANISM	
Slovene corpus	English corpus
ECONOMY IS A PATIENT	
gospodarska rast *je* bila v Nemčiji in Italiji *ohromljena* (K2, 28), *zdrava* ekonomija je pomembnejša (K5, 45), čeprav IMF z milijardnimi finančnimi injekcijami *ohranja* medvedov *krvni tok,* lahko ponovno pride do *infarkta* (K1, 50), gospodarstvo potrebuje še malo časa za popolno *okrevanje* (K6) veliko podjetij je zaradi recesije *oslabelih* (GV1, 47), če je *vročina* nekoliko popustila, še ni rečeno, da svetovno gospodarstvo resno *ozdravlja* (GV4, 47), jeseni je namreč *bolezen* začela napadati tudi jedro svetovnega gospodarstva (GV4, 47), zdaj *gre* na teh trgih spet *bolje* (GV4, 47), to pa je slabo vplivalo na zasebno porabo, ki naj bi bila *motor oživljanja* (GV4, 47), *slabotnost* se je nadaljevala še v letošnjem prvem četrtletju (GV4, 47), ob evropskem *kihanju* mi brez *prehlada* (GV5, 18), in ko *kihne* Nemčija, *se prehladi* Avstrija in *zakašlja* Italija, potem pa *se bolezen* hitro *širi* po Evropi (GV5, 19), da se nemška *depresija* ne bo prav kmalu privlekla k nam (GV5, 19), smo na svetovnih borznih trgih zaznali *nervozo* (K1, 50), morebitno *potenje* tudi ob pričakovanju mere stopnje inflacije (K1, 10)	markets seem to have *qualms* (E1, 83), with *recovery* still *fragile,* the last thing Japan now wants (E2, 84), China's financial system is far from *healthy* (E4, 57), developments, shrieked *hysterics,* endangered Japan's economic *recovery* (E5, 80), *ailing* and cheap steel sector (BCE1, 41), Hungary's economy looks distinctly *wobbly* (BCE2, 35), *healthy* foreign investment (BCE2, 35), businesses have been *limping along* (E1, 76), oil firms have been dumping assets on a *depressed* market (E5, 67), the Japanese economy's *painful* progress from boom to bust (E6, S), interest rates are set according to the economy's *temperature* today (E6, 35), the economy will *wake up in a sweat* (E6, 35), this was a *benign* sort of deflation, in contrast to the *malign* sort (E6, 23), that will help shelter Phillip Morris from tariff changes, one of its biggest *headaches* (BCE5, 28) radical *surgery* (BCE2, 25) to *inject* capital (BCE2, 25), the emerging market *flu* (E4, 12), European *chronic* risk-aversion (E6, 103), poor countries *are hobbled* by a lack of know-how (E6, 109)
LEAN IS HEALTHY / FAT IS UNHEALTHY	
kadrovska *podhranjenost* (*Primorske novice,* 17 August 2001)	the Bundesbank's new *diet* (E2, 86), Germany's *bloated* central bank became a primer candidate for a shakeup … keeping the Bundesbank happy while it *slims* (E2, 86), *overstretched* staff of 250 inspectors (E2, 86), French workforces *are shrinking* (E1, 74)

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organisation, is a counter-metaphor to LEAN IS HEALTHY. It is worth mentioning at this point that the conceptualisation of lean as healthy has become conventionalised in a number of technical business terms,

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TAKEOVERS ARE BLOWOUTS	
velika požrtija … tržni analitiki prerokujejo, da jih *bo* prej ali slej *pogoltnil* eden od velikih (GV3, 10), analitiki pravijo, da naj bi bili na svetovnem in evropskem telkomunikacijskem trgu samo dve možnosti: *požreti druge* ali dopustiti, da *te požrejo* (GV3, 10), Pop TV *je pojedel* Kanal A (*Delo,* 15 July 2000)	*gobbling up* the whole company (BCE6, 37), ConSors *snapped up* a French broker (E3, 65), KBC *has bitten off more than it can chew* (BCE3, 34), the bank has avoided Deutsche-style *cannibalism* (E3, 66), borrowers seem to have *developed an appetite* (E1, 87), they make no secret of their *hunger* to acquire (E2, 73), this time everyone is determined to *get a slice of the cake* (E3, 57), we don't want to *get the crumbs* … says the taskforce's chairman (E3, 5)
THE FINANCIAL MARKET IS A THEATRE	
borzni igralci si zastavljajo vprašanja, s katerimi mislijo priti do jedra stvari in razumeti borzna dogajanja (K4, 10), tipično nepravo vprašanje, ki te dni *kroži po* borznih *kuloarjih* (K4, 10)	in a parallel *debut* on the Nasdaq, the firm recorded a 40% gain (E3, 58), *behind the scenes* Mr Grasso has been preparing bold plans (E3, 61), Mr Grasso is famous for his *showmanship* whenever a company lists (E3, 61), banks … *are* still *looking for a role* (E6, 113), the Japanese still see *high drama* in the smallest setback (E5, 80), this week, the *theatre* turned to the currency markets (E5, 80) it's *a rosier scenario* than those on offer elsewhere (BCE3, 25)

