Volume 4
Number 2
Summer 2006

ISSN 1581-6311

Managing Global Transitions

International Research Journal

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VOLUME 4 · NUMBER 2 · SUMMER 2006 · ISSN 1581-6311

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The Editor's Corner

I am happy to announce that from this year (volume 4) instead of two we shall be publishing four issues of the journal per year. It will now be a quarterly journal with Spring, Summer, Fall, and Winter issues. It continues focusing on the transition research and emphasizing openness to different research areas, topics, and methods. International and interdisciplinary research nature of scholarly articles published in the journal is also maintained.

The current issue covers topics of the discourse of management, foreign direct investment obstacles in the European Union integration process, the economic efficiency in transition, and customer evaluations and competitiveness of tourist destinations. It starts with a paper of Tonči Ante Kuzmanić and Suzana Sedmak on the process of the transition in Slovenia and its connection to the concepts of managerialism and managerial discourse. In the second paper, Mehmet Basar and Sebnem Tosunoglu analyze Turkey's performance in attracting foreign direct investment and highlight the key obstacles for foreign direct investment in Turkey. In the third paper, Anatoly G. Goncharuk deals with measuring economic efficiency in Ukraine. The fourth and the fifth paper both focus on issues related to tourist destinations. Maja Konečnik and Mitja Ruzzier investigate the customer's perspective on a tourism destination brand through four dimensions and the influence of previous visitation on the four dimensions. Finally, Doris Gomezelj Omerzel presents the model of destination competitiveness analyzed on the basis of survey data from Slovenia.

Boštjan Antončič
Editor

Globalization, Transition and the Discourse of Management

Tonči Ante Kuzmanić
Suzana Sedmak

Globalization is a heavily debated phenomenon and can be studied from many perspectives. In the present paper the perspective of the discourse of management is presented. Management as an idea and as practice is also a critically contested phenomenon in today's fast changing world. In this paper managerial discourse as an aspect of globalization is studied. The concepts of globalization, managerialism and managerial discourse are introduced and their interdependence is described. Special attention is given to the process of the so-called transition in Slovenia and its connection to the concepts of managerialism and managerial discourse. During the process of transition from one economic and political system to another, managerial discourse became adopted in Slovenia and soon constituted itself as a standard or even dominant discourse in business and economics. Some examples are drawn from Slovene newspapers and other publications to demonstrate first the difference between the socialist (self-management) discourse and managerial discourse, and second, to demonstrate the diffusion of managerial discourse to other spheres of social and political life.

Key Words: managerial discourse, globalization, transition
JEL *Classification:* A1, A13, A14

Introduction

One possible explanation of the 1989 revolutions in Eastern and Central Europe can be given by using a rather large and somehow deeper concept of globalization.[1] Such an explanation is dealing not solely with the so-called 'inner conflicts and problems' of the region, but rather with a larger context of globalization ranging from the globalization of markets and that of trades to the globalization of ideas, politics and ideologies (Gilpin 2001). To put it in another words, fundamental or even revolutionary changes were caused not only by inner conflicts and blockades

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of the ex-socialist region(s), but also by larger, global contexts and contextual pressures (from global markets to the processes of globalization of democracy). These still lasting processes mostly put forward the so-called 'formation of the new claims' (Sassen 1998, xx–xxxvi) from the global surrounding, fortunately, not in a violent form (with some exceptions, of course, see, for example Hadžić 2004), since the Eastern and Central European societies were already half-prepared for the change (especially after the events in Poland connected with Solidarność). In the last 15 years or so the events used to be analysed mainly in terms of markets and (un)employment, of BDP or investments etc., and to a lesser extent in terms of political changes (democracy) as well as in connection with the new processes of various so-called 'integrations' (European Union, Nato, see Kaldor and Vejvoda 2002).

The Globalizing Discourse

In this paper we are not dealing with globalization in the above mentioned form. We are rather trying to emphasize the role of a less visible form of globalization within the context of the Eastern and Central Europe. Namely, our interest goes to globalizing aspects that deal with something which could be termed as 'globalization of discourse', more concretely to the globalization of the very 'discourse of globalization'. The preliminary results of our research[2] show that, at least in Slovenia, the globalization of that kind of discourse occupied almost all public and private channels of communication and even thinking, mainly directly (through media, scientific discourses, translations etc.) or indirectly (by way of personal communication based on dominant forms of media language). More precisely, our research shows that a special kind of that globalizing discourse into the region has taken the form of management. By speaking about managerial discourse we are opening up a problem regarding forms and channels of communication through which the globalization came in the region as well as the topics on which it persists that dominate all other public or private sub-discourses.

One of the phenomena that have started to gain more attention in debates about globalization in the region is the spread of a relatively new form not only of discourse but also of organizational behaviour that tends to cross political, economic and cultural boundaries. The profusion of this form of organizational behaviour and discourses that is becoming a preferred way of behaving (thinking, feeling and doing), not only in various organizations but in a society as a whole, is termed

managerialism.[3] This form may not be obvious; in fact it wasn't at all until the turn of the 20th century. But today it does seem to be a normal state of affairs, or better, of mind. (It is interesting – and symptomatic – that the transition processes in the region are also described as 'normal'.) We are facing a quite interesting situation: everybody is getting used to look on organizational issues from the exclusive point of view of managers, without any consciousness of that exclusivity. Everybody (public parlance as well as that in private surroundings) is turning to management practices with the assumption that they will provide a solution for all kinds of problems; not only economic or business problems in a narrower sense, but also political, social, and even individual issues. It seems that management practices accompanied by an ideology ('the emergence of a new ideology', Entemann 1993) are supported by a whole set of values that have been successfully globalised.

When we refer to managerialism, we actually have in our minds the managerial discourse in its three meanings, first as a tool of globalization, second as its form, and third as its very context. The point we would like to emphasize is that managerialism is first of all a kind of discourse which, at least within the mentioned region, is playing a double role: that of mega-discourse as well as that of meta-discourse. Managerialism is a mega-discourse in the sense that it covers almost all possible topics of thinking (it seems that by using the term managerialism it is possible to say everything), and it is a meta-discourse, first of all because it implicitly and explicitly presents itself as the language beyond ideology, a kind of pure language. To put it in postmodern (poststructuralist) parlance, it is playing the role of master-discourse, of master-language in regard to which generality, objectivity and purity (trans-ideology) of other languages/discourses are something partial, if not less or completely unimportant. To put it in more concrete terms: self-management as one master-discourse was – of course not mechanically, but by way of the complex play of negation/confirmation – replaced by another one, that of management or managerialism. Subjects as carriers of discourse have undergone dramatical (revolutionary!) change. 'The Worker and Worker's Party' were replaced by 'The Manager and Managerialism'. If in the past it was possible to explain – at the level of discourse – almost everything by the use of the magic word of Worker, now it is possible to explain almost everything by use of magic word of Manager. If it was possible to give the solution to almost all problems by use of the highest Sign-of-all-signs, that of Worker, now is, likewise, possible to give the

solution to almost all the problems by the very use of the highest Sign-of-all-signs, that of Manager.

As far as the language and the kind of former discourses in the region are concerned, there used to be an important difference between the regions of former Yugoslavia and other parts of the so-called Eastern and Central Europe. While the larger part of the region (under direct influence of the USSR) used to understand itself in terms of the state and party language of work, Yugoslavia used to be self-defined as the state and social system of the so-called self-management (samoupravljanje). We are not saying that the system of self-management was not a party or a state system, similar to that in the region that was under the influence of the Soviets, but that the kind of media self-understanding of the Yugoslav form of socialism used to be quite different, especially at the level of discourse (and ideology). The discourse of self-management was for at least 30 years, in a way, domesticated, the population considered it as something already known and domestic. Then, during the transition period the new managerial discourse completely replaced the old one. It seems to us that the new discourse was somehow domesticated, too. The replacement of discourses was not abrupt as in other countries with the Soviet-like system. We could guess that those countries which had not been forced to internalize the self-management discourse adopted and internalized the new discourse somehow more easily than those countries of Central and Eastern Europe, where the state-party discourse was not so deeply accepted. In other words, the changes dealing with transition at the level of understanding were less dramatic and less visible in former Yugoslavia than in other parts of Eastern and Central Europe.

Managerial Discourse in Slovenia in the Period of Transition[4]

Discourse for us is a set of meanings that represent some aspect of the social and political world in a particular way. It is an element of all social processes and as such it may initiate, enable, and influence changes in the social world. We could claim that every reform comes with a new discourse which tries to replace the old one. The greater the reform is – that is, the more aspects of political, economic, and/or social life it incorporates – the greater is the difference between the old and the new discourse.

When Fairclough talks about language in the new capitalism, he claims that language 'is becoming more central and more salient [...] than in earlier forms of capitalism' (Fairclough 2002, 163). He deduces this from

the frequent description of new capitalism as knowledge or information based. It is not just knowledge based, he claims, but also

> [...] discourse led, for knowledges are produced, circulated and consumed as discourses (economic, organizational, managerial, political, educational and so forth). Moreover, discourses are dialectically materialized in the 'hardware' and 'software' of organizations, enacted as ways of acting and interacting, and inculcated (through a variety of processes including, e. g. 'skills training') as ways of being, as identities. [...] So that transformations of organizations (workplaces, universities, local government, etc.) under the pressure of restructuring and re-scaling are partly, and significantly, semiotic and linguistic transformations.

The difference between the socialist (so-called self-management) discourse and the managerial discourse can be illustrated by comparing two texts published two decades apart. The first text is taken from the first 1980 issue of a publication Luški glasnik, and the second from the first 2000 issue of the same journal (the original version in the Slovene language follows in the endnotes).[5]

> (1) This year the working people and members of the community of our republic will have to strive for a consistent stabilization of economic movements and development in general. In particular workers who are directly involved in the international exchange of goods and services will be confronted with additional efforts. [...] The year 1980 brings additional tasks and obligations also to workers of Luka Koper (Port of Koper). We will have to demonstrate exceptional efforts and will have to strive for realization of the tasks and aims agreed. [...] by compiling a sanation programme over the past years we have, with the support of the wider social community, achieved an important economic, political and self-management success. [...] Major success has been achieved in the consolidation of self-managing and mutual relationships, and the affirmation of the role and position of the League of Communists in the process of strengthening security and social self-protection. Undoubtedly, this has been made possible by a successful solution of the key problems regarding social standards, the distribution of personal income and the introduction of a

> new business organization as a starting point for the future self-managing reorganization. [. . .] The defined tasks demand from each worker of Luka Koper a responsible and disciplinary behaviour in the process of the income as well as in the process of deciding about its distribution.
>
> (2) Business excellence as a goal. Last year, as in many years in the past, Luka Koper achieved good business results. The offer of services is accustomed to the needs of users all the time and is being developed in the sense of upgrading the basic port services with the aim of assuring logistic, marketing, investment, financial and commercial assistance. By focusing on customer care we have achieved market success. [. . .]
>
> We are oriented towards quality of services. In order to further adapt our activities to the needs of customers we have decided to upgrade the system of quality by introducing elements of business excellence. Knowledge and technology, upgraded with elements of integral quality, are reflected also in expenditure operations. [. . .]
>
> Development of human resources and modernization. We are aware of the importance of the human factor for the successfulness of the operations, that is why this year's human resource activity will be oriented towards integration of the human resource development system in everyday practice, realization of measures for achieving customer satisfaction, qualification of successful leadership and management teams, and an increase in education levels of employees. Our investments will be oriented towards technological modernization, automatization and informatization of technological processes in accordance with market directions and activities.

In the first paragraph the stress is placed on the role of the worker. The tasks and aims that the workers are supposed to realize are not assigned to the individuals by someone else but are, as explicated, agreed upon. The Worker is the agent; it is implied that he is active and has the power and responsibility to affect and change his social and political environment and not just affect his firm's business successfulness. While in the text from the 1980 the use of the 1st person plural[6] is emphasized, in the text from the year 2000 the use of the 1st person plural is not explicit any more, although we cannot claim it disappeared. The word that has 'dis-

appeared' is the word 'worker'; it has been replaced by the words human resource and employees. The stress is placed upon the customer and the entire firm's effort is directed towards satisfying the customer; nobody talks about changing the whole society any more.

It is not possible to separate managerial discourse from managerial ideology, which legitimizes existing power relations. When we accept things as they are, as taken for granted, then ideology is at work. 'The most effective use of power occurs when those with power are able to get those who have less power to interpret the world from the former's point of view. Power is thus exercised through consent rather than coercion.' (Mumby and Clair 1998, 184). This is recognizable from the next two paragraphs taken from a local newspaper; the article is about unemployment and dismissals in one of the Slovene regions called Slovenska Istra. The journalist includes a few statements by the secretary of the local union:

> Slovene trade unions, which are the first that have to fight for the rights of employees (that is indeed what people expect from them) are of the opinion that the present situation has been caused by insufficient investments. 'Far too many companies are opening new offices in the coastal towns and creating new jobs' comments Euro Brozič, secretary general of the Coastal Trade Union Organization. The blame goes mainly to the government which is not able to create favourable conditions. [...] According to Brozič the worst problem lies in the fiscal policy and in the fact that Slovenia is in general a state full of limitations in all areas.
>
> In the former socialist system the people felt safe. When they got a job, they held it until retirement. Today we live in capitalism, which is inexorable with people who are not prepared to further educate or retrain themselves or even change their job. Brozič is of the opinion that we should also look behind the scene. 'Companies are ruined, but the problem is that there are not enough investments, development plans and projects. Even banks are not able to create a more favourable environment.'[7]

Managerial discourse has found its way through the local workers' organization to legitimize managerialism. The secretary of the union does not doubt in managers or owners of the companies; he joins them in

claiming more freedom from state regulations; and blames the government for the actual situation (job losses). The journalist also takes that point of view when claiming that the capitalist system in which we live today is inexorable mainly towards those individuals, 'who are not prepared to additionally educate or retrain themselves', or even 'change their jobs'. So, we have two possible sources of this unfavourable situation for the workers. One is the state and its rigid regulations, the other the inflexible individual himself. The claims for deregulation and flexible workers sound very managerial-like. In such a way the existing power relations are legitimized.

Managerial discourse also affects everyday life. From the newspapers, magazines, television etc. we get some advice on how to improve the management of our own life, and an insight into skills of self-management:

> Who does not want to know himself better and discover his own talents? We will hardly find anyone who does not wish to develop his personal or work related skills. An old saying states that we learn throughout our whole life. We learn for ourselves, to attain better working and life conditions. It is also true that sometimes, due to circumstances beyond our control, we take wrong decisions that affect our personal and career achievements. We are becoming more and more conscious of the fact that we can change a lot in our life, we just have to discover/identify our objectives. [6]

We are advised to run our own life as if it were a business; to start planning early in life to achieve the goals we want. The importance of lifelong learning is stressed also in the next article where the idea of a kind of index containing all the hobbies, activities etc. of an individual, starting from his early years and the very first hobbies, is suggested (second paragraph):

> Happy and active people restore their energy by studying throughout their whole life, upgrading their knowledge and discovering new spaces [. . .] Our future employer could – from the list of our additional skills and activities – gather if we are dynamic and well-read, if we have some special interests and predispositions that could best suit his/her needs. Different interests make a good impression – they show our innovativeness and readiness to take on new challenges. [9]

Conclusion

It is clear that the language of management has become *the language* (dominant and authoritative language) of postsocialist societies. The more it presents itself as objective and neutral, the more it is ideological and supports managerialism as the new dominant ideology which has replaced the old one, that of self-management. Objectivity and neutrality of managerial discourse is just one of the possible forms of naturalisation; not solely of all relations in the concrete society but above all of the common picture in which everything appears to be natural. It is not accidental that in the last fifteen years the main discursive machinery has been based on the 'argument' of normality, neutrality and naturalness of management (capitalism) and that of not-normality (unnaturalness) of self-management (socialism). In other words, quite an old matrix of theological demonism (based on the distinction between Good and Evil) is again on the ride. At least as far as the managerial discourse is concerned one would say that we have moved from a one-sided (socialist) type of discursive demonism (after 1945) towards another one-sided position within the law of the movement of one and the same pendulum. Everything which used to be positive has now become negative, and vice versa. In that sense managerial discourse is not a neutral tool for communication (among people and organisations) but a symbolical space within which that revolutionary change has taken place. Last but not least: the neutral term transition is in that sense one of the best symptoms of the managerial ideology and its discursive practice.

Notes

1. Speaking about globalization we have in mind mostly a heterogeneous conceptual development of global discourse presented in Kofman and Youngs (2003).
2. The paper is part of a larger research project report currently in progress at the Faculty of Management Koper. The research 'Managerial Discourse: Ideological, Political and Ethical Dimensions' is a combination of field work (approximately 100 structured interviews) and theoretical investigations. It should be accomplished in 2007.
3. Managerialism is a term that was coined at the beginning of the 1990s mainly within the conceptual debates in the US and British academia and some sub-academic research circles. One of the best conceptualizations of managerialism can be found in Entemann 1993. Some authors operate within the conceptual framework of the so-called managerial revolution. Parts of the debate dealing with managerial rev-

olution can be found in Koch 1998 (jobs, wealth and happiness aspects), Hammer and Champy 2001 (company and corporation aspects), Chandler 2002 (historical aspects of the USA), Brown 2001 (aspects of marketing), Shenhav 2002 (philosophical and theoretical aspects) etc. To a certain degree the debate and researches about managerialism are still within the larger context of influence being put forward by P. F. Drucker's search for new definitions in his Post-capitalist society (Drucker 1993).

