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# Managerial Long-Term Responsibility in Family-Controlled Firms

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Evidence suggests that long-term orientation (LTO) as a dominant strategic logic contributes to the sustainable performance of family-controlled firms (FCFs). Combining a review of the literature on LTO with stewardship theory and upper echelons theory reasoning, this article presents a typology of managerial responsibility and introduces the concept of long-term responsibility as a managerial characteristic constituting a major driving force behind creating LTO. The antecedents of long-term responsibility under family firm-specific conditions (stemming from the family system, the governance system, and family-firm managers' personal characteristics) are also identified and presented in an integrated model. The paper contributes to a more comprehensive understanding of intertemporal choice in FCFs and explains why they tend to be more long-term oriented than other types of firms.

*Key words:* managerial responsibility, long-term orientation, family-controlled firms, stewardship

## Introduction

Firms which are under the control of the founding family have often been associated with a higher degree of long-term orientation (LTO) than their non-family-controlled counterparts. Zellweger (2007), for example, observed a longer time horizon of investments in family firms than in non-family firms and argued that due to a lower annual default risk, the cost of equity capital can be lower for firms with such longer planning periods. According to Le Breton-Miller and Miller (2006), LTO in family-controlled firms (FCFs) can also foster the development of sustainable core capabilities which in turn form the basis of competitive advantage in the market place, for example due to superior product quality or operational excellence. Lumpkin, Brigham and Moss (2010) argued that LTO in family firms leads to more innovativeness and proactiveness in seeking opportunities ahead of the competition, while Kets de Vries (1993) saw a greater willingness in more long-term oriented family firms to retain profits in the business, thus making them more resilient during

hard times. In summary, Lumpkin, Brigham and Moss (2010, 245) see 'compelling evidence that an LTO can be a source of positive outcomes and strong performance by family firms.' Consequently, LTO as a characteristic feature of family firms has been in the focus of recent research (Le Breton Miller and Miller 2006; 2011; Lumpkin and Brigham, 2011; Miller and Le Breton-Miller 2005).

In light of the evidence of positive performance effects of LTO as a dominant logic in which decision-makers are setting priorities on strategic choices and investments that pay off over the long term (Lumpkin and Brigham 2011), it is intriguing that we do not yet fully understand the factors that influence the temporal orientation of FCF managers.

Definitions of LTO by Le Breton-Miller and Miller (2006) ('priorities, goals, and most of all, concrete investments that come to fruition over an extended time period, typically 5 years or more, and after some appreciable delay' (732)) and Lumpkin and Brigham (2011) ('a higher order heuristic that the dominant coalition employs to realize its long-term aspirations and priorities' (1151)) refer to LTO as a strategic action tendency, the manifestation of the strategic choices made by the firm's top management. According to upper echelons theory (Hambrick and Mason 1984), strategic choices are influenced by the characteristics of the top executives in a firm, in particular by their cognitive base and values, as well as by internal and external situational factors. The aim of this article is to explore how both, top management characteristics as well as external factors in an FCF context, can have an influence on LTO. This gap in the literature will be addressed by introducing the concept of long-term managerial responsibility as a driving force behind LTO, and discussing its antecedents in managerial characteristics and situational specifics of FCFs. Thus, the article complements Le Breton-Miller and Miller's (2006) and Lumpkin and Brigham's (2011) approaches, explaining how a long-term oriented dominant logic and long-term oriented strategic choices, respectively, are developed in FCFs.

The rest of the paper is organized as follows: First, the concept of managerial responsibility is defined and broken down into its individual elements, thereby particularly also acknowledging its temporal dimension. Subsequently, the main antecedents of long-term responsibility in FCFs will be presented, categorized into influences of the family system, the governance system, and the personal characteristics of FCF executives. The resulting model helps to explain why managers in FCFs are usually more long-term oriented than their peers in firms which are not family-controlled.

## Managerial Responsibility

Managerial responsibility, the felt moral obligation or duty of a manager to act in the interest of the organization and its stakeholders, includes both an extrinsic and an intrinsic dimension. Agency theory helps to explain the extrinsic dimension of responsibility, the accountability toward others. At the basis of agency theory lies the agency problem – potentially diverging interests and risk preferences of principals and agents and the costs that are incurred for a principal to supervise what an agent – who is supposed to act as a self-interest maximizer – really does (Eisenhardt 1989). Eisenhardt proposed both outcome-based contracts and behavior-based contracts combined with systems that provide information to verify agent's actual actions as possible means to align the interests of principal and agent. Agency theory researchers try to identify incentive mechanisms which make an agent accountable or responsible toward the principal for his or her actions, or in other words, how to oblige an agent to act in the interest of the principal.