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usually related to the use of the most effective methods with the fewest employees possible (lean organisation, lean production, etc.).[2] Dunford and Palmer (1996) argue that the received knowledge as to the effect of downsizing metaphors would suggest that the nature of these metaphors has a material effect on downsizing practice or even a reinforcement of strategies based upon reduction of workforce numbers.

Financial markets are usually associated with fast changes and unpredictability. In this respect, the conceptualisation of the stock market as a theatre, the evidence for which was identified in both Slovene and English articles, is to a certain extent surprising. It implies, for example, that the stock market players operate according to a predictable and predetermined scenario. If we take predictability to be a crucial entity of the source domain (i. e. theatre), then this metaphor can be perceived as either weak in terms of mapping correspondences or purposefully hiding certain aspects of the target domain (i. e. financial markets).

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COMPETITION IS WAR / TAKEOVERS ARE WAR

banke izčrpavajo še same sebe ko *merijo moči* pri prevzemih (GV1, 3), *v neizprosnem* konkurenčnem *boju* ne bo *zmagal* izkušeni British Telecom, temveč nemški koncern, ki je bil šele pred 16 meseci *spuščen* v privatizacijsko *areno* (GV3, 10), za *prevlado* na trgu prihopdnosti se *bojujejo* vse velike evropske in ameriške telekomunikacijske družbe (GV3, 10), boj za tržne deleže bo *izbojevan* na glavnih *dirkalnih progah* (GV3, 10), monopolista bi bila na evropskem trgu *tekmeca,* saj '*pakt o nenapadanju*' ne velja več (GV3, 11), nova družba bo ... *napadala* celo na njegovem domačem trgu (GV3, 10), *lov* na Adriaticove delnice (GV5, 10), četudi *veliki met* Slovenici ne bi uspel, pa ta ne bi *ostala* popolnoma *praznih rok* (GV5, 11)

businessmen *huff and puff about keeping out the Anglo-Saxons* (E1, 73), the *battle* for Efl (E1, 73), a foreign counter offer would not meet with such *equanimity* (E1, 73), *barriers have kept foreign* companies *out of the country* (E1, 73), Vivendi and Suez Lyonnaise *are vying with each other* in markets as far *afield* as China and America (E1, 73), Elf last month *fell victim* to just such an impulse, when its bid *was sabotaged* by Norsk Hydro and Statoil (E1, 73), Carrefour could still *be vulnerble* to a *hostile* bid (E5, 68), the *unfriendly* effort of Banque Nationale (E5, 68), Mr Schmidt is looking for *targets* in Italy and Spain (E3, 65), banks are not yet *on the block* (E3, 66) Vodafone *snatched* AirTouch from Bell (E6, 92), *foreigners already own a big chunk* of French firms (E1, 74), this will prevent *border-busting* deals (E1, 74), local banks *are fighting back* (E2, 85), local cigarette makers *are up in arms* (BCE5, 29), to *fend off* hedge funds (E4, 57), it could *torpedo* the merger itself (BCE3, 33) Rába, another national darling that *was shielded from* foreign takeover (BCE3, 29)

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The evidence for the metaphor COMPETITION IS WAR was identified in a number of metaphorical expressions in both languages. Conceptualising competition in terms of war has become so commonplace that today we talk about traditional wars (trade wars), which have been, metaphorically speaking, raging for years, such as the war between Coca-Cola and Pepsi-Cola (often referred to as the Cola War), Nike and Reebok, Microsoft and AOL, etc. Several authors have pointed out that the notion of a struggle for survival and survival of the fittest is a peculiarly accurate and potent conceptualisation of the rise of global capitalism and the growth of multinational corporations during the 1980s and 90s.