4. We are not, of course, equalizing globalization with transition, but simultaneously we would not like to offer a kind of 'radical difference' between the two being based on schematisation. The problem we are facing here is a highly complex and extremely important one. To put it in simplified form, transition ought to be the kind of 'neutral' (an sich, apriori in the Kantian sense) time/period in which 'something' is changing itself into something else than it used to be. However, that is just one side of the rather complicated matrix. There is at least one important aspect we would like to emphasize in this connection. The main context we are living in and writing from is something which is usually termed as 'transition'. It is a more or less ideological designation, since it is functioning mainly in the sense of the so-called neutral 'objective term' (in the Weberian sense). The transition grasped in that highly ideological meaning is, at the level of pure appearance, functioning as something objective. In that sense 'something' ought to be in the process of transition from 'something' to 'something else', to 'something different'. For example, from 'socialism' to 'capitalism', from 'totalitarianism' to 'democracy', or from 'non-market' to 'market economy'. Actually this is not the case, or better, this is just one, visible, but less important side of the coin! Since, and that is the main problem, globalization is not something 'out there', is not 'the thing' at the end of 'the story', but globalization is – as well as transition – a process itself. To put it differently, there is another side of the coin, that much less visible (but more important one) in connection with the so-called transition. Namely, the very process of transition is already the process of globalization. Globalization is putting itself into function in the very process of transition and not only at its presupposed end. Observing just from the static, 'analytical' (including ideological) point of view, globalization and transition are definitely not the same. Simultaneously, observing the 'same thing' from the point of view of the process, of its dynamical side, they are at least 'going together' – if not even behaving as one and the same process.
5. *Luški glasnik* is the internal publication of the organization Luka Koper (Port of Koper). The original version of the two texts in the Slovene language follows.

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(1) Letošnje leto bo pomenilo za delovne ljudi in občane naše republike leto izjemnih naporov za dosledno stabilizacijo gospodarskih gibanj in razvoja na sploh. Še posebej bomo soočeni z dodatnimi napori vsi delavci, ki s svojimi proizvodi in storitvami neposredno sodelujemo v mednarodni menjavi blaga in storitev. [...] Delavci Luke stopamo v leto 1980 še z dodatnimi obveznostmi in nalogami, ki bodo od vseh zahtevale izjemne napore in dosledno borbo za uresničitev dogovorjenih nalog in ciljev. [...] v preteklih letih izvajanja sanacijskega programa smo ob podpori širše družbene skupnosti dosegli pomembne gospodarske, politične in samoupravne uspehe. [...] Najbolj pomembne uspehe smo dosegli na področju utrjevanja samoupravnih in medsebojnih odnosov pri uveljavljanju vloge in položaja ZK pri utrjevanju varnosti in družbene samozaščite. Brez dvoma je k temu pripomoglo uspešno razreševanje ključnih vprašanj družbenega standarda, sistema delitve osebnih dohodkov in uvajanja nove poslovne organiziranosti kot izhodišča za bodočo samoupravno reorganiziranost. [...] Opredeljene naloge zahtevajo od slehernega delavca Luke odgovorno in disciplinirano obnašanje tako v procesu dohodka kakor tudi pri odločanju o njegovi delitvi.

(2) Poslovna odličnost kot cilj – lansko leto je Luka Koper končala, tako kot vrsto zadnjih let, z dobrimi poslovnimi rezultati. Ves čas ponudbo storitev prilagajamo razvoju potreb uporabnikov in jo razvijamo v smeri nadgrajevanja osnovnih pristaniških storitev z zagotavljanjem logistične, marketinške, investicijske, finančne in trgovinske podpore. Rezultat skrbi za zadovoljstvo kupcev so tržni uspehi. [...]

Temelj je kakovost storitev. Kakovost storitev je ena naših temeljnih usmeritev. Da bi naše dejavnosti še bolj prilagodili zahtevam strank, smo se odločili za nadgrajevanje sistema kakovosti z vpeljavo elementov poslovne odličnosti. Znanje in tehnologija, nadgrajena z elementi celovite kakovosti, se odražata tudi na stroškovnem poslovanju. [...]

Razvoj kadrov in posodobitve. Zavedamo se pomena človeškega dejavnika za uspešnost poslovanja, zato bo kadrovska dejavnost letos usmerjena v integracijo sistema razvoja kadrov v vsakodnevno prakso, uresničitev ukrepov za doseganje ciljev zadovoljstva zaposlenih, usposobitev uspešnih vodilnih in vodstvenih timov in izboljševanje izobrazbene strukture zaposlenih. Skladno s tržnimi usmeritvami in aktivnostmi bodo naložbe usmerjene v tehnološko posodabljanje, avtomatizacijo in informatizacijo tehnoloških postopkov.

6. In the Slovene language the person can be expressed by a pronoun and also by the verb conjugation.
7. Slovenski sindikati, ki so med prvimi, ki se morajo boriti za pravice zaposlenih (kar od njih ljudje tudi pričakujejo), menijo, da je za nastali položaj krivo premalo investicij. »Pri nas se odpira premalo

novih podjetij, ki bi ustvarjala nova delovna mesta,« komentira generalni sekretar Obalne sindikalne organizacije (OSO) Euro Brozič. In za to je kriva predvsem vlada, ki ne ustvari ugodnih pogojev. [. . .] Najhujši problem pa je po Brozičevih besedah davčna politika in to, da smo že na splošno država, polna omejitev na vseh področjih.
Ljudje so se v nekdanjem socialističnem sistemu počutili varno. Ko so dobili službo, so jo ponavadi obdržali do odhoda v pokoj. Danes pa živimo v kapitalizmu, ki je neizprosen predvsem do tistih, ki se niso pripravljeni dodatno izobraževati, prekvalificirati ali pa menjati služb. A pogledati je treba tudi v zakulisje sistema, poudarja Brozič. »Družbe propadajo, a problem je, da ni dovolj investicij, razvojnih načrtov in projektov. Ugodnega okolja za to ne pomagajo ustvarjati niti banke.«

8. This is an advertisement for Zavod za alternativno izobraževanje. The original version:
Kdo se ne bi želel bolje spoznati in odkriti lastnih skritih talentov? Verjetno bi med nami težko našli posameznika, kaj bi v svojem življenju še lahko učinkovito razvijal na osebnem ali poslovnem področju. Star pregovor pravi, da se učimo celo življenje, in učimo se zase, da bi dosegali kvalitetnejše pogoje za življenje in delo. Res pa je tudi, da nas včasih splet okoliščin pripelje do napačnih odločitev, ki so največkrat povezane s kariernimi in osebnimi dosežki. Vedno bolj pa smo osveščeni, da lahko v svojem življenju še marsikaj spremenimo, če le prepoznamo svoj cilj.
9. It is a part of a newspaper article Živiš, dokler se učiš, by Sonja Grizila (*Jana,* 6th September 2005, 37–38). The original version follows:
Zadovoljni in dejavni ljudje obnavljajo svojo energijo tako, da se vse življenje učijo, dopolnjujejo prejšnje znanje in odkrivajo nova vesolja. [. . .] Bodoči delodajalec bi iz spiska dodatnih znanj in dejavnosti lahko razbral, kaj nas zanima, smo dovolj dinamični in razgledani za želeno službo, imamo morda kakšna posebna nagnjenja, ki bi bila zanjo koristna, predvsem pa naredijo številna različna zanimanja dober vtis: kažejo, da smo najbrž inovativni in se ne ustrašimo novih izzivov.

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EU *Integration Process: Will Turkey Overcome the* FDI *Obstacles?*

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This paper analyses Turkey's performance in attracting foreign direct investment (FDI) and highlights the key obstacles for FDI in Turkey. When compared with its main competitor countries, which includes the group of new EU member states and other candidate countries, it can be concluded that Turkey has a very low rate of FDI inflow. It can be argued that one of the major problems behind the low performance in FDI inflows is macroeconomic instability. In this paper we will also perform an empirical analysis to examine the relationship between FDIs and macroeconomic instability in the EU new member states and the candidate countries. According to the regression results, it was found that the GDP and openness have positive effects on the FDI, whereas current account balance and inflation have been found to be negative. On the other hand, the results related to external debt run opposite to our expectations.

Key Words: foreign direct investment, EU integration, determinants of FDI, panel data analysis, EU candidate countries
JEL *Classification:* F15, F21, C33

Introduction

Membership of the European Union (EU) is vital not only for accessing to the single market of the EU, but also having access to the structural funds of Europe, not forgetting economic growth and political stability. To start with, EU integration processes are likely to have primarily been of political nature. Also, membership criteria require that the candidate country must have achieved a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union (European Council 1993).

Empirical studies illustrate that many of the individual institutional reforms required for EU accession have influenced FDI receipts positively.

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Managing Global Transitions 4 (2): 115–128

Therefore, membership in the EU makes a country more attractive for FDI than other countries (Bevan-Estrin and Grabbe 2001).

In May 2004, the EU expanded from fifteen to twenty-five member states. Eight countries from Central and Eastern Europe – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia – together with the Mediterranean islands of Malta and Cyprus joined the EU. Bulgaria, Romania, Croatia and Turkey are the candidate countries.

This paper analyses Turkey's performance in attracting FDI and highlights the key obstacles for FDI in Turkey. It can be argued that one of the major problems behind the low performance in FDI inflows is macroeconomic instability. In this paper we will also perform an empirical analysis to examine the relationship between FDIs and macroeconomic instability in the EU new member states (from Central and Eastern Europe) and the candidate countries. Malta and Cyprus are excluded from the analysis due to the lack of data availability.

The paper will focus on three main sections. The first section clarifies determinants of FDI and effects of EU integration process on FDI inflows. The second section compares FDI in Turkey with the new member states of the EU and other candidate countries. In the third section the relations between FDI and macroeconomic instabilities in the new member states and candidates are empirically analyzed by using panel data regression.

Determinants of FDI and the EU Integration Process

There are a number of policies and perspectives developed to illustrate the level and structure of FDIs. These policies will be grouped under three headings in this study: overall economic policies, national FDI policies and international FDI policies. Even though there are various factors affecting the FDIs, it can be claimed that among other factors, the most underlying feature is the economic structure of a country. The policies aiming to strengthen the macroeconomic structure will highly influence the FDI. These policies could be related to market size, to the cost of investments, to the policies of openness, to the economic and political stability and to the financial health. Primarily, in developing countries, the market size is an important factor to attract FDI. The economic variables such as population, GDP, GDP per capita and GDP growth rate can be used in identifying the market size. Also, another factor which may affect FDI, is the cost of investment. Some of the other important determinants for FDI are the economic, political and financial stabilities. At

this point, the most important variables for the stability should be clarified, namely, the exchange rates, inflation rate, current account deficit, budget deficit and external debts. Another important determinant that can be evaluated within the overall economic policies is the openness of a country. It can be claimed that a country can attract more FDI if the ratio of foreign trade to the GDP increases (Basar and Tosunoglu 2005).

National FDI policies related with FDI are important to attract foreign capital to the country. Consequently, governments have gradually started to eliminate the barriers which prevent investments and have designed general investment climates. The FDI incentives used to attract FDI in developing countries can be analyzed in three groups (Sass 2003). The first group is fiscal incentives, which consequently reduces the tax burden of investors. The main components of fiscal incentives are: tax credit, tax relief, tax rebate, exemption from custom duty, reduction of tax base, VAT exemption, accelerated depreciation, reinvestment allowance, tax holiday and loss accrual. The second group is financial incentives given directly to investors. These are soft loans, grants, sovereign guarantee on investment credits, exports guarantee, insurance and credit, subsidized funding for various purposes. The other incentives include preferential government contracts, real estate supplied below market price, promotion of institutional investment, small and medium size enterprises (SME) development programs, customs free areas, special economic zones and industrial parks. Beside traditional economic determinants, the literature suggests that other factors, namely international FDI policies may be equally important. In the 1990s, the globalization trends throughout the world witnessed great changes in the strategies and policies applied in the countries in which FDIs were carried out (Banga 2003).

In the globalization process, in addition to all macroeconomic determinants, regional integrations have provided great contributions to the FDI inflows. In this context, there have been unexpected and remarkable developments in FDI in recent years. Increasing competition among developing countries to draw foreign investors and reducing bureaucratic procedures preventing significant foreign investments have had important effects upon these developments. Moreover, the developments mentioned above have increased the numbers of both bilateral and regional agreements (Banga 2003). Regional economic integration has been one of the most significant changes in the international business environments during the past two decades. International economic integration

accelerates the free movement of created production factors across national boundaries and makes a theory of international trade based on immobile factors irrelevant. The static and dynamic effects of economic integration modify world production by providing new opportunities to multinational enterprises (Kim 2003).

In succession with these improvements, membership of the EU has remarkable effects for the FDIs. EU enlargement offers some major openings into new export and financial markets. The accession into the EU could be seen as a process during which the barriers to exchange of goods, services and factors of production between the EU and the candidate countries are removed and common policy principles and norms of behaviour are adopted (Vilpišauskas 2002). The removal of barriers to trade results in an increased access to the new markets. Consequently it creates new opportunities for companies to expand their activities beyond the national borders and provides consumers with a wider range and a better quality of products and services. It also creates conditions for the growth of competition. The present trading arrangements between the EU and the candidates already guarantee tariff-free trade for most industrial products. Tariff reduction can produce economic benefits through increased trade, the reduction of distortions in the economy, and less bureaucracy and form-filling.

The analysis of economic impacts of the EU single market has shown that this integration process has led to a medium and long-term increase of growth rates in the participating economies. This above average growth makes the total region more attractive, not only for domestic investors but also for foreign ones (Zakharov and Kušić 2003).

Notably, after the foundation of the EU, a considerable increase of intra and inter-regional FDI flows was observed among the member countries. Ireland experienced a real FDI boom after its EU accession in the year 1973. Another success story is the accession of Spain and Portugal to the EU in 1986. Indeed, after their accession to the EU, Spain and Portugal experienced large inflows of FDI. The respective shares of FDI in GDP rose from 1.1 percent and 0.8 percent in 1981–1985 to 2.1 and 2.9 percent over 1988–1992 (Kaminski 2000).

Also, commitments to EU access can increase the level of FDI, thereby improving national economic performance. In contrast, countries excluded from the EU, typically because of poor progress in the adoption period will receive lower levels of FDI because their country credit ratings tend to be poor (Bevan and Estrin 2000). In the accession process,

EU pre-accession funds offer real commercial opportunities for candidate countries. Since membership in the Single Market is likely to generate additional economic benefits for the candidate countries, from the candidate countries point of view it would be rational to extend transition periods to the adoption of EU acquis, which requires significant investments. In other words, the enlargement is somewhat based on a consistently applied rule which states that the candidate countries have to transpose and enforce the norms and principles which are applied in the EU.

Accession of candidate countries also includes the alignment of external trade regime (including the adoption of the EU common external tariff), the adoption of product and process standards (ranging from quality standards of toys, pharmaceuticals, electronic equipment, etc. to safety at work and environmental norms), and application of other EU common policies (common agricultural policy, transport policy, regional policy, etc.). The effects of adopting these measures on the economies of candidate countries depend on the nature and degree of adjustments to the acquis as well as the level of integration already achieved (Vilpišauskas 2002).

The candidate countries have also already started to adopt harmonised European standards and recognised accreditation systems for certification and testing bodies. This should help eliminate the difficulties sometimes faced by those trying to sell their products to these states. In addition to these, liberalisation of services, such as energy and telecoms, should provide new opportunities in previously inaccessible market sectors.

The FDI Performance of Turkey and a Comparison with EU New Member States and the Candidate Countries

Turkey is the largest economy in Eastern Europe, the Balkans, the Black Sea basin and the Middle East and also one of the sixth biggest trading partners of the EU (Loewndahl and Loewndahl 2001). However, when compared with its main competitor countries, which includes the group of EU new member states and other candidate countries, it can be concluded that Turkey has a very low rate of FDI inflow. Table 1 indicates that Turkey's FDI inflows of $636 million in 1993 increased to $940 million in 1998 and amounted to $3,265 million in 2001. It can be stated that the FDI inflows between 1993 and 2000 were stable. However, the economic crisis experienced in 2001 caused a significant FDI decline in 2002. After

TABLE 1 Net FDI Inflows (current million US dollars), 1993–2003

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Czech Republic	654	878	2,567	1,435	1,286	3,700	6,312	4,987	5,640	8,496	2,514
Estonia	162	214	201	150	266	580	305	387	542	284	890
Hungary	2,349	1,144	4,878	2,362	2,223	2,084	2,019	1,694	2,594	2,862	2,506
Latvia	45	214	179	381	521	356	347	410	163	253	299
Lithuania	30	31	72	152	354	925	486	378	445	712	179
Poland	1,715	1,875	3,659	4,497	4,908	6,365	7,270	9,340	5,712	4,131	4,123
Slovak Republic	198	269	236	350	173	562	354	1,925	1,584	4,123	571
Slovenia	112	116	150	173	334	215	106	135	503	1,686	337
Turkey	636	608	885	722	805	940	783	982	3,265	1,038	1,562
Bulgaria	40	105	90	109	504	537	818	1,001	812	904	1,419
Croatia	120	116	114	510	532	932	1,467	1,089	1,558	1,123	1,998
Romania	94	341	419	263	1,215	2,031	1,041	1,037	1,156	1,144	1,844

Source: World Development Indicators (www.worldbank.org).

the 2001 crisis, the amount of FDI decreased to $1,038 million in 2002. It is worth noting that at the same period, Poland, the Czech Republic and Hungary proved to be the top three beneficiaries for inward FDI.

FDI inflows to EU new member states declined from a record $26 billion in 2002, to a low of $18 billion in 2003. This was almost entirely due to the end of privatization in the Czech Republic and Slovakia. In the rest of the other countries, the decline in FDI inflows was small (UNCTAD 2004). If we compare the amount of FDI inflows to Turkey with these countries, the FDI inflows to Poland are 4.3 higher, Hungary 2.1 and Czech Republic 3.1 higher than those to Turkey. On the other hand, when compared with the other candidates, the picture is different. The amount of FDI inflows to Turkey is the same as for Croatia and Romania and two times higher than for Bulgaria. To clarify this state of affairs, it will be helpful to bring out the economic structures of the new member states, Turkey and other candidates.