To understand the intrinsic dimension of managerial responsibility, we need to resort to a different theoretical approach. The stewardship theory of management posits that managers do not always just act as economic maximizers of self-interest – rather, they can follow an intrinsic motivation based on higher order needs for personal growth, achievement, and self-actualization, and act in the best interest of an organization and its stakeholders (Davis, Schoorman, and Donaldson 1997). Seeing oneself as a steward means acting with responsibility toward the organization and its stakeholders. Factors which according to Davis, Schoorman, and Donaldson (1997) contribute to the tendency of managers to act as stewards are (a) their identification with and commitment to the organization, (b) the use of personal rather than institutional power as a basis to influence others, (c) situations which are involvement-orientated rather than a control-oriented, and (d) a more collectivist and lower power distance cultural background of the managers. The stewardship approach has been explicitly linked to family firms (Miller, Le Breton-Miller, and Scholnik 2008) as well as generally to a long-term orientation of managers (Davis, Schoorman, and Donaldson 1997).

Responsibility, whether extrinsically or intrinsically motivated, can manifest itself in different scopes. Managers can either see their responsibility mainly as a short-term (or intra-generational) one – being responsible for the performance of the organization within their tenure – or as a long-term (or inter-generational) one, also

Long-term (inter-generational)	Potential-building responsibility	Long-term impact responsibility
Short-term (intra-generational)	Performance responsibility	Stakeholder responsibility
	Economic	Societal

FIGURE 1 The managerial responsibility grid

feeling an obligation for ensuring that a basis for sustainable organizational performance is built which lasts long after their resignation from the top management position. On another dimension, managers can see their responsibility in purely economic terms, or they can also feel a duty toward other stakeholders, viewing the firm as part of a larger societal environment. The latter approach serves as the basis for much of the corporate social responsibility (CSR) literature. Dyer and Whetten (2006) found that while there is no significant difference between family firms and non-family-owned firms in their level of engagement in positive CSR activities, family firms try to avoid actions which could be seen as socially irresponsible. They also linked this tendency to image and reputation concerns of family members. For Gomez-Mejia et al. (2011, 684), 'it seems that family firms tend to be more responsive to stakeholders for intangible reasons that go beyond economic considerations.'

The resulting four categories of managerial responsibility are presented in figure 1 in the form of a 'managerial responsibility grid.' If the focus is on short-term, economic gain for the organization, managers see their main responsibility in achieving a certain level of performance (whether in terms of profit, growth, market share, or other indicators) in the current period. When managerial responsibility stays mainly economic, but extends to the long-term, a manager's focus on performance alone is no longer sufficient, and the managerial scope extends to feeling responsible also for building the potential for organizational performance in the future. Managers who, either extrinsically or intrinsically motivated, feel obliged also beyond the pure economic performance of the organization, also take responsibility for the effects of their decisions on various stakeholder groups (such as, for example, employees, suppliers, banks, or the local communities in which they are based), and, in the case of long-term responsibility, will also take the long-term societal and environmental impacts of their actions into account.

In the following, we will focus on the upper left quadrant of figure

1, long-term economic (or potential-building) responsibility, exploring its antecedents in a FCF environment.

### Antecedents of Managerial Long-Term Responsibility in Family-Controlled Firms

As managerial responsibility has an intrinsic and an extrinsic side, also the reasons for making strategic choices that manifest themselves in LTO can lie both in the personal characteristics of a decision-maker and in external situational factors. In Hambrick and Mason's (1984) upper echelons theory terms, long-term responsibility as a basic managerial value is itself a characteristic of top executives. As such, it can be influenced by other either observable or psychological personal top management characteristics as well as by the specific conditions of the firm-internal or the external situation. The latter includes – among others – factors from the economic, institutional, cultural, or industry-specific environment. Zellweger (2007, 1), for example, observed that 'family firms are overrepresented on western European stock markets in cyclical industries in which business cycles inhibit short-term success.'