Another example of describing inanimate in terms of animate entities can be found in metaphors in which the source domain is death. The

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A MERGER IS MARRIAGE	
Bayer bo spravil svojo hčerinsko družbo Agfa na borzo … *na pot* pa *ne bo šla brez dote* (GV2, 24), Švedska Telia in norveški Telenor morata odstraniti le še nekaj *razlik v pogledih* preden *podpišeta poročno pogodbo* (GV3, 10), po intenzivnih pogajanjih med Deutsche Telekom in Telecom Italia je na vrsti *poroka* (GV4, 77), meseci *ponorelih snubcev* (GV5, 47), je bil teden po 22. marcu za evropske družbe čas *frenetičnega snubljenja* (GV5, 47), Sanofi *se ženi* s Synthélabo (GV3, 48)	*wooing* investors abroad (E4, 57), Asda … *has its eye also on* France (E5, 68), no *champagne,* no *cake;* in fact, no *party* at all to mark the anniversary of the alliance between the London and Frankfurt stock exchanges (E1, 89), the *courtship* has not gone smoothly (BCE1, 27), US Steel has a good cause to be a *skittish suitor* (BCE1, 27), Hungary's Rába and Icarus *court* foreign investors (BCE3, 29), no foreign *suitors* have *stepped forward* as yet (BCE3, 29), Netia needs a mobile *partner … there is one boy on the dance floor and two lovely girls …* the question is *who will go to bed with whom* (BCE3, 60), the *odd couple* (two Poland's leading banks) (BCE3, 33), *damaged bride* (Poland's PBK) (BCE5, 37), the Polish partners *received the wink* from the new lot and started selling their stakes (BCE5, 37), Bulbank has a suitor – but the state won't *bless the union … the belle of the ball,* you would have thought (BCE6, 32)

concept of death and dying was identified in a number of metaphors in the English corpus as a positive (1) or negative (2) consequence of economic trends, while there was just one occurrence in Slovene (3), with the key word in inverted commas.

1. their sole job was *to kill* inflation (E1, 5), reports on *the death* of inflation are therefore much exaggerated … far from *being dead,* inflation may have taken on a new, more dangerous guise (E6, 10) inflation is *dead* (E6, 10), inflation may not be as *dead* as it seems (E6, 6)
2. such a move *would kill* the offshore market for good (E1, 86) the losses have been so heavy as *to kill* the firm (E6, 28), the same people who have made *a killing* in the stock market (E1, 84)
3. prebujanja in ponovna '*ubijanja*' tečajev (K1, 10)

An important characteristic of metaphor is that it can be used generatively in building a model, such as employing the analogy found in family relationships to describe types of companies (parent/mother company, sister company, daughter company, etc.). A similar example of a generative model is reflected in the metaphors used to describe different sizes

of organisations, based on boxing categories. The metaphor was rather conspicuous in the English articles, while there were no examples supporting this analogy in the Slovene corpus:

> with a bit of help from ConSors, these *heavyweights* are belatedly toasting the successes of a cracking retail business (E3, 66), these companies are only *middleweights* in the global steel arena (BCE1, 27), the global *heavyweights,* like Nippon Steel and British Steel, are enmeshed in deep restructuring themselves (BCE1, 27), KBC is not such a *lightweight* (BCE3, 34)

Similarly, with an increasing number of mergers and acquisitions, organisations have been described in terms of legendary stereotypes, such as giant and white knight. While the metaphorical meaning of *giant* (Slo. *gigant*) defined as 'a very large and successful organisation' can be found in the Slovene dictionary of literary/written language *(Slovar Slovenskega knjižnega jezika),* the metaphorical meaning of *white knight,* i. e. someone who buys shares in a company to prevent another company taking it over completely, which is included in specialised English dictionaries (*Longman Business English Dictionary* 2000), is yet to be admitted into the Slovene business and economic terminology.

Besides being perceived as mythological legends, organisations are often compared to different animals. A frequent analogy with the animal world is related to different types of traders in the stock market. The most common term is the 'bear' (Slo. *medved*) which refers to a person who predicts a fall in the price of stocks and shares, while the metaphor 'bull' (Slo. *bik*), with its various derivations 'bullish', 'bull run', implies the opposite practice of purchasing shares in the expectation of a rise in price. This metaphor is particularly important as it was relatively frequent in Slovene articles, all taken from *Kapital.* Besides its inclusion in general and specialised English-English dictionaries, its metaphorical meaning is also indicated in English-Slovene/Slovene-English business dictionaries.