When taken into consideration the overall economic policies, Turkey has many advantages in its evaluation. Firstly, compared with other countries, Turkey has advantages from the characteristics of GDP and the growth rate of GDP that are reflected as indicators of the market size. During the period of 1990–2003, the growth rate has shown a trend of

TABLE 2 Key Economic Indicators, 2003

Country	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Czech Republic	89,715	3	8,855	0	34,629	–11.7	–5,660	1.2828
Estonia	9,082	5	6,693	1	6,972	3.1	–1,199	1.59
Hungary	82,731	3	8,398	5	45,784	–6.2	–7,210	1.2809
Latvia	11,072	7	4,716	3	8,802	–1.5	–916	0.9751
Lithuania	18,215	9	5,308	–1	8,342	–1.9	–1,278	1.11
Poland	209,562	4	5,400	1	95,219	–4.5	–4,599	0.7137
Slovak Republic	32,518	4	6,048	9	18,378	–3.7	–281	1.56
Slovenia	27,748	3	13,937	6	11,512	–2	–98	1.13
Turkey	240,375	6	3,452	25	145,662	–9.7	–7,905	0.5994
Bulgaria	19,860	4	2,550	2	13,288	–0.4	–1,675	1.1629
Croatia	28,797	4	6,403	0	23,451	-4.6	-2,066	1.12
Romania	56,951	5	2,570	15	21,280	-2	-3,311	0.8035

Column headings as follows: (1) GDP (current million US dollars); (2) GDP annual growth; (3) GDP per capita (US dollars); (4) inflation (%); (5) external debt total (current million US dollars); (6) budget balance (as percentage of GDP); (7) current account (current US million dollars); (8) openness (imp. + exp./GDP).
Source: World Development Indicators (www.worldbank.org) and IMF International Financial Statistics (ifs.apdi.net).

increase with the exception of some years. Therefore, it can be claimed that, ideally, Turkey should draw more FDIs. Although it is not emphasized in the table, Turkey has many other advantages. These can be listed as follows: being located in a strategic location, having an educated, qualified and young work force, having communication and other infrastructures that are needed to meet the needs of investors, and having a lower labor cost. It has to be emphasised that population and workforce are the main advantages of Turkey from the respect of attracting the FDIs. By 2015, Turkey's population is projected to stabilize at the level of approximately 80 million and the size of the adult population – in other words, the potential active labor force is – projected to increase at a constant rate over the next two decades in contrast to the EU countries and the candidates. Furthermore, Turkey has a liberal legal framework tied to the FDI since 1954. However, there are some disadvantages in the Turkish economy. Firstly, for the last twenty years, the Turkish economy has been suffering from a high inflationary environment (Yilmaz 2003). Even though various governments in office have tried to apply policies

to decrease the rate of inflation, the rate of inflation is still higher than in other countries. Secondly, the amount of Turkey's external debts is another crucial problem. Indeed, the rate of the external debts to the GDP is about 60%. According to the optimistic forecast of the Undersecretariat of the Turkish Treasury, it will decrease to 50% in 2008 (Undersecretariat of Turkish Treasury 2004). The amount of the external debts is about $145 billion and this prevents a decrease in the real interest rates to the desired levels. Henceforth it increases the country risk. In addition, high amounts of interest payments, inefficient tax collection, deficits in social security systems, insufficient privatization efforts, the problems of the public sector enterprises and uncontrolled expenditures are all causing budgetary deficits.

Besides all these macroeconomic instabilities, the political instability can also be a key obstacle. There have been several elections in the last 15 years which have caused jitters on the economy. It has to be noted that the frequently changing governments have given their priorities to short-run political benefits and in the long-run have not been sensitive to the economic problems. Table 3 demonstrates Turkey's locational advantages and disadvantages for FDI.

As indicated in table 3, the macroeconomic and political instabilities are the major obstacles of low volume of FDI in Turkey. If Turkey can manage to eliminate macroeconomic and politic instabilities, it stands to reason that it should attract more FDI. In this context, first of all, in Turkey it is necessary to control public debts; to decrease the rate of inflation and to provide macroeconomic stability. To achieve all these positive conditions financial discipline should be ensured.

Turkey is a candidate country. It is clear that being a candidate makes Turkey attractive for FDIs because when compared with its European competitors, Turkey has many advantages. Its full membership depends on its adaptation to all the norm and standards of the EU. Being part of the EU will make Turkey attractive to the FDI.

It has to be reminded that the FDI inflows are closely related to the business environment, tax policies of the state, property rights, sectoral license, customs and standards. In this context, the legal adjustments improving the investment environment related to all these factors mentioned should be harmonised. Also, these adjustments will help not only in compliance with EU acquis, but also to develop a more competitive investment environment for Turkey (Dutz-Us and Yilmaz 2003).

Since 2001, Turkey has realized important structural reforms to sustain

TABLE 3 Turkey's advantages and disadvantages for FDI

Key Location Factors	Competitive Position
Economic size	Strong
Economic growth	Strong
Population size	Strong
Per capita incomes	Medium
Labor costs	Strong
Regional integration zone	Strong
Labor skills and supply	Strong
R&D and innovation based	Weak
Telecommunications & internet infrastructure	Medium
FDI legislation	Strong
Facilitation process	Medium
Political commitment	Weak
Incentives	Strong
Investment promotion	Weak
Economic instability	Weak
Policy certainty	Weak
Political interference, bureaucracy, and corruption	Weak

Source: Loewndahl and Loewendahl 2001.

the economic growth, to improve the investment environment and to attract more FDI inflows. Undoubtedly, the most significant is the Law on Foreign Direct Investment (no. 4875), which was enacted in 2003. This new Law on FDI was designed to reflect the Turkish liberal approach (see http://www.treasuary.gov.tr). It constitutes the legal infrastructure of FDI. However, it is too early to evaluate the influences of the law on FDI level. It is expected that the law will positively contribute to the FDI inflows. These adaptations aiming to improve the investment environment should be strictly sustained. These continuing efforts are also vital for full membership of Turkey in the EU.

Methodology

Using panel data regression analysis, this paper explores whether or not the macroeconomic determinants of FDI affect FDI inflows in the EU new member states and candidate countries. The study will also help to determine the policies that can be employed for increasing the amount

of FDI inflows for the candidate states. As mentioned previously, there are many factors affecting FDI. In this study, FDI inflows are analyzed by using five important variables. The independent variables used to explain FDI read as follows: the rate of inflation (INF), external debt/GDP (EXTD), the current account balance/GDP (CAB), import+export/GDP (openness) and GDP. It is expected that the GDP and openness are positively correlated with FDI inflows; however, INF, EXTD and CAB that are the components of the country risk, are expected to be negatively correlated with FDI.

SOURCES AND DESCRIPTION OF DATA

The data source for the dependent variable is the World Development Indicators (WDI) published by the World Bank. The independent variables were obtained from WDI, EUROSTAT and IMF, International Financial Statistics. The models are estimated by using STATA statistical software. The panel data set used in this study consists of twelve countries. The data collected were limited to the year of 1993–2003, due to the data availability problem.

MODEL AND ESTIMATIONS

In the panel data regression analysis, two panel analytical models, Fixed Effects Model (FEM) and Random Effects Model, can be used. In some cases, FEM can produce significantly different results than REM. The Hausman test is applied to assess whether FEM or REM is more appropriate in the panel data regression model (Chan and Gemayel 2003). In this study, the Hausman test was applied and, according to it, the FEM was preferred to the REM.

In this study, we estimate fixed effects regressions with a data set from eight new member states and four candidate countries. In our model, FDI and GDP are measured in logarithmic form. In addition to this, EXTD and CAB included in the model by using one period lagged values in order to avoid endogeneity problems. Table 4 shows the estimated results obtained by using panel data between 1993 and 2003.

According to the panel data regression results, it is worth noting that GDP and openness are significant and positive correlated with FDI in all models. The results of model A illustrate that the coefficient of GDP and openness are positive and significant at 1% level, confirming the market size positevely correlated with FDI. The results did not differ from what was expected. Also, in the results of our analysis, the coefficient of the in-

TABLE 4 Determinants of FDI inflows, 1993–2003 (LSDV model, dependent variable is ln FDI)

	Model A		Model B		Model C		Model D	
GDP	1.4813$^{\alpha}$	[0.3405]	1.0861$^{\alpha}$	[0.3598]	0.8952$^{\beta}$	[0.3860]	1.1024$^{\alpha}$	[0.3445]
Inflation	−0.0006	[0.0004]	−0.0001	[0.0007]	−0.0003	[0.0007]	0.0000	[0.0007]
Openness	1.1274$^{\alpha}$	[0.4264]			1.1261$^{\beta}$	[0.4980]	1.0238$^{\beta}$	[0.4858]
Ext. debt /GDP_{t-1}			0.9726$^{\gamma}$	[0.5364]	1.1465$^{\beta}$	[0.5171]		
CAB/GDP_{t-1}			−3.2336$^{\gamma}$	[1.8569]			−3.993$^{\beta}$	[1.7340]
Bulgaria	0.0158	[0.3624]	0.2465	[0.3755]	0.6123	[0.4443]	−0.008	[0.3543]
Croatia	0.0109	[0.3462]	0.3645	[0.4745]	0.7123	[0.4773]	−0.005	[0.3453]
Czech Republic	−0.3954	[0.5952]	0.7462	[0.7974]	1.0157	[0.8156]	0.0732	[0.5906]
Estonia	0.7255	[0.4987]	1.0816$^{\beta}$	[0.4612]	0.6531	[0.5577]	0.1244	[0.5263]
Hungary	−0.2621	[0.5341]	0.309	[0.6486]	0.6481	[0.6635]	−0.105	[0.5241]
Latvia	0.7328$^{\beta}$	[0.3679]	0.7431$^{\gamma}$	[0.4069]	0.9017$^{\beta}$	[0.3978]	0.4196	[0.3688]
Lithuania	−0.1307	[0.3110]	0.1529	[0.4532]	0.418	[0.4213]	−0.3955	[0.3194]
Poland	−0.64	[1.0010]	0.1509	[1.0968]	1.303	[1.2325]	0.1212	[1.0238]
Romania	−0.4367	[0.5701]	0.0618	[0.7070]	0.9347	[0.7688]	−0.1601	[0.5750]
Slovak Republic	−0.585$^{\gamma}$	[0.3421]	−0.0684	[0.4739]	0.0903	[0.4759]	−0.736$^{\beta}$	[0.3367]
Slovenia	−1.1547$^{\alpha}$	[0.3244]	−0.3042	[0.5222]	−0.2681	[0.5309]	−0.966$^{\alpha}$	[0.3366]
Turkey	−2.3234$^{\beta}$	[1.0733]	−1.5915	[1.0920]	−0.4842	[1.2473]	−1.4244	[1.0829]
Constant	−15.918$^{\beta}$	[7.7331]	−6.3551	[8.1744]	−3.1775	[8.6413]	−6.9973	[7.8315]
Observations	128		117		118		117	
R^2	0.733		0.745		0.736		0.748	
Adj. R^2	0.7		0.707		0.698		0.71	
F-stat.	22.164		19.666		18.99		19.958	

Notes: α significant at 1%, β significant at 5%, γ significant at 10%; standard errors in brackets.

flation was calculated negatively but it is too small and insignificant. This result can be explained by the multiplicity of the extreme data related to the inflation rates in the countries included in the survey.

In the second stage, we include EXTD and CAB variables which indicate the country risk to the model. The results of model B illustrate that the coefficient of GDP is positive and it is significant at 1% level. On the

other hand, the result of EXTD runs opposite to our expectations. The positive relation between EXTD and FDI was an unexpected result. This could be explained by the accounting relation current account balance and external debt in the balance of payments. Another reason for this is that the integration efforts of countries to join the EU have a positive impact on FDI. Despite the fact that the amount of EXTD is increasing, the integration process reduces the country risk and this fact can affect the FDI positively. Moreover it was found that there is a negative relation between CAB and FDI. This result is parallel to what was expected. In the third stage, EXTD and CAB were included separately to the model because of the accounting relation (model C and model D) and we found the coefficients of these variables are significant at 5% level.

Finally, we examined the effects on countries by using EU membership dummies; it was concluded that the coefficients are not significant in general, except in the Slovak Republic, Slovenia and Latvia. We found the coefficients of Latvia to be positive and significant in three models (model A, model B, model C), illustrating that Latvia FDI inflows are greater than would be expected. On the other hand, when we looked at the results related to Slovenia and Slovak Republic in two of four models (model A and model D), the coefficients are significant and negative. We can say that these countries draw less FDI than expected. Similarly, Turkey draws less FDI than expected according to the results of model A.

Conclusion

FDI can have strong and positive effects for national economies. There are a number of policies and perspectives developed to enhance the level and structure of FDIs. Even though there are various factors affecting the FDIs, it can be claimed that the economic structure of the countries is the most important and foreseen factor. However, in the globalization process, in addition to all macroeconomic determinants, regional integrations have provided great contributions to the FDI inflows. Under these circumstances, membership of the EU has a remarkable influence on the FDIs. Therefore, membership of the EU is vital for access to European single markets, access to European structural funds, and improvement of economic growth and political stability.

The panel data regression analysis presented in this study has shown the key determinants of FDI inflows to the EU new member states and the candidate countries. In this paper, we have found that the GDP and openness have a positive effect on FDI, whereas current account balance

and inflation have been found to be negative. On the other hand, the results related with external debt run opposite to our expectations.

Of our EU membership dummies, we found that only the Latvia coefficient is positive and significant in three models, illustrating that Latvia FDI inflows are greater than would have been expected. On the other hand, we found Slovenia, Slovak Republic and Turkey's coefficients are significant and negative. We can easily say that these countries draw less FDI than expected.

Indeed, Turkey as a candidate country has better conditions from the respects of GDP and the GDP growth rate when compared with its European competitors. However, in Turkey, there are serious obstacles preventing the FDI inflows to Turkey, significantly high rates of inflation, external debts and current account deficits. This study shows clearly how crucial the macroeconomic instability is in attracting or deterring the FDI. For this reason, candidate countries, and Turkey in particular, need to implement some policy measures in order to attract FDI. To do so, firstly, the economic obstacles that seem to prevent full membership of the EU should be developed. Moreover the political determination on this issue should be sustained. Finally, Turkey must eliminate macroeconomic and political instabilities.

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Economic Efficiency in Transition: The Case of Ukraine

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Although a market economy is by definition more effective than a centrally planned economy, various countries in transition have faced the problem of economic inefficiency. The aim of this paper is to develop a comprehensive measure of economic efficiency using the production function framework and estimate it for the Ukraine economy. There exist namely a vast amount of indicators that support our hypothesis on the diminishing efficiency of the Ukraine economy in the last years. Our in-depth analysis shows that the diminishing efficiency is a consequence of ineffective investments and innovations as well as of an increasing intensity of materials use.

Key Words: economic efficiency, productivity, factors, labour, capital
JEL *Classification:* 047, C3

Introduction

The transition from an administrative-command economy to a market economy raises many theoretical problems unknown earlier, since this transition is an absolutely new historical process. And one of the key problems of the former administrative-command economy that consequently led to transition was the declining economic efficiency of these economies.

The centrally planned economy practically divested itself of scientific and technological progress, thereby there were no effective motives for progress at a workman and enterprise level. Especially this concerned the industries that produced goods aimed for final consumption, such as agricultural and food-producing industries. The administrative-command economy was based on bulky and planned distribution of scare resources characterized by: domination of heavy industry and the defense establishment, with inability to respond dynamically and adequately to consumer needs, slow-moving production apparatus and constantly accumulated pervasive disproportions in production. Besides, inactivity of the economy was accompanied by professional inactivity of

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the labour force, and the essential system of employees dismissal, retraining and reeducation could not be built. Increasing crisis in the socialist economies was not accompanied by liquidation of low-effective and obsolete enterprises, there was no flow of capital towards more effective industries, and enterprises didn't create motives for renovation of production as is usually the case in developed market economies. In the centrally planned economy in comparison with the market economy the lesser part of GDP was directed to personal consumption and the vast amount was addressed to social objects.

Thereby the administrative-command system was not able to provide high economic and social efficiency of the economy in comparison with a market one. Therefore the transition process to a market economy model in terms of efficiency of the economy could be considered as an advanced process.

At the same time, transition to market economy was accompanied by a drop in efficiency indicators practically in all cases. Among the specialties of that decline one may accentuate following major ones:

1. change in labour productivity is inevitable under structural transformation, liquidation of inefficient manufacturing, creation and increase of apparent unemployment, changes in social needs in goods and services;
2. growth of energy and material intensity of the economy by reason of cancellation of government subsidies and price liberalization;
3. growth of social inequality by reason of cancellation of many state social guarantees and increase of capitalization of the economy.

However, while in countries implementing radical market reforms (Poland, Slovenia, Hungary etc.) this decline was uncontinuous (2–3 years) and then came hasty and persistent growth, there were fluctuations of labour productivity dynamics in countries with gradual reform (Bulgaria, Romania) or continued decline in countries with inconsistent reform (Russia, Ukraine etc.).

The most pervasive and durable bust of economic efficiency was observed in Ukraine where during the first 9 years of transition the labour productivity declined twice as much. Despite the certain success of that country during the last few years in economic growth, monetary and currency stability, expansion of external trade and investments, increase of household incomes and savings, there are a lot of factors that restrain high-efficient growth of the Ukrainian economy and constrain the level

and rate of that growth. This paper is dedicated to analyses of those factors and to the estimation of the actual level and dynamics of economic efficiency of the Ukraine economy.

Definitions and Methodology

There exist different definitions of economic efficiency and frameworks for estimation of its basic indexes. The most common are described below.

Economical efficiency was defined by the Italian scientist V. Pareto as a state when the needs of all society members are satisfied as fully as possible, with given limited resources (Kuznetsova and Osadchaya 1993). That state is called Pareto efficiency or Pareto optimality. According to Pareto theory resources allocation in perfect competition conditions is effective. In perfect competition economy all benefits are produced (production efficiency) and allocated (consumption efficiency) effectively. Besides, the combination of produced benefits cannot be changed for improvement of consumer positions (exchange efficiency) (Vidyapin 1999).

However the economy that according to Pareto is effective isn't socially effective, whereas an optimal resources allocation leads to formation of social inequality and, in order to smooth it, the social economic policy of the government is engaged. Therefore the Pareto efficiency conception cannot be applied to the majority of factual situations where political arrangements improve the estate of one group of people at the expense of another.

Moreover, according to Pareto, the motion from state monopoly to free competition during the transition process means a gain of economic efficiency. It was immidiately noticed in the introduction that this process is accompanied by a drop in economic efficiency in the majority of transition countries. So it refutes Pareto's conception of transition economy.