Two categories of situational factors influencing on managerial long-term responsibility are particularly salient in FCFs due to their nature: first – and specific to family firms – the influence of the family system, and second, the influence of the governance system, with both systems in turn being interrelated with each other.

#### THE INFLUENCE OF THE FAMILY SYSTEM

FCFs are characterized by an intertwinement of family and business. James (1999, 47) asserted that 'the long-term perspective of family managers is a natural outgrowth of the membership in a family system' in which consumption is postponed 'out of a concern for the proprietor's children, grandchildren, as well as other family members.' This concern can be an altruistic one, in which the interests of other family members are naturally included in decision processes (Lubatkin, Durand and Ling 2007). Family executives thereby fulfill two distinct roles: 'a work role as steward of the company and a non-work role as fulfiller of family obligations' (Gomez-Mejia et al. 2011, 678).

In addition to a *concern for future generations* based on kinship and emotional bonds, which naturally leads to an adoption of long-term responsibility, also a *sense of co-ownership* can develop in families in which business matters are often discussed at the dinner table and in the presence of different family members (James 1999). This 'spirit

of ownership' can pertain to the family as whole, when the collective rather than individual family members are perceived as the owners of a business (Williams 1992), and with future generations also having a say especially in decisions with long-term consequences. Ownership, in turn, makes people feel responsible for their property.

In a situation where the family and firm systems are seen as being closely connected by outsiders, family members are also concerned about their own reputation, as they *identify themselves with the firm* (Dyer and Whetten 2006). Both the perception of others as well as the self-concept of family members are thus closely tied with the family business (Gomez-Mejia et al. 2011), instilling intrinsic responsibility toward the firm. This is closely connected also to Gomez-Mejia et al.'s (2011) concept of 'socioemotional wealth' (or 'affective endowments'), which refers to the non-financial, mainly emotional benefits that a firm provides to the owner family, such as being a source of identity, or also as a means to perpetuate the family dynasty.

In a different perspective, family members can also view the continuation of the family-owned firm as a form of *insurance* (James 1999). Parents invest in their children in an intergenerational trade or reciprocity contract to gain both emotional and material support when they get older (Laferrère and Wolff 2006). Securing the continuous performance of the family firm across generations will therefore also provide the basis for old-age support that children can offer to their parents. In this context, the responsibility for the long-term performance of the firm is also a responsibility of current family executives toward their own future.

Based on the arguments forwarded in this section on the influence of the family system on the value base of family executives, the following proposition can be forwarded:

**PROPOSITION 1** *Family executives show a higher level of long-term responsibility than non-family executives due to their concern for future generations, a feeling of co-ownership within the family, family identification with the firm and related concerns for their reputation, and a psychological contract of intergenerational insurance.*

#### FACTORS AT THE INTERSECTION OF THE FAMILY SYSTEM AND THE GOVERNANCE SYSTEM

In addition to factors stemming the family system itself, FCFs also show certain characteristics in their governance system which can

have an influence on the long-term responsibility of its managers and consequently also on the LTO in the firm.

To begin with, FCFs are characterized by a *unification of ownership and control* (Carney 2005, 253, italics added), with the main advantage of having lower agency costs when the agent is actually also one of the main principals (Le Breton-Miller and Miller 2006). As they deal with their own money, family executives often show a high degree of parsimony (Carney 2005) in a desire to maintain a certain resource base, assuming their long-term responsibility. This is also consistent with Lumpkin et al.'s (2010, 256) observation that, 'higher levels of family ownership are likely to be associated with a stronger LTO.'

Entrepreneurial families also often maintain a *long-term presence as shareholders* of their firms. Anderson and Reeb (2003, 1305) noted that 'families potentially have longer horizons than other shareholders, suggesting a willingness to invest in long-term projects.' This tendency can also lead to more efficient long-term investment decisions (James 1999). If investors plan to hold on to their shares for a longer time span, we can assume that they will also feel a higher responsibility to the long-term success of the firm, especially if they are in the double role of owner-managers. In addition to long-term presence as shareholders, Zellweger (2007) argued that family firms generally have *more patient capital*. Lavery (1996) identified fluid and impatient capital as one of the main drivers of short-termism. Conversely, more patient capital in family firm can lead to an adoption of longer time horizons.