> *bikovski* borzni trend (K3, 49), monetarna likvidnost je gorivo, ki žene *bikovski* trend (K5, 44), jen še naprej v *bikovski* podobi (K5, 45), japonski jen se spogleduje z *biki* (K3, 55), čeprav IWF z milijardnimi finančnimi injekcijami ohranja *'medvedov'* krvni tok (K1, 50)

The research revealed evidence of a second higher-level metaphor, i. e. the conceptualisation of downward market movements as natural disasters. As we can see from Table 2, the selected metaphors relate negative

Table 2: Conceptualizations of downward market movements as natural disasters

Higher level metaphor: DOWNWARD MARKET MOVEMENTS ARE NATURAL DISASTERS	
Slovene corpus	English corpus
DROUGHT	
Po nekaj letih *hude suše* je ta panoga že zelo okleščena (GV3, 62), po lanski, za to panogo zelo *uspešni žetvi,* letošnje *napovedi niso samo slabe* (GV3, 61), hkrati že od drugega lanskega polletja *usihajo* tuje finančne naložbe (GV3, 22), saj bo mogoče še *odpreti državne pipe* za večje nabave (GV1, 46)	Rita's commissions began to *dry up* as her clients quit her for a better deal (E2, 89), the river of gold *will* soon *run dry* (E2, 89), *pouring in* some $2 billion in investment (BCE5, 28), the money it *pumped into* modernising the defunct plant (BCE5, 28), to *channel* state subsidies to millions of farmers (BCE2, 27)
BAD WEATHER	
zavejan *hlad* v trenutku *ohladi* in *zamrzne* še tolikšno naložbeno strast (K1, 10), trenutna *ciklonska gibanja onemogočajo jasen pogled* v prihodnost (K1, 10), *temni oblaki,* ki *so se zbirali* nad Ljubljansko borzo, *so se* v zadnjih dveh tednih nekoliko *razredčili* (K2, 12), nenehne *turbolence* na mednarodnih borzah (K6, 35)	*clouds* over Hong Kong (E4, 57), are Hong Kong's *best days* as a financial centre *over* (E4, 57) *the outlook* for the stockmarket *will remain cloudy* (E1, 86), besides the other risks *buffeting the region* (E1, 86), *the outlook* for the coal industry *is bleak* (E5, 67), the banks' *worst days* were behind them (E5, 83)

continued on the next page

behaviour of the economy to the domain of drought, bad weather conditions, flood and earthquake.

There are a number of cases in the above metaphors related to natural disasters, in which both languages use the same linguistic expression: clouds, is flooded, sink, run dry (Slo. *oblaki, je poplavilo, se utaplja, usihajo*). Besides the above mentioned natural disasters, the research revealed a few other isolated examples which support the higher-level metaphor. The concepts of heat (overheating, inflaming) and nuclear disaster (meltdown) were identified only in English texts, while one example from the Slovene corpus referred to market instability in terms of a volcano eruption. Interestingly, in their contrastive analysis of metaphors from English and Spanish financial reports, Charteris-Black and Ennis (2001) identified the following conceptual metaphors in both languages where the source domains relate to natural disasters: bad weather conditions, earthquakes and the behaviour of gas under pressure.

Conclusion

A number of questions concerning the way metaphors operate emerge from this research. First, can the metaphors identified in the selected

continued from the previous page

FLOOD	
ali ne *bo* recesijski *val* prej ali slej *poplavil* tudi najmočnejšo svetovno silo (GV3, 62), lanska *valovanja* na svetovnem gospodarskem *oceanu* so različno vplivala na slovensko 'gospodarsko *lužo*'; nekateri *rušilni valovi* je celo sploh niso dosegli (GV5, 18), *zajezitev* inflacije, ki *je začela groziti* aprila (K2, 51), udeleženci denarnih trgov so lahko videli pravi potop evropske valute (K3, 55), bi močno udarilo po proračunu, ki se že zdaj *utaplja* v primanjkljaju (GV1, 46)	the market *is flooded* with Bulgarian leftovers (BCE4, 19), we're trying to empty the pool ... but it's *raining very hard* (BCE2, 25), the sudden *deluge* of unfrozen CLOB shares might *drench* the whole market (E1, 86), the whole economy could *sink* (E6, S)
EARTHQUAKE	
so naši obrambni *zidovi* dovolj *trdni,* če bi v svetu nastal še kak dodaten ekonomski *potres* z *valujočo rušilno močjo* (GV5, 18), koliko *se bo* še *stresalo* in kje se *bo* najbolj usodno ter vplivno *udarilo* svetovno gospodarstvo (GV5, 19), finančni *pretresi* niso nujno nekaj, kar bi v idilično deželico zanesli zlobni tujci (K3, 11), stabilnost delnic je letos kar nekajkrat *porušila* notranja erupcija (K1, 10)	financial markets *tremble* (E6, 23), the central bank became a prime candidate for a *shakeup* (E2, 86), spectacular rebound from financial *collapse* (E3, 63), South Korea's hard-won *stability seems to be crumbling* again (E3, 63), Daewoo's *ruinously* heavy debts (E5, 83), *huge chunks* of the economy *would collapse* (E1, 87), the stock-market is higher than it was before the *crash* (E2, 71)