When speaking about economic efficiency one should emphasize also the analytical conception of operational efficiency developed by Farrell (1957) that divides economic efficiency into technical and allocative components (multipliers). Technical production efficiency reflects an ability to derive a maximal output from a given set of the factors of production. Allocative efficiency (efficiency of allocation or 'Pareto efficiency') reflects an ability to use resources in optimal combination considering their relative cost and applied production technology. The economy may be called technically inefficient if it uses overmuch resources to produce

output goods. In terms of allocation, the economy is inefficient if it uses a nonoptimal combination of resources to produce output goods.

The following definition of economic efficiency was used as the basis for given research. Economic efficiency is obtaining the maximum output under minimum production factors input. It defines efficiency of the total economy.

The following measures of using particular factors of production (i. e. labour, capital) are often used for estimation of economic efficiency: labour productivity, capital productivity ratio, materials-output ratio etc. The other common indicator of the efficiency that measures the impact of more than one factor is the multifactor productivity, that is defined as the ratio of total output goods with respect to input resources (total costs). Practically, multifactor productivity considers the influences of two factors – labour and capital (*The Economist* 2004). Formally multifactor productivity A can be recorded in the following way:

$$A = \frac{F}{F(K, L)}, \tag{1}$$

where Y denotes total output goods (base index of output), $F(K, L)$ is production function and denotes the average rate of labour capital input (K) and labour input (L).

A can be seen as an aggregate indicator of economic efficiency in contradistinction from particular indicators like average labour productivity (y) or average capital productivity (g). Furthermore A can be denoted as the average from y and g (with expedient measure). Assuming that $F(K, L) = K^{\alpha}L^{1-\alpha}$ is a production function of Cobb-Douglas then:

$$A = g^{\alpha}y^{1-\alpha}, \tag{2}$$

where A already denotes the weighted geometrical average of y and g. That means that the base index of A must be set between the base indexes of y and g with the same base. The ratings of the ratio between capital and labour received from the data from the national accounts system, are most commonly used as the weights α and $\alpha - 1$, the estimates of output elasticity dependent on two factors. Standard practice presumes a setting of the estimation of factor rates via expert evaluation on the level of 0.3 and 0.7 correspondingly for capital and labour (OECD 2001; Dolinskaya 2002; Voskoboynikov 2003; Bessonov 2004; Jongen 2004). The given parameters values of production function (2) have a key role in formation of the efficiency to labour factor and are very near to the values obtained by P. Douglas in the 1920's. At once during the last few decades the role

of labour in formation of output goods declined essentially as a result of industrialization and the rising degree of mechanization and automation process. Indeed, under the existing technology level, when the role of person in various branches consists just in control for machine running, it is impossible to speak about the domination of the labour factor in the economy. As evidence, one may adduce the empirical values of production function parameters obtained from statistics data of the Soviet economy for the period 1960–1985 and the amount for labour and capital correspondingly 0.5382 and 0.4618 (Granberg 1988).

Besides, the approach described above is imperfect more because it overlooks the rest of the key production factors – inventory and entrepreneurship. The last is the fourth factor of production whose content consists in the most effective rearrangement of all other factors for the purpose of production of goods and services. In the present conditions, the process innovations, pioneer products, organization innovations etc. are necessary features of entrepreneurship. Relative economic efficiency denotes a choice of such a combination of all production factors existing in limited volumes that permits the results to be achieved with the least costs by using business, production and management know-how.

Being exclusive from consideration of all factors but labour and fixed capital, the two-factor production function is grounded by scientists on the following: labour and capital are the results of production processes at the previous stages where capital assets and labour force were also used, therefore all factors can be reduced to those two factors (Chetyrkin and Klas 1986). However, inventory is also a primary production factor that should be taken into consideration especially in the case of economies that do not possess any ample funds of raw materials by own resource production and are reluctant to import those in quantities for production needs. Therefore there exists the necessity to develop a comprehensive measure of economic efficiency that considers the influences of all basic factors and is not limited only to labour and capital.

Departing from the Cobb-Douglas production function with constant returns to scale (scale effect) and adding to that the missing, in our view, factors of production, the following production function was obtained:

$$Y_t = AL^{\alpha_1}K^{\alpha_2}M^{\alpha_3}E^{\alpha_4}, \tag{3}$$

where Y_t is total output (GDP), A is total factor productivity, L, K, M, E are the factors of production, correspondingly, employment (labour), fixed capital stock (means of labour), material resources store (subjects

of labour) and injection to innovations (entrepreneurship). a_1, a_2, a_3, a_4 are parameters of function, and define elasticity of output by particular input resources.

The parameters a may be defined by rearrangement power equation (3) to linear form by taking the natural logarithm and applying the method of regression analysis. That linear form has the following view:

$$\ln(Y_t) = \ln(A) + a_1\ln(L) + a_2\ln(K) + a_3\ln(M) + a_4\ln(E). \tag{4}$$

Variable A in equation (3) is standard residual and indicates the return (output) from all used basic factors of production. That is, A is in fact a comprehensive measure of economic efficiency of the economy. Re-denoting the given measure as EE after ordinary transformation, the following formula was derived for comprehensive measure of economic efficiency:

$$EE = y^{b_1} g^{b_2} m^{b_3} e^{b_4}, \tag{5}$$

where y is the average efficiency of use of the direct labour (labour productivity), g is average efficiency of application of the means of labour (fixed capital productivity or output-capital ratio), m is average efficiency of application of the subjects of labour (output-materials ratio), e is average efficiency of application of the accomplishment of entrepreneurial innovations (output – innovations cost ratio), b_1, b_2, b_3, b_4 are dynamic parameters of function defined by the following formulas:

$$b_1 = \log_y \frac{Y^{\frac{1}{4}}}{L^{a_1}}, \quad b_2 = \log_g \frac{Y^{\frac{1}{4}}}{K^{a_2}}, \quad b_3 = \log_m \frac{Y^{\frac{1}{4}}}{M^{a_3}}, \quad b_4 = \log_e \frac{Y^{\frac{1}{4}}}{E^{a_4}}.$$

It is rational to use the ratios (indexes) and not the absolute values as benchmark data since factors may have various dimensions during the construction of production functions. Accordingly benchmark data about resources input, efficiency of resources application and production output must be performed as time series of corresponding economic indexes. Thereby the dynamics of economic efficiency may be measured by following index:

$$I_{ee} = I_y^{b_1} \cdot I_g^{b_2} \cdot I_m^{b_3} \cdot I_e^{b_4}, \tag{6}$$

where I_g, I_y, I_m, I_e are correspondingly indexes of average fixed capital productivity, labour productivity, output-materials ratio and output – innovations cost ratio.

The presented equation (6) is in substance a four-factor production function and averaging function, namely the dynamics of economic efficiency is a certain average value of the dynamics of efficiency of use of

direct labour, means of labour, subjects of labour and accomplishment of entrepreneurial innovations.

Estimates of the Parameters

Practical application of the equations described above requires a real estimate of factor costs and corresponding parameters of specified functions.

The estimate of employment level, particularly in a period of economic depression in Ukraine, encounters the problems of underemployment and latent unemployment. The high percent of registered employment that was observed during all the transformation period is bound up with the impossibility of dismissal of part of the disengaged payroll in the layoff process. That led to reduction of workweek and workday duration, expansion of employees on administrative leave and part-time employed, thus leading to the underemployment gain. Therefore we will use actual working hours instead of the number of employees to estimate a real value of direct labour costs and hourly output per employee for an estimate of labour productivity.

The measure of fixed capital stock collides with the problem of adequate estimate of value of fixed capital that is really used in business activity. As noticed by R. Solow, capital in stock doesn't mean capital in work (Solow 1957). The estimate of fixed capital unadjusted for wear and for unused share is kept out from measurement of the real efficiency of its usage. When fixed capital in stock in a period of economic depression is standing, the estimate of fixed capital depends on utilization rate. Moreover, balance sheet value estimation of the fixed capital during the transformation period in Ukraine did not correspond to its market value, which has never been precisely estimated, because of inadequate indexation, especially during the hyperinflation period. As a result, it was the distorted amortization system that did not reflect a real usage of fixed capital in the production process.

According to various scientists (Griliches and Jorgenson 1967; Costello 1993) the problem of fixed capital utilization record and its inadequate estimate may be solved by application of the data about power use as an indicator of fixed capital utilization rate. However that necessarily would lead to overestimating capacity utilization and we could not estimate the real fixed capital stock if it considers the significant scope of the hidden sector of the economy.

Thereby the obtainment estimate of real fixed capital stock under dis-

TABLE 1 Estimates of regression model parameters for equation (6)

Multiple correlation coefficient	$R = 0.9721$
Coefficient of determination	$R^2 = 0.9450$
F-statistics	$F = 30.089$
Number of Observations	$N = 12$
t-statistics	3.087; 2.723; 3.143; 2.278

Source: Own calculations.

torted systems of balance sheet value estimation and depreciation, the impossibility of estimating a real utilization rate and absence of any data about market value, is impossible. In that situation it seems apposite to apply an amount of annual fixed asset formation (in comparable prices), which generally are realized purposely for use in the production process, as an evaluation of capital value dynamics. In connection with that, we define corresponding assumptions about full utilization and application of invested fixed capital in production of GDP.

There are annual data about material costs in the economy (in comparable prices) used as a material resources store applied in production of GDP.

The value of injection to innovations is defined as the amount of funding of research-and-development activities on the domestic entrepreneur's account.

All following estimations are based on the data about the state of the official sector of the Ukrainian economy received from International Labour Organization, State Statistic Committee of Ukraine, Ministry of the Economy of Ukraine and other official sources.

To define the parameters of function (6), namely the elasticities of GDP by particular measures of resources costs, multiple regression analysis by annual data was carried out (chain indexes of figures in comparable type), consequently for years 1991–2003 the following equation was obtained:

$$Y_t = L^{0.428} K^{0.212} M^{0.160} E^{0.201}. \tag{7}$$

Since the amount of factors elasticities approximately equals 1 (accurately 1.001) hence the scale effect is practically absent and the obtained function (7) may be considered as linear homogeneous.

The parameters of the obtained model are reported in table 1. They denote its high accuracy and closely related variables. According to those the dynamics of real GDP at 95% is defined by the dynamics of four

TABLE 2 Estimates of regression model parameters for equation (8)

Multiple correlation coefficient	$R = 0.9951$
Coefficient of determination	$R^2 = 0.9901$
F-statistics	$F = 150.637$
Number of Observations	$N = 11$
t-statistics	2.583; 2.293; 2.745; 2.622

Source: Own calculations.

factors – working time, fixed asset formation, material costs and entrepreneurial innovations. The unimportance of parameter A and its proximity to 1 indicates that the average productivity of all factors practically didn't fluctuate for the total considered period.

The elasticity of economic growth by working time, as it turned out, is the most (0.428) that is the evidence of the determinative influence of the human factor on economic dynamics in Ukraine. This is below the value (0.4618) calculated for the Soviet economy for 1960–1985 years (Granberg 1988) and indicate an increasing influences of other factors on GDP dynamics. The obtained value of elasticity of output growth by labour for Ukraine in comparison with the corresponding parameter of production function for most developed capitalistic countries in the post-war period (1950–1977), is lesser than in USA (0.447) and Great Britain (0.506) and more than in the less developed Japan economy (0.397) in that period (Chetyrkin and Klas 1986). The similar comparison with the countries which carried out transition successfully, denotes low enough value of the elasticity of output with respect to labour in Ukraine: in Slovenia this parameter amounts 0.507 (Novak 2003), in Czech Republic that amounts 0.58 (Dupaigne and Henin 2002), in Poland it is equal 0.66 (Kolasa and Żółkiewski 2004).

Parallel analysis was carried out on the basis of base indexes (1992=1) that gave rather different results for parameters of production function:

$$Y_t = 0.929L^{0.383}K^{0.292}M^{0.190}E^{0.061}. \tag{8}$$

According to the parameters described in table 2, the obtained regression equation (8) is valid. Those denote that independent variables included there define Ukrainian GDP dynamics on 99%. The given function in comparison with the function based on chain indexes, denotes the reduction of multifactor productivity that constrained GDP growth during the analyzed period in Ukraine. Moreover the magnitude of parameters by all four factors in the last equation (8) less than 1 (0.926)

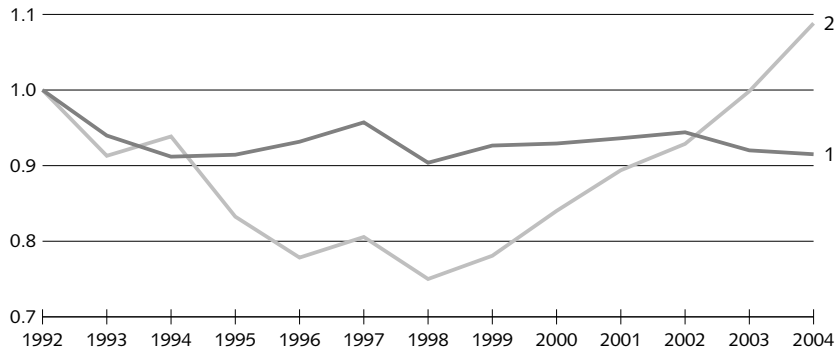

FIGURE 1 Basic dynamics of economic efficiency and labour productivity in Ukraine in years 1992–2004 (1 – growth rate of economic efficiency, 2 – growth rate of labour productivity)

indicates diseconomies of scale. Obviously the influence of production consolidation on the efficiency of the Ukrainian economy is negative. Evident is also a considerable increase of elasticity of output by capital (fixed capital and inventory investments) at the cost of drops of elasticities by labour and entrepreneurial innovations. Received low estimates of the elasticity of output with respect to labour for Ukraine (0.383) in comparison with the above mentioned developed and transition economies confirms the conclusion of Easterly and Fisher (1994) that the value of this parameter in the developed countries is greater than in developing countries.

Estimate of economic efficiency of the economy

The results of estimated production function (8) in comparison with dynamics of labour productivity (ratio of GDP to actual working hours by all employees of the economy) are shown in figure 1.

We can establish that the economic efficiency of the Ukrainian economy for the last 12 years declined – towards the end of 2004 it was approximately at the level of 1995. The tendencies of its increase in 1996–1997 and 1999–2002 years were aborted. That may be explained by the following reasons:

1. the financial crisis in 1998 extremely negatively influenced economic efficiency of the Ukraine economy; in contradistinction to the 1993–1994 years period, the diminishing economic efficiency in 1998 was connected with a decline in productivity of all four production factors;

2. in 2003–2004, the falling of economic efficiency of the economy resulted from simultaneous decline in productivities of fixed capital investments, material resources and innovations.

The total falling of economic efficiency for all the analyzed period amounts to 8.5%.

Comparing both diagrams in figure 1, the following may be noted:

1. when in 1992, the falling of labour utilization efficiency accelerated the recession of overall economic efficiency of the economy, then in 1995–1996 the former already constrained the gain of the latter;
2. the similarity of dynamics of both measures in 1997–1998 indicates the essential role of labour in the composition of economic efficiency during those years;
3. the high growth rate of labour productivity in 1999–2002 compensated the falling of efficiency of other factors' use and largely supported a gain of overall economic efficiency of the economy;
4. during 2003–2004 the overall value of economic efficiency of the economy declined because of inefficient utilization of investments and innovations as well as an increase of intensity of materials use (materials-output ratio), nevertheless the growth rate of labour productivity speeded up.

Estimated dynamics show that fluctuations of a level of economic efficiency of the economy occured in a narrow enough interval, considerably smaller than changes in the volumes of manufacture and labour productivity level. It is possible to explain this by smoothing and mutual compensative influence of four allocated factors on this dynamics. So, within significant falling values of one factor, others grew or changed slightly and on the contrary.

The small variation of economic efficiency for the analyzed 12 years of transition to a market testifies to weak structural transformations, an inefficiency of carried out market reforms and technological backwardness of the Ukrainian economy which up till now is the most power-intensive country in the Europe. Such freezing of an inefficiency of economy was promoted by cheapness of the energy carriers received by Ukraine from abroad (from Russia, Turkmenistan and other countries), hard protectionism and a high degree of monopolization in the domestic market. Besides the high degree of corruption of authorities, the absence of an effective judicial-legal system, hard administrative and fiscal pressure upon economic subjects and other negative phenomena became the reason for

the 'shading' of a significant part of the national economy. As a rule, in a 'shadow' the most successful business left. As a result, there was created the paradoxical situation in the official sector of the economy at which the significant part (up to 50% and it is more) of enterprises was unprofitable, i. e. they were the potential bankrupts. And because of the absence of effective economic legislation and for a number of other reasons, such a situation in Ukraine was maintained during many years. Therefore the transition from command-administrative to a market economy was delayed in this country.

Thus, with liberalization of the the prices for energy carriers, demonopolization and increase in the level of a competition in the domestic market, alleviation of the influence of the state on the business economic efficiency of official economy of Ukraine will grow and its 'shadow' component will be reduced.

Conclusions

The paper contains the results of analysis of the dynamics and factors of economic efficiency of the economy of Ukraine during the transition to a market economy. As was shown, it is necessary to apply comprehensive measures, those which take into consideration efficiency of utilization of all key factors of production under the estimate of value of economic efficiency of the economy.

Departing from the function of Cobb-Douglas with constant returns to scale after the range of transformation there was obtained the formula for four-factor productivity that set the dependence of the dynamics of economic efficiency from four basic factors – dynamics of labour productivity, fixed capital productivity, output-materials ratio and output-innovations cost ratio.

The four-factor production function was econometrically tested to estimate the parameters of the developed equation using the data about the official sector of the economy of Ukraine for 12 years of the transition process. The key results of that analysis showed the following:

The parameters of the production function that was built on chain indexes denote the high validity of the model and closely related variables. According to those the dynamics of real GDP in Ukraine at 95% is defined by dynamics of four factors – working time, fixed asset formation, material costs and entrepreneurial innovations. It is established that for all the investigated period the average productivity of all factors practically has not changed.

According to the parameters of a valid model of the production function constructed on the basis of basic indexes, the independent factors included into it on 99% define the dynamics of the GDP of Ukraine. In comparison with a function constructed on the basis of the chain indexes, the given function specifies decrease of four-factor productivity, which contained the growth of GDP in Ukraine in the analyzed period. The presence of diseconomies of scale is established, i. e. integration of manufacturing negatively influences the efficiency of the economy of Ukraine.