Due to their ownership status, family CEOs usually have far *longer tenures* than their non-family counterparts (McConaughy 2000). As Le Breton-Miller and Miller (2006, 733) noted, 'the anticipation of lengthy tenures drive some leaders to take a farsighted, steward-like perspective of the firm.' Long tenures can lead to the creation of tacit, idiosyncratic knowledge of family executives (Lee, Lim and Lim 2003), and CEOs who stay on the job for a longer period will also still experience the outcomes of their decisions with long-term effects. Rather than just succumbing to the pressure of quarterly results, they also need to find the right balance between performance in the current period and building the resource base and capabilities which form the basis for future performance. In other words, they need to assume long-term responsibility.

Finally, family-owned enterprises usually also strive for *long-term independence* (Zellweger 2007). Lumpkin, Brigham and Moss (2010) also linked LTO in family firms with the level of autonomy. Keeping

the business under the control of the family – specifically also across generations – has also been identified as one of the main concerns for entrepreneurial families (Gomez-Mejia et al. 2011).

In contrast to the family system itself, which exerts its influence mainly on family members, the factors at the intersection of the family system and the governance system are not only affecting family executives, but also other top managers in FCFs, leading to the following:

**PROPOSITION 2** *Executives in FCFs show a higher level of long-term responsibility than executives in non-family-controlled businesses due to the unification of ownership and control, the long-term presence of family shareholders, more patient capital, longer top management tenures, and the strive for long-term independence prevalent in FCFs.*

#### THE INFLUENCE OF THE PERSONAL CHARACTERISTICS OF FCF EXECUTIVES

Following Hambrick and Mason's (1984) upper echelons model, strategic decision-making tendencies are based on situational factors and top management characteristics. After exploring FCF-specific situational factors, we therefore also need to consider personal characteristics that are specific for family executives.

Kellermanns et al. (2008) point out the importance of *age of a family firm CEO* especially for entrepreneurial behavior. They built their argument on Levesque and Minniti's (2006) observation that CEOs generally tend to exhibit less entrepreneurial actions as they are getting older. With succession from one generation to another coming closer, there is a tendency toward taking less risks and an increasing focus on preserving the family wealth as well as the firm itself as a legacy for the children (Kellermanns et al. 2008). If younger entrepreneurs – who were focusing on expanding their business in the start-up phase and were taking on a lot of entrepreneurial risk – become more conservative when they get older and come closer to succession, the degree of a family executive's felt long-term responsibility could also be age-dependent. This is even more pronounced as very young entrepreneurs usually do not yet have children for whom they could feel responsible.

Furthermore, owner-managers of family firms often also feel the *desire to leave an entrepreneurial legacy* (Nordquist, Habbershon, and Melin 2008). Building a company that lasts, and continuing to have an enduring influence that long outlasts their own tenure or even their lives in the form of 'founder centrality,' in which succeeding

generations still refer to the culture, vision, and principles created by the founder (Kelly, Athanassiou, and Crittenden 2000) can also be a driver for family executives – especially if they are also founders – to act in a way that shows long-term responsibility towards the firm.

For Laverty (1996), managerial opportunism is one of the main drivers of short-termism. Lumpkin, Brigham and Moss (2010) argue that there is *less propensity to act opportunistically* for owner-managers in family firms. In an agency theory frame, family executives are both principals and agents. Thus, opportunistic behavior is of less concern than in the case of outside managers.

Das and Teng (1997, 78) identify *future orientation* as ‘an individual’s psychological attribute regarding their perception of the future and the flow of time.’ In contrast to the concept of LTO as a higher-order heuristic employed by top managers (Lumpkin and Brigham 2011), future orientation in Das and Teng’s sense is a fairly stable psychological personality trait. More future-oriented people pay more attention to a relatively distant future, whereas more present-time oriented individuals are more likely to focus on the immediate future (Das and Teng 1997).

Following the discussion above, the potential influence of owner-manager characteristics on their long-term responsibility levels can be summarized in the following:

**PROPOSITION 3** *Family executives show a higher level of long-term responsibility (a) the older they are, (b) the higher their desire to leave an entrepreneurial legacy, (c) the lower their propensity to act opportunistically, and (d) the higher their individual degree of future orientation.*

An overview of all antecedents of managerial long-term responsibility in FCFS, including personal characteristics as well as those situational factors which are attributable to the specifics of the family system and the governance system, is provided in table 1. The compilation shows that there are multiple internal and external influences on managerial long-term responsibility, and in particular highlights the salient role of the family system, which has both a direct and an indirect (over the governance system) effect.