Slovene and English economic articles also be found in the language used by economists in the two cultures? The importance of this is that if these metaphors are only characteristic of popular discourse found in newspapers and magazines, they can be understood as stylistic devices aimed at attracting the reader and enhancing sensationalism.

Second, it is not clear whether the metaphors used in the articles discussed in our research were selected consciously by the authors because they felt them to be appropriate to the situation they wanted to describe, or whether this is largely a subconscious process. Were the authors of the articles analysed in our research aware of the possible ideological implications of metaphorical expression or is their choice of metaphor to be attributed simply to the solid correspondences between the source and target domains?

Third, while most metaphors identified in English were often found in Slovene as well, and vice versa, there were some differences in the form and size of the evidence supporting the existence of such metaphors.

We could see that some metaphors were more salient in English, and that some, given their inclusion in business and general dictionaries, have become conventionalised and can now be considered as technical terms rather than original metaphors. We have argued that a number of metaphors found in the Slovene corpus develop concepts transferred from Anglo-American frameworks of models used for interpreting economic phenomena. On the other hand, we need to take into account that there could be other reasons for the differences between the Slovene and English articles. The different degrees of frequency of a particular conceptual metaphor in one of the two languages may to a certain extent depend on the importance given by the selected magazines to individual topics. Finally, metaphors play a significant role in determining how we perceive the world. While they are rarely as tidy as we might like, they nevertheless indicate a certain systematicity which is reflected in the numerous conceptual metaphors found in our everyday language. Metaphors found in English and Slovene economic articles provide valuable insights into how economic processes and participants involved in them are conceptualised in the two cultures respectively.

Notes

1. As opposed to dead or dormant metaphors. See Grant and Oswick 1996, 9–10.
2. In the Slovene-English/English-Slovene dictionary *Slovar poslovnih izrazov v angleščini in slovenščini* (Filipovič et al. 2000) the concept lean (Slo. vitek) is retained in the translation of 'lean organisation' (Slo. vitka organizacija).

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Texts Used for Analysis

BCE1. *Business Central Europe.* 1999. June.
BCE2. *Business Central Europe.* 1999. July/August
BCE3. *Business Central Europe.* 1999. September.
BCE4. *Business Central Europe.* 1999. October.
BCE5. *Business Central Europe.* 1999. November.
BCE6. *Business Central Europe.* 1999. December/January.

E1. *The Economist.* 1999. 10 July.
E2. *The Economist.* 1999. 17 July.
E3. *The Economist.* 1999. 31 July.
E4. *The Economist.* 1999. 14 August.
E5. *The Economist.* 1999. 4 September.
E6. *The Economist.* 1999. 25 September.
E6S. *The Economist.* 1999. Survey. 25 September.

GV1. *Gospodarski vestnik.* 1999. 27 May.
GV2. *Gospodarski vestnik.* 1999. 20 May.
GV3. *Gospodarski vestnik.* 1999. 13 May.
GV4. *Gospodarski vestnik.* 1999. 6 May.
GV5. *Gospodarski vestnik.* 1999. 8 April.
GV6. *Gospodarski vestnik.* 1999. 25 March.

K1. *Kapital.* 1999. 5 July.
K2. *Kapital.* 1999. 19 July.
K3. *Kapital.* 1999. 16 August.
K4. *Kapital.* 1999. 30 August.
K5. *Kapital.* 1999. 27 September.
K6. *Kapital.* 1999. 11 October.

Dictionaries Used for Analysis

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