The estimate of parameters of the developed model of four-factor productivity denotes that economic efficiency of the economy is for the most part defined by labour utilization efficiency (working hours) while at the same time the influences of other factors (investments, materials cost, entrepreneurial innovations) on economic efficiency are also significant. At the same time, the value of the received parameter of the elasticity of output with respect to labour is considerably below in comparison with the developed and the other transition economies, and even with the USSR, which testifies that the economy of Ukraine is less developed.

Nevertheless high rates of economic growth and gain of labour productivity did occur in Ukraine during 2000–2004, the value of economic efficiency of the economy kept at quite a low level and even declined (in 2003–2004). This may be explained by ineffective investments and innovations as well as an increase of intensity of materials use in the Ukrainian economy.

Thus, it is not enough for maintaining a growth of economic efficiency of the economy only to have an increase of labour productivity. Cheap energy carriers (gas, oil), with which Ukraine during all the period of economic transformation was provided, did not promote modernization of the national economy and active implementation of energy saving innovations. They only froze the inefficient structure of the economy and technological backwardness of the country to which indicator it is possible to apply the highest in Europe consumption level of energy carriers on the unit of the GDP. This indicator names 'Energy use per PPP GDP', and in Ukraine it is higher even than in coldest and rich in minerals Russian Federation, and according with World Bank data it equals 0.57 kg of oil equivalent per constant (2000) US dollar of the GDP at PPP. That is 2.6 times higher than in Poland, 3 times higher than in Slovenia, 3.7 higher than in Great Britain and 6 times higher than in Hong Kong. As a result, with carrying out of liberalization of import prices of energy

carriers and growth of the world prices for them recently, the country on the threshold of 2005 and 2006 has closely collided with the danger of the crisis of efficiency. Therefore the real actions on fixed capital renovation, introduction of resources-saving technologies and effective innovations are necessary to increase the economic efficiency of the Ukrainian economy.

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The Influence of Previous Visitation on Customer's Evaluation of a Tourism Destination

Maja Konečnik
Mitja Ruzzier

The paper investigates the customer's perspective on a tourism destination brand through four proposed dimensions: awareness, image, quality and loyalty dimension. In addition to the brand's dimensions evaluation, the influence of previous visitation on each proposed dimension is presented. The evaluation of tourism destination brand Slovenia in the minds of German respondents serves as an investigated example. In addition to an evaluation for each investigated dimensions' variables for destination Slovenia as perceived by German respondents, the study confirms also the influence of previous visitation on brand evaluation. In the investigated example, previous visitation is recognized as the improvement factor in Slovenia's evaluation in the minds of German respondents.

Key Words: customer's evaluation, tourism destination, brand, previous visitation, Slovenia
JEL *Classification:* M31, M39

Introduction

A significant amount of effort has been devoted to presenting the customer's perspective on brand concept (Aaker 1991; Keller 1993). Those analyses have not been oriented only toward evaluation of products (Yoo et al. 2000; Faircloth et al. 2001), services (de Chernatony and Dall'Olmo Riley 1999) and organizational brands (Dowling 2002), but also towards evaluation of a destination brands (Cai 2002; Morgan and Pritchard 2002; Olins 2002; Konecnik 2004). The entry of many new destinations into the market is forcing all destinations to compete in the battle to win more tourists (Konecnik 2002). The role of smaller destinations is even more emphasized because the vast majority of tourists (70%) visit just

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ten main countries (Morgan et al. 2002). To achieve their goals, destinations are doing their best to remain competitive in the international market (Baloglu and McCleary 1999; Gomezelj Omerzel 2006). Within the last few years, attention has been oriented towards the development of a destination brand, which should have a strong and unique position in the mind of potential tourists.

Many empirical studies about tourism destination evaluation stress the important role of previous visitation, which is treated as an improvement (Fakeye and Crompton 1991; Milman and Pizam 1995; Baloglu and McCleary 1999) or realistic (Hu and Ritchie 1993; Mackay and Fesenmaier 1997) factor in destination evaluation. Regardless of its positive or even negative effect on the tourist's evaluation of a destination, previous visitation was recognized as an important factor in the process of tourists' evaluation of a destination brand.

The main purpose of this paper is to present the customer's perspective on destination brand evaluation and to confirm (or reject) the influence of previous visitation on the process of brand evaluation. The evaluation of a tourism destination brand Slovenia in the minds of German respondents will serve us as an investigated example.

Customer's Evaluation of a Tourism Destination

Customer's evaluation of a tourism destination phenomenon has attracted enormous interest among tourism research lines. Within this demand-side perspective on the tourism destination phenomenon, mostly the concept of tourism destination image has been investigated (Hunt 1975; Crompton 1979; Gartner 1986; 1993; Echtner and Ritchie 1993; Baloglu and McCleary 1999; Baloglu 2001; Brezovec 2001; Brezovec et al. 2004; Gallarza et al. 2002; Pike 2002). Although the numerous empirical studies have stressed the important role of the image concept in destination brand evaluation, the marketing researchers argue that a customer's perspective on the brand equity phenomenon should incorporate a more comprehensive measure for its evaluation (Faircloth et al. 2001; Yoo and Donthu 2001).

The so proposed customer's perspective on brand evaluation was introduced through the concept of customer-based brand equity (Aaker 1991; Keller 1993; Yoo and Donthu 2001). As a relatively newly developed construct, the concept has attracted great interest in the last fifteen years (Barwise 1993; Vazquez et al. 2002). Till now, no consensus has been reached as to which dimensions constitute the customer's per-

spective on brand. On the contrary, there is some evidence leading to an adjustment of brand equity dimensions. These steps are evident in analyses (Faircloth et al. 2001; Yoo and Donthu 2001) based on Aaker (1991) and Keller's (1993) categorization. Combining both approaches of the leading authors; we follow the line of researchers (Aaker 1991; Yoo and Donthu 2001) who claim that the customer's evaluation of a brand comprises awareness, image, quality and loyalty dimensions.

Similarly as in the previous group of authors, we argue that a customer's (tourist's) perspective on the tourism destination phenomenon consists of tourism destination awareness, tourism destination image and quality dimensions, as well as tourist's loyalty toward the investigated destination. Numerous studies have already proposed a spectrum of variables which incorporates a dimension of the tourism destination image concept (Gartner 1989; Echtner and Ritchie 1993; Gallarza et al. 2002). During our review we came to the conclusion that the previous tourism destination image studies could possibly also include a quality dimension (Konečnik 2005a).

In contrast to numerous studies dealing with the tourism destination image concept (which also include a quality dimension), the other two dimensions have been less intensively studied. Tourism destination awareness has mostly been investigated within the topic of the destination selection process (Woodside and Sherrell 1977; Moutinho 1987). These studies argue that awareness is a first and necessary step leading to destination visitation, but it is not a sufficient one (Milman and Pizam 1995). Tourism destination loyalty has only attracted some interest within the tourism destination brand. Oppermann (2000) shares the same opinion in his seminal work on tourism destination loyalty, in which he argues that the loyalty dimension should also not be neglected for a tourism destination. Some previous studies about a tourism destination have only partly incorporated the loyalty dimensions (Gitelson and Crompton 1984; Fakeye and Crompton 1991; Bigne et al. 2001).

Hyphothesis

The previous visitation phenomenon has attracted significant attention within tourism destination investigations. There are at least three content areas for investigation. First, the topic has been extensively investigated in connection with a tourism destination's image (Hunt 1975; Fakeye and Crompton 1991; Hu and Ritchie 1993; Milman and Pizam 1995; Baloglu and McCleary 1999; Baloglu 2001); second, it has been recognized as

an important dimension in the content of tourist information sources (Gartner 1993); and, third, it represents one part of the whole destination choice process (Woodside and Sherrell 1977; Woodside and Lysonski 1989; Moutinho 1987; Um and Crompton 1990; Goodall 1993). However, it is not surprising that expressions such as direct or previous experience (Baloglu 2001), internal information-search process (Gitelson and Crompton 1983; Gartner and Bachri 1994) or significative stimuli (Um and Crompton 1990) are treated as synonyms. Although the majority of empirical studies treated previous visitation as an improvement factor in the formation of a tourism destination image (Fakeye and Crompton 1991; Milman and Pizam 1995; Baloglu and McCleary 1999; Konecnik 2002; 2005b), some researchers have recognized it as a realistic factor (Hu and Ritchie 1993; Mackay and Fesenmaier 1997) in image evaluation. Image as a realistic factor could either improve the visitor's opinion about a destination (in order the destination exceed his expectations) or even negatively influence his/her opinion about the visited destination (in case personal expectations regarding the visited destination were not met). Without taking into consideration which group of authors we are following, previous visitation has been recognized as an important factor in a tourist's image-formation process. In addition, previous studies also confirm its important role in the tourism destination awareness dimension and a tourist's interest in visiting a destination (Milman and Pizam 1995).

Hypothesis 1: Tourists' previous visitations significantly influence their perceptions of the destination evaluation.

Hypothesis 1a: Tourism destination awareness differs between tourists who have visited an investigated destination compared to those who have not.

Hypothesis 1b: Tourism destination image differs between tourists who have visited an investigated destination compared to those who have not.

Hypothesis 1c: A tourist's perceived quality of destination differs between tourists who have visited an investigated destination compared to those who have not.

Hypothesis 1d: Tourism destination loyalty differs between tourists who have visited an investigated destination compared to those who have not.

TABLE 1 Number of international tourist arrivals and overnights of tourists from abroad in 2003 for Slovenia

Country	Tourist arrivals	Market share (%)	Overnights of tourists	Market share (%)
Germany	229372	16.7	813241	19.5
Italy	288507	21.0	729181	17.5
Austria	201367	14.7	690827	16.5
Croatia	93639	6.8	264827	6.3
Netherlands	46764	3.4	195356	4.7
Switzerland	22514	1.6	62165	1.5
Other	490974	35.8	1419788	34.0
Total	1373137	100.0	4175385	100.0

Source: Statistical Office of the Republic of Slovenia, 2004.

Methodology

DATA GATHERING

Data were collected using the computer-assisted telephone interviewing (CATI) method, which was selected due to the method's possibility of ensuring simple random samples (SRS). Individuals aged older than 18 years were invited to participate in the study. These individuals represent the potential tourist population of our analysed brand Slovenia. In 2003, German tourists had around a 17% market share in foreign tourists' arrivals and around a 20% market share in foreign overnight stays (table 1), which represented the most important group of tourists in Slovenia. The research was conducted in June and July 2003. The telephone interviews were performed by a German professional research agency. A total of 1437 people were contacted and the response rate was 42.9%. The final sample consisted of 402 respondents.

THE OPERATIONALISATION OF THE VARIABLES AND THE STUDY INSTRUMENT

The operationalisation of variables followed previous research findings and suggestions for the development of scales (Churchill 1979). To operationalise the awareness variables, the suggestions by Milman and Pizam (1995) as well as Yoo and Donthu (2001) studies were employed. The tourism destination image, which also included the quality dimension, has been the subject of many empirical studies in tourism research. Therefore, the operationalisation of image and quality vari-

ables was achieved according to the suggestions of leading authors in this area: Hunt (1975), Echtner and Ritchie (1993), Gartner (1986; 1989), Baloglu and McCleary (1999), Gallarza et al. (2002). Finally, earlier research findings about the brand loyalty dimension (Oliver 1996) and its application to the tourism destination level (Fakeye and Crompton 1991; Oppermann 2000; Bigne et al. 2001) were employed in operationalising the variables for tourism destination loyalty. Content analyses from the qualitative research were an additional source used for this purpose. First, we relied on findings from the in-depth interviews with potential tourists, which divided traditionally proposed image attribute-based variables into variables presenting the image and the quality dimension. Second, the results of the qualitative experience survey research among destination managers and marketers were considered. Finally, scale refinement in line with experts' opinions represents an additional source of information (Konečnik 2005a).

The study instrument includes questions about the four proposed dimensions (awareness, image, perceived quality and loyalty) for the tourism destination Slovenia as well questions describing the travel profiles of respondents and their socio-demographic characteristics. The study instrument only employed closed questions. For each proposed dimension a set of variables was employed (five awareness, sixteen image, ten quality and four loyalty variables for investigating each of the four proposed dimensions). The variables are measured on a unipolar 5-point Likert scale, whereby 1 = 'strongly disagree' and 5 = 'strongly agree'. All scales included a neutral mean. Generally, all variables were measured in positive directions. Only three variables (one for the awareness dimension, the second for image and the third for the quality dimension) had a negative direction (Spector 1994). In further analysis, these variables were properly reverse scored. Respondents had the possibility to choose one of several answers offered.

DATA ANALYSIS

With the aim of presenting the Germans' perception about the proposed dimension for Slovenia as a tourism destination, univariate statistics (means and standard deviations) for each of the proposed variables of dimensions will be presented. In this example, analyses will be done on the whole sample of respondents. Further, all respondents will be separated into 2 conceptual groups, regarding the dividing criteria needed for hypotheses testing. The first group of respondents represents those Germans who had already visited Slovenia in the past (so called visitors),

while the second group of respondents represents those Germans, who had not visited Slovenia in the past (so called non-visitors). For confirmation or rejection of the proposed hypotheses, the independent sample t-test procedure (Sharma 1996; Rovan and Turk 2001) will be used to show significant differences for each investigated variable of four proposed dimensions: awareness, image, perceived quality and loyalty. In these analyses, because the significance value for the Levene test was high, the equality of variances was assumed. We will present the mean for each group of respondents, t-tests between the groups and the statistically significance only for those variables where statistical significant differences between the investigated groups will appear.

Results

SAMPLE CHARACTERISTICS

The final sample consists of 402 German respondents. We were able to ensure simple random samples (SRS) due to the way of interviewing (CATI method). Therefore, we suspect that the socio-demographic characteristics of respondents (table 2) reflect the characteristics of the whole population in the German markets. Most German respondents came from the Nordrhein-Westfalen area (21%), followed by Bayern (17%) and Baden-Württemberg (11%). The majority of them have finished secondary school (almost 30%), whereas the other educational classes are almost equally represented. Somewhat less than 60% were employed, with average incomes from €1500 to €2000 (17%). Most (75%) of them were older than 35 years. Approximately 54% of the respondents were female, and 46% were male.

The results of personal experiences with Slovenia indicate that the majority of Germans are aware of Slovenia as a tourism destination, because almost 94% of them had already heard of Slovenia ($n = 376$). By contrast, only 26% of respondents ($n = 98$) who had heard of Slovenia had visited Slovenia in the past, which indicates that only one-quarter of German respondents (24.3%) have personal experience with Slovenia as a tourism destination. On average, they had visited Slovenia once (10%) or two times (7.5%) in the period of the preceding two to five years (8.7%). Many of these respondents (8.4%) visited Slovenia over ten years ago.

Because in our analysis we decided to employ only those German respondents who had heard of Slovenia, the opinions of 376 Germans will be used in our presentation of the proposed dimensions. At the same time we will separate the German respondents who had heard of Slovenia into two groups: 1) those who had already visited Slovenia in the

TABLE 2 Sociodemographic characteristics of German respondents

Sociodemographic characteristics	(1)	(2)
Area		
Schleswig-Holstein	3.2	3.2
Hamburg	2.0	5.2
Niedersachsen	10.7	15.9
Bremen	1.2	17.2
Nordrhein-Westfalen	20.9	38.1
Hessen	8.7	46.8
Rheinland-Pfalz	2.7	49.5
Baden-Württemberg	11.4	60.9
Bayern	16.9	77.9
Saarland	2.0	79.9
Berlin	3.5	83.3
Brandenburg	3.0	86.3
Mecklenburg-Vorpommern	0.7	87.3
Sachsen	5.0	92.0
Sachsen-Anhalt	3.5	95.5
Thueringen	4.5	100.0
Education		
Primary school (9 years)	25.9	25.9
Secondary school	29.9	55.7
Grammar school	21.6	77.4
University degree	22.1	99.5
No answer	0.5	100.0

Continued on the next page

past (visitors) and 2) those respondents who had not visited Slovenia in the past (non-visitors, see table 3). The demographic profile is presented in an aggregated nature rather than by separating two proposed groups of respondents, because no significant differences were found between their sociodemographic characteristics. In addition, the correlation matrix between variable previous visitation and other variables (education, employment status, personal income, age, gender and geographic area) was employed (table 4). The results imply that none of the correlations between investigated variables was statistically significant, which indi-

Continued from the previous page

Sociodemographic characteristics	(1)	(2)
Employment status		
Employed	58.5	58.5
Self-employed	5.7	64.2
Student/scholar	5.0	69.2
Retired	15.9	85.1
Housewife/Unemployed	13.9	99.0
No answer	1.0	100.0
Personal income		
< €500	8.2	8.2
€500–1000	15.4	23.6
€1000–1500	15.7	39.3
€1500–2000	16.9	56.2
€2000–2500	8.2	64.4
€2500–3000	4.0	68.4
€3000–3500	1.2	69.7
€3500–4000	2.2	71.9
> €4000	2.7	74.6
Without personal income	10.0	84.6
No answer	15.4	100.0
Age		
18–24 years	6.7	6.7
25–34 years	18.9	25.6
35–44 years	27.6	53.2
45–54 years	21.1	74.4
55–64 years	14.4	88.8
More than 65 years	10.7	99.5
No answer	0.5	100.0
Gender		
Male	46.3	46.3
Female	53.7	100.0

Column headings as follows: (1) percentage, (2) cumulative percentage.

cates, that the only difference between the two groups is determined by the variable of previous visitation.

TABLE 3 Sample characteristics of German's respondents

Characteristic	Yes	No
Have heard of Slovenia as a tourism destination	376	26
Have visited Slovenia as a tourism destination	98	278

Notes: $n = 402$.

TABLE 4 Correlation matrix between previous visitation and other variables

Variable	PV	E	ES	PI	A	G	GA
Pearson correlation	1	0.099	−0.031	0.038	0.099	−0.048	0.021
Sig. (2-tailed)	–	0.055	0.544	0.466	0.055	0.358	0.685

Column headings as follows: PV – previous visitation, E – education, ES – employment status, PI – personal income, A – age, G – gender, GA – geographical area. Notes: $n = 376$.

ANALYSES OF DIMENSIONS (AWARENESS, IMAGE, QUALITY AND LOYALTY) AND THE INFLUENCE OF PREVIOUS VISITATION ON DIMENSIONS' EVALUATION

German respondents stated they had heard of Slovenia as a tourism destination (mean 4.51), which was the best evaluated awareness variable among German respondents (table 5). A much lower level of Slovenia's awareness in the mind of German respondents was recognized in other four investigated awareness variables. Germans had agreed only to some extent that they can recognize the name of Slovenia among other destinations (mean 3.11) or imagining it in their mind (mean 3.03). On the contrary, they have many problems in quick recalls of some of Slovenia's characteristics (2.22) and especially in recalling the symbol or logo of Slovenia as a tourism destination (mean 1.51).

TABLE 5 Awareness variables for Slovenia as a tourism destination for German respondents

Variable	M	SD
I have heard of Slovenia.	4.51	0.90
I can recognize the name of Slovenia among other destinations.	3.11	1.45
I have difficulty imagining Slovenia in my mind (r).	3.03	1.56
Some characteristics of Slovenia come quickly to mind.	2.22	1.38
I can recall the symbol or logo of Slovenia as a tourism destination.	1.51	1.10

Notes: M = mean, SD = standard deviation. Variable scale: from 1 to 5 (1 = strongly disagree, 5 = strongly agree); $n = 376$.

TABLE 6 Statistically significant differences in Slovenia's awareness variables due to previous visitation

Variable	(1)		(2)			
	M	SD	M	SD	T-test	Sig.
Heard of Slovenia	4.73	0.67	4.42	0.96	2.95	0.003^{β}
Name of Slovenia	3.93	1.23	2.82	1.41	6.90	0.000^{α}
Characteristics of Slovenia	3.44	1.37	1.78	1.10	11.95	0.000^{α}
Imagining Slovenia	3.80	1.49	2.77	1.51	5.85	0.000^{α}
Symbol or logo of Slovenia	1.89	1.40	1.38	0.95	3.99	0.000^{α}

Column headings as follows: (1) Germans who have visited Slovenia in the past ($n = 98$); (2) Germans who have not visited Slovenia in the past ($n = 278$).
Notes: α significant at < 0.001, β significant at < 0.01, M = mean, SD = standard deviation, T-test = independent sample t-test (equal variances assumed). Variable scale: from 1 to 5 (1 = strongly disagree, 5 = strongly agree).

Previous visitation to Slovenia (table 6) has significantly improved the awareness perception of Slovenia as a tourism destination in the mind of German respondents. Statistically significant differences between respondents who have visited Slovenia in the past compared to respondents, who have not visited it, were found in all five awareness variables. Except for the variable of hearing of Slovenia as a tourism destination, all other investigated significant differences were confirmed at the level of 0.000, which indicates a strong influence of previous visitation on awareness dimension, especially in those awareness variables which indicate a higher level of brand awareness (Aaker 1991).

The results indicate that German respondents hold a relatively neutral opinion about Slovenia's image as a tourism destination (table 7). It is quite hard to say that Germans' perceptions about Slovenia's image variables are positive because none of the investigated image variables attracted a mean of at least 4 on the scale from 1 to 5. On average, they mostly agreed that Slovenia's people are friendly (mean 3.99), Slovenia has pleasant weather (mean 3.93) and beautiful nature (mean 3.91), and especially beautiful mountains and lakes (mean 3.64). By contrast, they had doubts about modern health resorts (mean 2.58) in Slovenia, its political stability (mean 2.69), Slovenia's good nightlife and entertainment (mean 2.75) and partly also about its exciting atmosphere (mean 2.89). Although the mean scores of the latter variables were below 3, we can hardly talk of any negative perceptions in any of Slovenia's image variables with German respondents.

TABLE 7 Image variables for Slovenia as a tourism destination for German respondents

Variable	M	SD
Friendly people	3.99	0.80
Pleasant weather	3.93	0.81
Beautiful nature	3.91	0.99
Beautiful mountains and lakes	3.64	1.03
Relaxing atmosphere	3.59	0.89
Good opportunities for recreation activities	3.51	0.98
Interesting historical attractions	3.42	1.07
Poor opportunities for adventures (r)	3.40	1.17
Lovely towns and cities	3.39	1.02
Interesting cultural attractions	3.38	0.98
Good beaches	3.19	1.21
Good shopping facilities	2.98	0.99
Exciting atmosphere	2.89	0.93
Good nightlife and entertainment	2.75	1.10
Political stability	2.69	1.05
Modern health resorts	2.58	1.04

Notes: M = mean, SD = standard deviation. Variable scale: from 1 to 5 (1 = strongly disagree, 5 = strongly agree).

Previous visitation to Slovenia (table 8) improved Germans' opinions about its image variables. However, German respondents who have visited Slovenia in the past shared positive opinions about its beautiful nature and friendly people. The mean score of both attributes was higher than 4, which indicates that previous visitation has a strong influence on Slovenia's image perception. Previous visitation has the biggest influence on Germans' perceptions of Slovenia's beautiful nature, mountains and lakes, good opportunities for recreation activities, as well as its political stability.

Germans perceived Slovenia's quality dimension (table 9) quite badly, especially due to their intrinsic quality variables. The results show that more than half of the proposed intrinsic quality variables for Slovenia were evaluated with a mean score below 3. The quality of infrastructure (mean 2.66) in Slovenia was the worst perceived variable in the minds of German respondents, followed by Slovenia's level of personal safety (mean 2.73) and its quality of accommodation (mean 2.82). Ger-

TABLE 8 Statistically significant differences in Slovenia's image variables due to previous visitation

Variable	(1)		(2)			
	M	SD	M	SD	T-test	Sig.
Beautiful nature	4.31	0.78	3.74	1.02	4.88	0.000^{α}
Beautiful mountains, lakes	3.95	0.93	3.52	1.04	3.49	0.001^{α}
Lovely towns and cities	3.57	1.03	3.32	1.02	2.03	0.043^{γ}
Recreation activities	3.80	0.87	3.40	0.99	3.44	0.001^{α}
Friendly people	4.14	0.69	3.93	0.82	2.14	0.033^{γ}
Political stability	3.06	1.09	2.56	1.00	3.94	0.000^{α}
Relaxing atmosphere	3.76	0.90	3.53	0.87	2.18	0.030^{γ}

Column headings as follows: (1) Germans who have visited Slovenia in the past ($n = 98$); (2) Germans who have not visited Slovenia in the past ($n = 278$).
Notes: α significant at < 0.001; γ significant at < 0.05. M = mean, SD = standard deviation, T-test = independent sample t-test (equal variances assumed). Variable scale: from 1 to 5 (1 = strongly disagree, 5 = strongly agree).

TABLE 9 Quality variables for Slovenia as a tourism destination for German respondents

Variable	M	SD
Low prices of tourism services	3.98	0.74
Appealing local food (cuisine)	3.78	0.83
Good value for money	3.73	0.79
Few problems with communication	3.29	1.18
Unpolluted environment	3.13	1.00
High level of cleanliness	2.99	0.83
Low quality of services (r)	2.86	1.04
High quality of accommodation	2.82	0.87
High level of personal safety	2.73	0.91
High quality of infrastructure	2.66	0.89

Notes: M = mean, SD = standard deviation. Variable scale: from 1 to 5 (1 = strongly disagree, 5 = strongly agree).

mans have much higher opinions about Slovenia's local food, which represented the best evaluated intrinsic quality variable. By contrast, data showed respondents' better opinions about Slovenia's extrinsic quality variables. However, this is especially stressed in the evaluation of Slovenia's prices of tourism services.

TABLE 10 Statistically significant differences in Slovenia's quality variables due to previous visitation

Variable	(1)		(2)			
	M	SD	M	SD	T-test	Sig.
Cleanliness	3.15	0.84	2.93	0.82	2.21	0.028^{γ}
Personal safety	3.01	0.87	2.63	0.90	3.51	0.001^{α}
Communication	3.13	1.13	2.76	0.99	2.94	0.003^{β}

Column headings as follows: (1) Germans who have visited Slovenia in the past ($n = 98$); (2) Germans who have not visited Slovenia in the past ($n = 278$).
Notes: α significant at < 0.001, β significant at < 0.01, γ significant at < 0.05. M = mean, SD = standard deviation, T-test = independent sample t-test (equal variances assumed). Variable scale: from 1 to 5 (1 = strongly disagree, 5 = strongly agree).

TABLE 11 Loyalty variables for Slovenia as a tourism destination for German respondents

Variable	M	SD
I would like to visit Slovenia in the future.	3.21	1.33
I intend to recommend Slovenia to my friends.	2.86	1.34
Slovenia provides more benefits than other similar European destinations.	2.41	0.99
Slovenia is one of the preferred destinations I want to visit.	2.30	1.14

Notes: M = mean, SD = standard deviation. Variable scale: from 1 to 5 (1 = strongly disagree, 5 = strongly agree).

Previous visitation to Slovenia (table 10) improved Germans' perceptions about Slovenia's personal safety (statistically significant at the 0.001 level), their communication possibilities with Slovenians (statistically significant at the 0.01 level) as well as Slovenia's level of cleanliness.

From all proposed loyalty variables, Germans (table 11) agreed only with the statement that they would like to visit Slovenia in the future (mean 3.21). Because this loyalty variable significantly differs from the neutral mean (3), this could imply a possible future visit to Slovenia by German respondents. Other three loyalty variables were evaluated with a mean score less than 3.

Germans who have visited Slovenia in the past agreed significantly more about their future visitation of Slovenia and its possible recommendation to their friends and relatives than those Germans who have never been to Slovenia (table 12). Both variables of so called attitudinal loyalty measures were evaluated with a mean score higher than the

TABLE 12 Statistically significant differences in Slovenia's loyalty variables due to previous visitation

Variable	(1)		(2)			
	M	SD	M	SD	T-test	Sig.
Slovenia provides more benefits	2.58	1.02	2.34	0.98	1.97	0.049^{γ}
Visit Slovenia in the future	3.60	1.21	3.06	1.34	3.50	0.001^{α}
Recommend Slovenia	3.28	1.33	2.68	1.30	3.71	0.000^{α}

Column headings as follows: (1) Germans who have visited Slovenia in the past ($n = 98$); (2) Germans who have not visited Slovenia in the past ($n = 278$).
Notes: α significant at < 0.001, γ significant at < 0.05. M = mean, SD = standard deviation, T-test = independent sample t-test (equal variances assumed). Variable scale: from 1 to 5 (1 = strongly disagree, 5 = strongly agree).

neutral mean (3). Further, significantly better evaluation about Slovenia's benefits in comparison to other similar European destinations was recognized by those Germans who have visited Slovenia in the past.

Discussion and Conclusion

German respondents are aware of Slovenia as a tourism destination, although they have still problems in their quick recall of some of Slovenia's characteristics. Further, they hold mostly neutral or even slightly positive opinions about Slovenia's image. On average, they perceive Slovenia as a country of friendly people and pleasant weather with beautiful nature, especially due to its beautiful mountains and lakes. In addition, they shared much worse opinions about Slovenia's quality dimension, especially about Slovenia's intrinsic quality variables: infrastructure, personal safety and its accommodation. By contrast they evaluated Slovenia's extrinsic quality variables more positively. All together, this perception can also be presented in Germans' attitudinal loyalty dimension about Slovenia. The results here indicated only a slight attitudinal loyalty of Germans, mainly through their interest in visiting Slovenia in the future.

Consistent with previous research we found that previous visitation (table 13) plays an important role in customer's evaluation of a tourism destination. Regarding the results of Germans' evaluation of Slovenia as a tourism destination, we can conclude that previous visitation to Slovenia improved Germans' awareness of Slovenia as well as their loyalty attitude to the investigated destination. Because we have confirmed the statistically significant differences in all investigated variables for awareness di-

TABLE 13 The influence of previous visitation on the customer's evaluation of a tourism destination

Hypothesis	Number of variables (statistically significant differences)	Results	
H1	Previous visitation → Customer's evaluation of a tourism destination		Confirmed
H1a	Previous visitation → Awareness	5V	Confirmed
H1b	Previous visitation → Image	7V	Partly confirmed
H1c	Previous visitation → Perceived quality	3V	Partly confirmed
H1d	Previous visitation → Loyalty	3V	Confirmed

Total number of: awareness variables – 5, image variables – 16, quality variables – 10, loyalty variables – 4.

mension, and in three out of four loyalty variables, we can confirm both of the proposed sub hypotheses (H1a and H1d). Further, previous visitation to Slovenia has also some influence on Germans' perception about Slovenia's image (sub hypothesis H1b) and quality (sub hypothesis H1c) dimension. Due to a previous visit, Germans have a better opinion about the beauty of Slovenia's nature, its mountains and lakes, towns and cities as well as its recreational activities. Previous visitation improved also the Germans' perceptions about the political stability in Slovenia, its relaxing atmosphere and peoples' friendliness. In addition, due to previous visitation, Germans evaluated better also three intrinsic quality variables for destination Slovenia. Therefore we can conclude that there is also some influence of Germans' previous visitation on Slovenia's image and quality perception, which indicates, that we can partly confirm also the sub hypotheses H1b and H1c. Combining the results of all four proposed sub hypotheses, we came to the conclusion that hypothesis H1 can be confirmed, which implies on the influence of previous visitation on customer's evaluation of the tourism destination. However, due to the limited number of items (variables) confirmed for quality (three out of ten) and image (seven out of sixteen) dimension, the results indicated that previous visitation had an influence only on some quality and image proposed variables. But we cannot generalize that previous visitation had an influence in evaluation of our proposed image and quality dimension in general.

The evaluation of quality dimension by Germans who had visited Slovenia in the past, in comparison to those Germans who had not visited it in the past, was the most unexpected conclusion of our research

among German potential tourists. We had expected that previous visitation would improve the opinion about Slovenia's quality dimension more, especially due to the fact that the quality variables were evaluated quite badly. This could be probably also explained by the sample characteristics. Many of the German respondents had visited Slovenia over ten year ago. According to our opinion, the major quality improvements have been made during the last ten years, which could imply that the real quality level has not been perceived by those respondents who had visited Slovenia many years ago.

The comparison of those results with the results of previously made research in 2001 about Slovenia's image as a tourism destination (Konečnik 2002; 2005b) indicates similarities in the conclusions. Our main conclusion – that previous visitation is an important factor in customer's evaluation of a tourism destination – was also confirmed in this research. The target group was tourism representatives (and not potential tourists in general), and the questions included only the destination image and quality dimension variables (awareness dimension was included as the filter question at the beginning, while loyalty dimension was not investigated). Representatives who had visited Slovenia in the past, had in common a better opinion about its image and quality dimension than did the group of experts who had not visited Slovenia. In contrast to the only slight improvement in Slovenia's quality evaluation among Germans' visitors in our research (statistically significant differences were confirmed in three out of ten proposed quality variables), influence of previous visitation on Slovenia's quality perception from the tourism representatives' point of view was perceived as being much stronger. Representatives who had visited Slovenia in the past, evaluated mostly all of the investigated quality variables significantly better than those representatives who had never visited Slovenia till that time.

As far as previous visitation is treated as a realistic factor in destination evaluation (Hu and Ritchie 1993; Mackay and Fesenmaier 1997), the results of both investigations should be considered in further marketing strategies for destination Slovenia. Because previous visitation was confirmed as an improvement factor in Slovenia's evaluation, this could be a sign that there exists a gap between what is offered and what is perceived. Marketing campaigns could for example stress the issues regarding Slovenia's political stability and personal safety, as two of the variables which have been significantly better evaluated by those Germans who visited Slovenia in the past. Beside the consideration of different

perception among potential tourist groups familiar with Slovenia and those not familiar with it, another important suggestion should be derived from the characteristics of Slovenia's identity. The combination of the characteristics stemming from the identity of Slovenia and results of the presented researches should represent a good base for developing further marketing strategies on foreign markets. Because the quality dimension was perceived relatively badly by the Germans' respondents, further marketing strategies on German markets should stress also the high quality level of Slovenia's tourism offer, which has improved considerably during the last few years.

Although the presented paper provides a contribution at the theoretical, empirical and also practical level, there are still many further research opportunities. If we were able to enlarge the sample size of the visitors, it would be reasonable to investigate not only the phenomenon of previous visitation, but also the phenomenon of repeat visitation. In this case it would be reasonable to investigate whether the perception of the destination differs between tourists who have visited a country several times and those tourists who have visited a country fewer times. This differentiating criterion for visitor's separation should be made at some relatively high number of previous visitations, because Fakeye and Crompton in their study (1991) came to conclusion that the majority of changes occur during the first visitation. Further, with an increasing number of visits, tourists build up a more complete opinion about the specific tourism destination, which can also influence their perception of destination evaluation. In addition, it will be reasonable to repeat the same study also on other main target markets for Slovenia as a tourism destination, as Italy, Austria and Great Britain are. Armed with those results, as well as with the affirmation of Slovenia's identity, more efficient marketing strategies on main target markets could be developed.

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Competitiveness of Slovenia as a Tourist Destination

Doris Gomezelj Omerzel

In an increasingly saturated market the fundamental task for the destination management, is understanding how tourism destination competitiveness can be enhanced and sustained. Competitiveness of a tourist destination is an important factor that positively influences the growth of the market share. Therefore tourism managers have to identify and explore competitive advantages and analyse the actual competitive position. There exist different approaches that model the competitiveness (Ritchie and Crouch 1993; Evans and Johnson 1995; Hassan 2000; Kozak 2001; De Keyser and Vanhove 1994; Dwyer, Livaic and Mellor 2003). Among all we follow the framework (Dwyer, Livaic and Mellor 2003), which was developed in a collaborative effort by researchers in Korea and Australia and presented in Sydney in 2001, and conduct an empirical analysis on Slovenia as a tourist destination. The aim of this paper is to present the model of destination competitiveness. The paper presents the results of a survey, based on indicators associated with the model, to determine the competitiveness of Slovenia as a tourist destination.

Key Words: tourist destination, competitiveness, competitiveness indicators, tourism stakeholders, added value

JEL *Classification:* M31, M39

Introduction

We have entered the 21st century and realised that many new opportunities await us in the tourism industry. The advent of globalisation has coincided with a boom in the tourism sector and this has presented many new challenges. Free movement of capital and trade rules are the real forces behind globalisation. In the context of tourism, globalisation means dramatic increases in the number of destinations and also in distances among them. International tourism conditions have changed drastically and it has become necessary to address these challenges in order to remain competitive in the tourism market. Development of new tourism products and destinations is one of the manifestations of the tourism sector shift towards increased productivity (Fadeeva 2003).

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Managing Global Transitions 4 (2): 167–189

Competitiveness is a broad concept, which can be observed from different perspectives: through products, companies, branches of the economy or national economies, in the short run or the long run. The definitions offered in the literature provide both a micro and macro connotation of competitiveness. From a macro perspective competitiveness is a national concern and the ultimate goal is to improve the real income of the community. From a micro perspective, it is seen as a firm level phenomenon. In order to be competitive, any organisation must provide products and services, which must satisfy the never ending desires of the modern consumer. For such products and services, customers or clients are willing to pay a fair return or price.

Let us extend the concept of comparative and competitive advantage to international tourism. Comparative advantage seems to relate to things like climate, beautiful scenery, attractive beaches, wildlife etc. Comparative factors are close to primary tourism supply (natural, cultural and social attractiveness). We can never reproduce them with the same attractiveness. On the other hand, competitive advantage relates to tourism infrastructure, the quality of management, the skills of the workforce, government policy etc. (Ritchie and Crouch 1993). Competitive factors refer to secondary tourism supply. They can be produced and improved by the tourist firms or governmental policy. Both kinds of factors are co-dependent. Without secondary tourism supply the tourism destination is not able to sell attractions, e. g. primary tourism supply on a tourist market, and without primary supply the tourism infrastructure is not useful.

To understand the competitiveness of tourist destinations, we should consider both the basic elements of comparative advantage as well as the more advanced elements that constitute competitive advantage. Where comparative advantages constitute the resources available to a destination, competitive advantages mean a destination's ability to use these resources effectively over the long-term. Destination with a wealth of resources may sometimes not be as competitive as a destination with a lack of resources. A destination that has a tourism vision, shares the vision among all the stakeholders, has management which develops an appropriate marketing strategy and a government which supports tourism industry with an efficient tourism policy, may be more competitive than one that has never asked what role tourism is to play in its economy (Crouch and Ritchie 1999). The most important is the ability of the tourism sector to add value to its products. The primary attractiveness

can be a source for higher value added, but the value is only created through performing activities. It can happen that the comparative advantage is lost due to the un-competitive secondary tourism supply. The support of tourism stakeholders is essential for successful development and sustainability of tourism and could help to improve destination competitiveness. As a result, the tourism destination will receive many benefits from enhanced tourism destination competitiveness.

Despite the extensive literature on competitiveness, no clear definition or model for discussing tourism destination competitiveness has yet been developed. There is a fundamental difference between the nature of the tourism product and the more traditional goods and services. A model of competitiveness that focuses specifically on the tourism sector is based on the nature of the tourism offering product, which from a destination perspective can be regarded as 'an amalgam of individual products and experience opportunities that combine to form a total experience of the area visited' (Murphy, Pritchard and Smith 2000). A destination competitiveness appears to be linked to the destination's ability to deliver goods and services that perform better than other destinations. A large number of variables are linked to the notion of destination competitiveness. They can be quantitative, such as visitor numbers, market share, tourist expenditure, employment, value added by the tourism industry, or qualitative measured variables, such as richness of culture and heritage, quality of tourism services, etc.

Poon (1993) suggested four key principles which destinations must follow if they are to be competitive: put the environment first, make tourism a leading sector, strengthen the distribution channels in the market place and build a dynamic private sector. Go and Govers (1999), in a study of conference site selection, measured a destination's competitive position relative to other destinations along seven attributes – facilities, accessibility, quality of service, overall affordability, location image, climate and environment, and attractiveness. In any case, these attributes are based specifically on the conventions sector of tourism. De Keyser and Vanheove (1994) analysed the competitiveness of eight Caribbean islands and they included transport system determinants in their model. The model and its four determinants proposed by Porter (1990) were utilised as a fundamental source for explaining the determinants of destination competitiveness, proposed by Crouch and Ritchie (1999). According to them, the primary elements of destination appeal are essential for destination comparative advantage and can be key motivational factors for

tourists' visits. Physiography, culture and history, market ties, activities and events are examples of those resources. Furthermore, Crouch and Ritchie (1999) expanded the model on supporting factors and resources as secondary effective sources of destination competitiveness, and particularly on destination policy, planning and development and on the destination management.

All the above mentioned models served as a foundation for the development of the so called Integrated model, which was used for our research. From a perspective of our study, this model was the most relevant. It brings together the main elements of destination competitiveness, it provides a realistic display of the linkages between the various elements, the distinction between inherited and created resources seemed to be useful, and the category Management – which was the important issue of our research – included all relevant determinants that shape and influence a destination is competitive strength.

Slovenian tourism competitiveness has been insufficiently analysed and the results have not been used for an efficient economic tourism policy. The last study on the competitiveness of Slovenia as a tourist destination was done in 1998 by Sirše. The depth research was carried out (with interviews and brainstorming) on Slovenian tourism strategy, development, marketing, competitiveness and tourism policy. It has been shown that Slovenian tourism was stronger in non produced attractiveness than in its management's capability to add value. Services performed were the weaker point of the Slovenian tourism product (Sirše and Mihalič 1999).

The aforementioned competitive study was the last study which focused on international competitiveness of Slovenian tourism. The others analysed competitiveness sources of Slovenian tourism firms on the micro level (Mihalič and Dmitrović 2000).

The aim of this paper is to present the results of a survey made in summer 2004 on the competitiveness of Slovenia as a tourist destination. The article is constructed as follows: First, a model of destination competitiveness is presented; second, a methodological framework is presented and data collection is described. In the third part empirical results are presented and the article concludes with a summary of key findings.

Model of Destination Competitiveness

The model seeks to capture the main elements of competitiveness highlighted in the general literature, while appreciating the special issues involved in exploring the notion of destination competitiveness as empha-

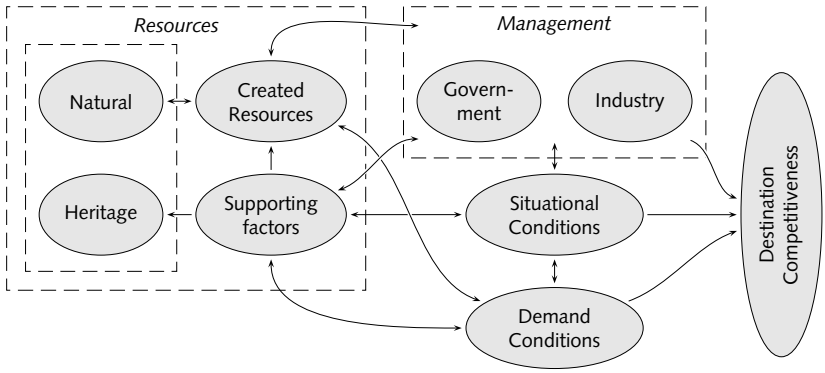

FIGURE 1 Model of destination competitiveness (adapted from Dwyer et al. 2003)

sised by tourism researchers. The model was developed in a collaborative effort by researchers in Korea and Australia (Dwyer, Livaic and Mellor 2003).

The model displayed in figure 1 brings together the main elements of destination competitiveness as proposed by tourism researchers. The determinants are classified under six main headings:

- Inherited Resources
- Created Resources
- Supporting Factors and Resources
- Destination Management
- Situational Conditions
- Demand Conditions

Taken together, Inherited, Created and Supporting Resources provide various characteristics of a destination that make it attractive to visit. This is why they are all placed in the same box. Inherited resources can be classified as Natural and Cultural. The Natural Resources include physiography, climate, flora and fauna etc. The culture and heritage, like the destinations' history, customs, architectural features, and traditions enhance the attractiveness of a tourism destination. Created Resources include tourism infrastructure, special events, entertainment, shopping and any available activities. The category Supporting factors and Resources provides the foundations for a successful tourism industry. They include general infrastructure, quality of services, hospitality, and accessibility of destination.

Destination Management includes factors that enhance the attractiveness of the inherited and created resources and strengthen the quality of the supporting factors.

The factors of Situational conditions can moderate modify or even mitigate destination competitiveness. This can be a positive or unlikely negative influence on the competitiveness. There would seem to be many types of situational conditions that influence destination competitiveness. These are Destination location, micro and macro environment, the strategies of destination firms and organisations, security and safety and the political dimension.

If we want a demand to be effective, tourists must be aware of what a destination has to offer. The awareness, perception and preferences are three main elements of the tourism demand.

Methodology

SAMPLE AND DATA COLLECTION

Following the model, a survey was conducted to determine the competitiveness of Slovenia as a tourist destination. Underpinning the survey instruments was a set of indicators of destination competitiveness. We agree that indicators of destination competitiveness are many and varied. There is no single or unique set of indicators that apply to all destinations at all times (Dwyer, Livaic and Mellor 2003). Generally they include objectively measured variables such as visitor numbers, market share, employment, earnings, as well as subjectively measured variables such as climate, richness of attractiveness, image, appeal, beauty etc.

The survey instrument was prepared. The questionnaire was tested on 11 tourism stakeholders. Some obscurities were discussed and some questions have been changed, but no essential corrections have been made. Those 11 questionnaires have not been included in the further analysis.

The most common research method of tourism attractiveness is from the visitors' perspectives. In our case this approach is limited due to the short period of visiting time and the limited knowledge of domestic and foreign visitors about a given destination, particularly about the destination management determinants. The use of tourism experts as tourism stakeholders have some benefits and advantages. Their knowledge about the entire portfolio of destination competitive resources can help to discover the tourist destination more appropriately.

The survey was performed from March to April 2004. The respondents were selected from tourism stakeholders on the supply side, that is

tourism industry stakeholders, government officials, tourism school academics and postgraduate students on tourism courses. Further use of the model would need to incorporate tourism consumer input and perception. Out of 291 questionnaires sent, 118 or 41% were returned.

The sample included 6.8% government officials, 12.8% tourist agency managers, 26.4% hospitality sector managers, 6% tourism school academics, 15% tourism services managers, 12% postgraduate students on tourism courses, 15% employers in local tourist organisations and 6% the others. The majority of the participants were young – up to 40 years of age (61.9%). The respondents' average length of residence in Slovenia was 36 years (SD = 11.29). The results revealed that 2 (0.02%) of respondents were residents for less than 20 years, 43 (36.4%) of them were residents for between 20 and 30 years, 18 (15.2%) of them for between 30 and 40 years and 55 (48.38%) of them for more than 40 years. Only four of them were not born in Slovenia, only one of all respondents has lived in Slovenia less than 13 years. The sample was not well balanced in terms of gender (66.1% female, 33.9% male). The majority of the participants had completed college or university (50.8%), so most of the respondents were quite highly educated.

This result implies that the survey questionnaires were collected from various tourism stakeholders who are currently involved in tourism-related organisations, associations and business.

VARIABLES AND MEASUREMENT

The respondents were asked to indicate their own group of five most competitive destinations and to rank them from the most to the least competitive. The aim of this study was not to rank Slovenia against other competitive destinations, but to indicate the weak points in Slovenia's tourism industry. Further, the survey required respondents to give a rating (on a 5 point Likert scale, for each of the 85 competitiveness indicators) for Slovenia compared to its major competitor destinations. The options ranged from 1 (well below average) to 5 (well above average).

In order to obtain a clearer picture of the assessment made by respondents to the various questions, we group them into each of the six categories of the Model of Destination Competitiveness.

Empirical Analyses

The data on competitiveness of Slovenia as a tourist destination were acquired by using the questionnaire. Slovene tourist stakeholders were

asked to rate Slovenia's performance, on a 5-point Likert scale, on each of 85 indicators, against a group of competitive destinations. In order to obtain a clearer picture, we grouped them into each of the six categories of the Model of Destination Competitiveness (see figure 1): Inherited Resources, Created Resources, Supporting Factors, Situational Conditions, Management, and Demand. For each of these groupings, tables were produced, where mean and standard deviation for each question is displayed. The question with the smallest mean response within the group is listed first; the remaining responses are listed in ascending order. Finally, a paired sample test was used to check the hypothesis. The SPSS standard package for personal computers was used in this regard.

INHERITED RESOURCES

Inherited resources are classified as Natural and Cultural/Heritage. The natural resources of a destination signify the environmental framework within which the visitor enjoys the destination (Dwyer and Kim 2003). They are crucial for many forms of tourism and visitor satisfaction. The culture and heritage of a destination, its history, traditions, artwork etc., provides a powerful attracting force for the prospective visitor (Murphy, Pritchard and Smith 2000).

Compared to the competitive destinations, Slovenia is regarded as above average in all attributes on this dimension (see table 1). The highest rating was accorded to the unspoiled nature, flora and fauna, attractiveness of climate and traditional arts. The relatively high rating given to Slovenia's natural resources is to be expected. It is well known that the country has areas of attractive natural resources, the nature is still unspoiled and the climate is really favourable. The smallest standard deviation in this group for the unspoiled nature with value 0.7 indicates quite high agreement between respondents. The high ratings should not be a cause for complacency. The maintenance of Slovenia's competitive advantage in this area requires constant environmental monitoring of the impacts of tourism development.

The relatively high standard deviation in the responses for historic sites, artistic and architectural features and heritage indicates that respondents share different views about their perceptions of these attributes. The means are lower too. This result is not unexpected, given the relatively short history of Slovenia compared to the historically and culturally rich competitors, such as Italy and Austria. It is unlikely that these attributes can be improved through appropriate tourism policy.

TABLE 1 Descriptive statistics: Inherited Resources

	Competitiveness indicators	M	SD
A7	Historic sites	3.21	0.90
A6	Artistic and architectural features	3.22	0.80
A8	Heritage	3.46	0.86
A9	National parks	3.58	0.98
A1	Cleanliness	3.66	0.76
A5	Traditional arts	3.73	0.79
A2	Attractiveness of climate for tourism	3.83	0.76
A4	Flora and fauna (e. g. animals, birds, forests)	4.00	0.79
A3	Unspoiled Nature	4.40	0.70

Notes: $n = 118$, M = mean, SD = standard deviation. Source: Own calculations.

In general, these destination attractions (inherited resources) have been considered as tourism supply factors, which represent the driving forces generating tourism demand (Uysal 1998) and also primary sources or determinants of measuring destination attractiveness (Hu and Ritchie 1993).

The survey, conducted by the Slovenian tourism organisation (STO 2004; 2005) showed that the visitors , residents of Austria, Italy and Germany, share the same opinion (well preserved nature, a great culture and history, a great diversity in a small area). German visitors perceive Slovenia as a country of friendly people and pleasant weather with beautiful nature, especially due to its splendid mountains and lakes (Konečnik and Ruzzier 2006).

CREATED RESOURCES

There are at least five types of created resources that influence destination competitiveness: tourism infrastructure, special events, range of available activities, entertainment and shopping.

Mo, Howard and Havitz (1993) have argued that destination service infrastructure is, after destination environment, the most important factor in a tourist's experience. The capacity of special events to generate tourism expenditure is well documented. The set of activities possible within a visit are undoubtedly important tourism attractors. These can include recreation facilities, sports, facilities for special interest etc. The category of entertainment can be found in many forms. The amount of entertainment is less important than its quality or uniqueness.

Slovenia is rated most above average on attributes of health resorts, visitor accessibility to natural areas, variety of cuisine, Casino, nature based activities, accommodation (variety/quality) and food service facilities, but most below average in amusement/theme parks, community support for special events and night life (see table 2). Variety of cuisine had the smallest standard deviation in this group with the value of 0.74, indicating agreement between respondents. The tourists from Austria, Italy and GB gave a high rate (3.94 on the scale from 1 to 5) to the excellent food and wine, too (STO 2005). Less consistency between respondents was found in the area of water based activities (standard deviation of 0.94) and winter based activities (standard deviation of 0.94).

The survey results indicate much room for improvement in the area of Created resources. Other attributes that may need attention are entertainment and special events. The survey also implies that Slovenia could develop greater community support for special events. Improvements should be made in the efficiency and quality of local transportation. If so, residents can benefit as well as tourists.

SUPPORTING FACTORS

Supporting factors underpin destination competitiveness. They include attributes such as general infrastructure, quality of service, accessibility of destination, hospitality, etc.

A destination's general infrastructure includes road network, water supply, financial services, telecommunications, health care facilities, etc.

Destinations have become reliant on the delivery of quality services. A commitment to quality by every enterprise in a destination is necessary to achieve and maintain competitiveness (Go and Govers 2000).

There exists a link between destination access and destination choice. The accessibility of the destination is governed by many influences including ease and quality of auto, air, train, bus, sea access, entry permits and visa requirements, airport capacities etc. (McKercher 1998).

Hospitality relates to the resident and community attitudes towards tourists and towards tourism industry. Resident support for tourism development fosters a competitive destination.

Slovenia is rated as above average in hospitality of residents towards tourists, communication and trust between tourists and residents, accessibility of destination, telecommunication system for tourists, quality of tourism services and in financial institutions and currency exchange facilities, but below average in animation, health/medical facilities to

TABLE 2 Descriptive statistics: Created Resources

	Competitiveness indicators	M	SD
B32	Amusement/Theme parks	2.06	0.77
B28	Community support for special events	2.39	0.86
B29	Night life (e. g. bars, discos, dancing)	2.50	0.84
B23	Airport efficiency/quality	2.54	0.81
B30	Local tourism transportation efficiency/quality	2.55	0.84
B10	Water based activities (e. g. swimming, surfing, boating, fishing)	2.85	0.93
B26	Entertainment (e. g. theatre, galleries, cinemas)	2.88	0.81
B31	Diversity of shopping experience	3.00	0.80
B25	Special events/festivals	3.06	0.79
B24	Tourist guidance and information	3.08	0.86
B50	Existence of tourism programs for visitors	3.08	0.82
B11	Winter based activities (skiing, skating)	3.10	0.93
B15	Adventure activities (e. g. rafting, skydiving, bungee jumping),)	3.10	0.88
B14	Sport facilities (e. g. golf, tennis)	3.22	0.76
B20	Rural tourism	3.33	0.89
B13	Recreation facilities (e. g. parks, leisure facilities, horse riding)	3.33	0.78
B19	Congress tourism	3.34	0.84
B17	Food service facilities	3.38	0.82
B22	Accommodation (variety/quality)	3.40	0.80
B12	Nature based activities (e. g. bushwalking, bird watching)	3.44	0.85
B27	Casinò	3.58	0.92
B16	Variety of cuisine	3.81	0.73
B18	Visitor accessibility to natural areas	3.92	0.85
B21	Health resorts, spa	4.27	0.74

Notes: $n = 118$, M = mean, SD = standard deviation. Source: Own calculations.

serve tourists, attitudes of customs/immigration officials, efficiency of customs/immigration, visa requirements as an impediment to visitation and destination links with major origin markets (see table 3).

Overall, the rating of these groups of attributes was considerably lower than for the inherited resources and Created resources. Hospitality in Slovenia was rated highly. Slovenia's residents were rated above average in their friendliness to tourists and the ease of communications between tourists and residents. Customs efficiency and attitude were rated above

TABLE 3 Descriptive statistics: Supporting Factors

	Competitiveness indicators	M	SD
C35	Animation	2.59	0.79
C33	Health/medical facilities to serve tourists	2.77	0.88
C41	Attitudes of customs/immigration officials	2.89	0.85
C40	Efficiency of customs/immigration	2.91	0.86
C44	Visa requirements as an impediment to visitation	2.91	0.85
C43	Destination links with major origin markets (e. g. business, trade, sporting)	2.95	0.84
C34	Financial institutions and currency exchange facilities	3.19	0.77
C36	Quality of tourism services	3.25	0.74
C37	Telecommunication system for tourists	3.26	0.91
C38	Accessibility of destination	3.31	0.85
C40	Communication and trust between tourists and residents	3.34	0.84
C42	Hospitality of residents towards tourists	3.45	0.76

Notes: $n = 118$, M = mean, SD = standard deviation. Source: Own calculations.

average. Maybe there is no need to spend time on this. The situation on state frontiers has probably changed since 1 May 2004, when Slovenia became a member of the European Union (the survey was carried out in April 2004). Room for improvement is indicated in animation. There is a lack in tourism products and programs for entertainment and attractive experiences. Of course there is nothing to do about Slovenia's location compared to the major origin markets.

Tourists from Austria, Italy and GB gave the highest rate to the Slovenia as a hospitable country (4.14 on the scale from 1 to 5).

DESTINATION MANAGEMENT

Destination management has a potentially important influence on destination competitiveness. It includes activities such as destination marketing, planning and development, destination management organisations and human resource development.

Destination management should focus on a systematic examination of unique comparative advantages that provide a special long term appeal of the destination (Hassan 2000). Tourism planning takes place on many levels: destination, regional, national, international. Planning is carried out by different organisations and agencies.

Compared to the group of competitive destinations, Slovenia is rated

TABLE 4 Descriptive statistics: Destination Management

	Competitiveness indicators	M	SD
D77	Extent of foreign investment in destination tourism industry	2.15	0.90
D71	Government co-operation in development of tourism policy	2.33	0.89
D51	Public sector recognition of importance of sustainable tourism development	2.38	0.98
D69	Quality of research input to tourism policy, planning, development	2.38	0.79
D68	Destination has clear policies in social tourism (e. g. disabled, aged)	2.39	0.92
D73	Public sector commitment to tourism / hospitality education and training	2.40	0.82
D74	Private sector commitment to tourism / hospitality education and training	2.50	0.88
D78	Level of co-operation (e. g. Strategic alliances) between firms in destination	2.53	0.71
D76	Development of effective destination branding	2.59	0.87
D70	Tourism development integrated with overall industry development	2.60	0.77
D61	Existence of adequacy tourism education programs	2.61	0.78

Continued on the next page

above average in resident support for tourism development, appreciation of service quality importance, tourism/ hospitality training responsive to visitor needs and private sector recognition of sustainable tourism development importance. The highest rating was accorded to the resident support for tourism development. As also in the group of supporting factors, the indicator hospitality of residents towards tourists was rated the highest, there are indications that residents are aware of the tourism development benefits.

Ap and Crompton (1993) profiled four levels of reactions by residents to tourism activities. The first level is embracement, which describes a euphoric stage where residents hold very positive attitudes toward tourists and their impact. Tolerance is next and describes residents who are positive on some impacts and negative on others. Adjustment, the third level, is where residents have learned to cope with tourists. The last stage describes a community where residents leave when tourists arrive.

According to Yoon, Gursoy and Chen (2000), who studied residents' attitudes and support for tourism development, local residents are likely

Continued from the previous page

	Competitiveness indicators	M	SD
D67	Developing and promoting new tourism products	2.66	0.85
D64	Destination vision reflecting resident values	2.71	0.75
D65	Destination vision reflecting stakeholder values	2.72	0.78
D81	NTO reputation	2.72	0.93
D75	Educational structure/profile of employees in tourism	2.72	0.73
D66	Destination vision reflecting community values	2.73	0.76
D80	Quality in performing tourism services	2.82	0.81
D63	Destination vision reflecting tourist values	2.83	0.80
D57	Entrepreneurial qualities of local tourism businesses	2.97	0.77
D60	Efficiency of tourism/hospitality firms	3.00	0.61
D52	Private sector recognition of sustainable tourism development importance	3.00	1.00
D62	Tourism/hospitality training responsive to visitor needs	3.02	0.75
D79	Appreciation of service quality importance	3.03	0.78
D72	Resident support for tourism development	3.16	0.74

Notes: $n = 118$, M = mean, SD = standard deviation. Source: Own calculations.

to participate in supporting tourism development as long as the perceived benefits of tourism exceed the perceived cost of tourism.

The human resource function is critical to the performance of any destination. Since competition between firms is determined by skills, human resources are central factors in achieving or maintaining competitiveness (Bueno 1999). Tourism stakeholders need to understand the HRM practices that strengthen the knowledge-sustained competitive advantage. The rating for private and public sector commitment to tourism education and training is quite below average. This indicates that the human resources development (HRD) in tourism operation and management is not understood significantly enough.

Countries which depend on tourism economic earnings know too well that popularity and continued sustainable growth of their destinations is directly related to the quality of their tourism workforce. Efforts in tourism education and training have to be undertaken by at least three main stakeholders: government agencies, private and public schools, and industry sector.

The perception is that Slovenia rates relatively low in many indicators of the group Destination Management. The lowest ratings were given

TABLE 5 Descriptive statistics: Situational Conditions

	Competitiveness indicators	M	SD
E56	Co-operation between public and private sector	2.35	0.84
E58	Access to venture capital	2.59	0.83
E59	Investment environment	2.63	0.80
E54	Use of e-commerce	2.86	0.72
E49	Manager capabilities	2.94	0.82
E53	Value for money in shopping items	3.06	0.68
E55	Use of IT by firms	3.06	0.78
E48	Value for money in accommodation	3.39	0.84
E47	Value for money in destination tourism experiences	3.44	0.86
E46	Political stability	4.11	0.71
E45	Security/safety of visitors	4.16	0.76

Notes: $n = 118$, M = mean, SD = standard deviation. Source: Own calculations.

to the extent of foreign investment in the destination tourism industry, government co-operation in development of tourism policy, public sector recognition of the importance of sustainable tourism development and quality of research input to tourism policy, planning, development. In this area there really is much room for improvements. In the field of tourism, scientific research has always been important. Now, when tourism consumers are changing their habits and preferences, this is even more evident.

SITUATIONAL CONDITIONS

Situational conditions may enhance or reduce destination competitiveness. The performance of the tourism industry depends on the overall structure of the industry and the positive environment in which it is situated.

A competitive destination depends both on the micro environment and on the macro environment. On the micro level, competition among firms creates an environment for excellence. On the macro level, tourism is influenced by a range of global forces including economic restructuring of economies, demographic changes, computerisation etc. The political dimension is a key factor that contributes to the nature of the destination. Safety and security can be a critical determinant of the tourism destination. The financial cost of the tourism experience is, however, important.

Slovenia is rated above average in security/safety of visitors, political

TABLE 6 Descriptive statistics: Demand Conditions

	Competitiveness indicators	M	SD
F83	International awareness of destination	2.00	0.87
F85	International awareness of destination products	2.15	0.84
F84	'Fit' between destination products and tourist preferences	2.70	0.69
F82	Overall destination image	2.83	0.89

Notes: $n = 118$, M = mean, SD = standard deviation. Source: Own calculations.

stability, value for money in destination tourism experiences, value for money in accommodation, use of IT by firms and value for money in shopping items, but below average in co-operation between public and private sector, access to venture capital, investment environment, use of e-commerce and manager capabilities (see table 5).

Slovenia is often perceived to be a safe country (STO 2004; 2005). The low standard deviation for the political stability indicates a high level of agreement in the rating of this indicator. In the case of bad performance of tourism industry, Slovene tourism managers should no longer excuse themselves by referring to the bad political situation or the neighbourhood of the Balkans.

DEMAND CONDITIONS

Demand factors assume special importance in determining destination competitiveness. The reason is that a destination may be competitive for one group of tourists but not for another group. It depends on their motivation for travel. We can distinguish between domestic and foreign demand. In many cases the domestic tourism drives the nature and structure of a nation's tourism industry. Foreign demand thrives more readily when domestic demand is well established. The competitiveness comprises three main elements of tourism demand: awareness, perception and preferences (Dwyer, Livaic and Mellor 2003).

Awareness can be generated by marketing activities, the image can influence perceptions and actual visitation will depend on perceived destination product offerings.

Slovenia is rated below average in all demand conditions indicators (see table 6). Each of these items is important for generating high and stable tourism flow in the future. The perceived 'fit' between destination tourism products and tourist preferences is very important in giving visitor satisfaction. Destination marketing managers should be-

come alarmed because of the very low rating for international awareness. Maybe they have already made a first move. At the Slovene tourism organisation (STO), they have set themselves the general task of enhancing awareness of Slovenia on the main target markets (Pak and Hauko 2002).

HYPOTHESIS TESTING

As mentioned above, extensive research was undertaken by Sirše in the late nineties. The research results were analysed in the case study presented at the 49th Congress of Aiest (1999) at Portorož. The study took into account comparative and competitive advantages aspects. The overall objective of this study was to show the importance of tourism for Slovenia and to evaluate the efficiency of the Slovenian Tourism policy. Slovenia tourism experts, 25 in all, were asked to appreciate different factors influencing competitiveness of the country. They shared the opinion that the management capability to add value to non-produced attractiveness is not satisfactory (Sirše and Mihalič 1999). Based on the key findings of the mentioned research and based on research questions of this case study, three hypotheses were proposed to determine the competitiveness of Slovenia as a tourist destination. For this purpose five new variables were defined:

1. IR, as a mean score of the first group of survey questions – Inherited Resources,
2. CR, as a mean score of the second group of survey questions – Created Resources,
3. SF, as a mean score of the third group of survey questions – Supported Factors,
4. SFR, as a mean score of the first, second and third group of survey questions – Supporting Factors and Resources,
5. MGT, as a mean score of the fourth group of survey questions – Destination Management.

We verified the competitiveness of Slovenia as a tourist destination following the hypotheses:

H1: Slovenia as a tourist destination is more competitive in the field of Supporting Factors and Resources than in the field of destination Management.

H2: Slovenia as a tourist destination is more competitive in the field of Inherited Resources than in the field of Created Resources.

TABLE 7 Results of paired sample t-test

Variable	M	SD	(1)	(2)	*t*	(3)
SFR-MGT	0.61	0.37	0.54	0.68	17.61	0.000
IR-CR	0.54	0.46	0.45	0.62	12.81	0.000
IR-SF	0.60	0.54	0.50	0.70	12.20	0.000

Column headings as follows: (1) lower 95% confidence interval of the difference; (2) upper 95% confidence interval of the difference; (3) Sig. (2-tailed).
n = 118, M = mean, SD = standard deviation. Source: Own calculations.

H3: Slovenia as a tourist destination is more competitive in the field of Inherited Resources than in the field of Supporting Factors.

For the purpose of obtaining these outputs, we set up three null hypotheses:

H0: The average value of the variable SFR is equal to the average value of the variable MGT.

H0: The average value of the variable IR is equal to the average value of the variable CR.

H0: The average value of the variable IR is equal to the average value of the variable SF.

For testing the null hypothesis that the average difference between a pair of measurement is 0, we used a paired-samples t-test. The t test procedure also displays a confidence interval for the difference between the population means of the two variables.

The results in table 7 indicate the statistically significant difference between variables in all three cases. We can therefore reject all placed null hypotheses. The upper analysis corresponds to results of the study made by Sirše and Mihalič in the 1999. Slovenian tourism competitiveness is built mainly on the diversity and richness of its attractions. The secondary tourist supply is much less competitive. Unfortunately this primary attractiveness itself can be a source for higher value added, but the value is only created through performing activities and successful management. Thus it can happen that the advantage, due to the attractions is lost through the non-competitive secondary tourism supply (Mihalič 1999). Especially in the area of all kinds of resources, inherited and created, Slovenia is an attractive destination. This means that Slovenia has the opportunity to become a successful tourism destination, but for the efficient prosperity of tourism industry, many improvements in the area of destination management should be made.

Conclusions

In this article we analyse the competitiveness of Slovenia as a tourist destination. Following the reference literature we establish six main groups of variables: Inherited resources, Created resources, Supporting factors, Situational conditions, Management, and Demand. On the basis of the obtained empirical results we can reveal areas where improvements should be made to Slovenia as a tourist destination.

A majority of 85 factors were evaluated below 4 (on the scale from 1 to 5). This means that there are only a few attributes, for which Slovenia was rated well above average. Despite the fact that the majority of our respondents were people who can be treated as destination managers, the destination management factors were evaluated the worst. This indicates that there is no clear strategy for further development. This is clearly seen from the low degree of co-operation between public and private sector, between education institutions and tourism companies. It seems that the government has no long-run solution for the co-operation between all potentially involved stakeholders.

The development of the Slovenian tourism sector in recent years has been based on the construction of physical infrastructure. The elements like quality of services, educational programmes and development of human resources, stimulation of creativity and innovation and formation of new interesting tourism products, were neglected. The development of tourism destination management, which is one of most important factors for competitiveness, was unsuccessful. The main problem seemed to be the danger, that because of the ineffectiveness in the phase of development and marketing of tourism products, the destination is losing the potential premium for the comparative advantages. This can be the reason for the diminution of the added value. It is possible that the tourism sector doesn't benefit enough from government support for the planned development of the destination and that the marketing effort doesn't work in the desired direction.

According to respondents, government co-operation in the development of tourism policy is not satisfactory. However, ensuring an appropriate and dynamic organisational structure to manage the destination tourism process is a vital element of destination competitiveness. Government should be involved in the promotion, regulation, presentation, planning, monitoring, co-ordination and organisation of tourism resources.

All kinds of management activities and actions can be considered as destination competitive strategies that can allow Slovenia as a tourist destination to enhance its competitiveness. Management should take care of creating and integrating value in tourism products and resources so that Slovenia as a tourist destination could achieve a better competitive market position.

Tourism can present an important factor in the internationalisation of the economy, as is evident from the discussion of Slovene small and medium enterprises (Ruzzier 2005). The unfavourable environment for foreign investment in the destination tourism industry represents an obstacle in maintaining or increasing the competitiveness and for faster development of Slovenian tourism. This is particularly important for the segment of small and medium enterprises, which represent 98% of all tourism business subjects. Ensuring a healthy investment climate is an essential ingredient of longer-term competitiveness. Investment in new products and services may also help to overcome seasonality constraints.

Every destination is comprised of many public and private sector actors. In practice, a strategic framework is required to outline their respective roles as well as their opportunities. Both should play their roles and achieve their specific goals and objectives. However, the cooperation between public and private sector was rated quite low. It is increasingly appreciated that a strong spirit of partnership and collaboration is required among all stakeholders to realize the potential of destination and to maximize available resources. Slovenia is still in a transition period. Privatization of tourism enterprises has just started. All these circumstances do not favor an ideal public-private partnership.

It is increasingly recognised and accepted that resources must be maintained and managed in an appropriate way if we want to prevent undue deterioration. This is why the low rating for public sector recognition of importance of sustainable tourism development should cause concern.

In the area of destination image, perception and awareness there is room for improvements. The ratings for these factors did not exceed 3 (on the scale from 1 to 5). Particular emphasis must therefore be placed on developing and promoting the particular image of the destination to compete effectively in the international marketplace. There is a gap between destination products and tourists' preferences. Changes in lifestyles, values and behavior are key driving forces in shaping the future direction of tourism marketing. Tourists are more knowledgeable, expe-

rienced, environmentally aware, independent and considerably better informed.

The presented research represents only one single step in the analysis of the competitiveness of Slovenia as a tourist destination. We have listed some of the main dimensions and indicators only. The first aim of this paper was to indicate the weak points of the Slovene tourism industry. The results reveal where Slovenia is below and where it is above average, comparing it with the competitive destinations.

There is a need to explore the relative importance of the different dimensions of competitiveness. Thus, for example, how important are the natural resources compared to, say, residents' hospitality, how important is the service quality compared to prices. Such researches must be prepared for the specific destinations and specific visitor market segments.

More research needs to be undertaken on the importance of different attributes of destination competitiveness. There is a need for more detailed empirical studies of consumer preferences and the determinants of travel decision.

The model allows destination competitiveness to be monitored over time. This can provide a moving picture of destination competitiveness at different points in time.

The model of competitiveness could be improved by seeking better to quantitatively measure and evaluate the relative importance of various factors determining the destination competitiveness.

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SUBSCRIPTIONS

Annual subscription (four numbers): individual rate 6900 SIT (€ 28.79); institutional rate 9900 SIT (€ 41.31). Prices include postage.
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Articles are double-blind peer reviewed.

The publication of the journal is supported by the Slovenian Research Agency.

MGT *is indexed in the International Bibliography of the Social Sciencies.*

Printed in Slovenia

Managing Global Transitions
International Research Journal

VOLUME 4 · NUMBER 2 · SUMMER 2006 · ISSN 1581-6311

FAKULTETA ZA | FACOLTÀ DI | FACULTY OF
MANAGEMENT