## **Discussion and Implications for Family Business Research and Practice**

Chrisman, Chua, and Steier (2011, 1111) recently noticed that ‘we still need to know more about the long-term orientation of family firms.’ This article contributes to a better understanding of LTO

TABLE 1 Overview of antecedents of managerial long-term responsibility in family-controlled firms

(1)	(2)	(3)	(4)	(5)
Concern for future generations	James (1999); Gomez-Mejia et al. (2011); Le Breton-Miller and Miller (2006)	×		
Feeling of co-ownership	Williams (1992); James (1999)	×		
Identification with the firm	Dyer and Whetten (2006); Gomez-Mejia et al. (2011)	×		
Family-based insurance	James (1999); Laferrère and Wolff (2006)	×		
Unification of ownership and control	Carney (2005); Le Breton-Miller and Miller (2006); Lumpkin, Brigham and Moss (2010)	×	×	
Shareholders' long-term presence	James (1999); Anderson and Reeb (2003)	×	×	
Patient capital	Lavery (1996); Zellweger (2007)	×	×	
Long CEO tenure	Le Breton-Miller and Miller (2006)	×	×	
Strive for independence	Zellweger (2007); Gomez-Mejia et al. (2011)	×	×	
Family executive age	Levesque and Minniti (2006); Kellermanns et al. (2008)			×
Desire to leave a legacy	Nordquis, Habbershon and Melin (2008)			×
Low propensity to act opportunistically	Lavery (1996); Lumpkin, Brigham and Moss (2010)			×
Individual future orientation	Das and Teng (1997)			×

NOTES Column headings are as follows: (1) factor influencing long-term responsibility, (2) source, (3) family system, (4) governance system, (5) personal characteristics.

through introducing the concept of long-term responsibility (on the level of the individual manager) as a key factor influencing LTO (on the firm level). This is consistent with Lumpkin and Brigham's (2011) argument that LTO on the firm level is mainly determined by the degree of long-term thinking of the major decision makers (or the 'dominant coalition') in FCFS.

It is important to highlight the distinction between LTO and long-term responsibility once again here. LTO is a *dominant strategic logic* in the firm. As such – following upper echelons theory reasoning – it is contingent on personal characteristics of top management team members and situational factors. Long-term responsibility as a managerial value, on the other hand, is a salient managerial character-

istic which guides an executive's strategic thinking patterns, which in turn influence a firm's LTO through managerial decisions and actions.

The three propositions presented in the preceding sections shed light on how managerial long-term responsibility develops in FCFS. A major role is attributable to the family system which has both a direct influence (Proposition 1) as well as an indirect effect through the governance system of the firm (Proposition 2). This is consistent with stewardship theory which sees responsible behavior toward the organization and its stakeholders as a typical feature of family-led firms (Miller et al. 2008). It is necessary to point out, however, that especially the family system does not always necessarily have a positive influence on managerial long-term responsibility. Conflicts within the family, struggles for control of the firm between family members, problems with succession planning (e.g. no suitable family member in the next generation able and/or willing to take over the CEO position), or nepotism – choosing family members for key positions although more competent alternatives would be available – could actually also contribute to more short-term thinking of family executives (James 1999). As James noticed, the stability of the family firm is intertwined with the stability of the family system. If due to conflicts within the family, the feeling of co-ownership and the concern for future generation diminishes, or if there is no more trust in the intergenerational insurance function of the family, this might have negative consequences on the long-term responsibility of family top managers, and thus also on the long-term performance of the family firm.

In contrast to the influence of the family system on managerial decision-making in FCFS, which has been widely discussed, the potential effect of personal characteristics of top managers has not yet been in the major focus of family business research. Proposition 3 has identified such characteristics, the age of the family business executive, the desire to leave a legacy, a low propensity to act opportunistically, and individual future orientation, and thereby contributes to a more comprehensive understanding of the development of long-term responsibility and LTO which is not reduced to contextual factors (particularly the family system) but also shows how both, external factors as well as individual values and predispositions can affect managerial decision horizons. Thus, the three propositions together meet the requirement of upper echelons theory and acknowledge that both factors of the objective situation as well as psychological and observable top management characteristics together deter-

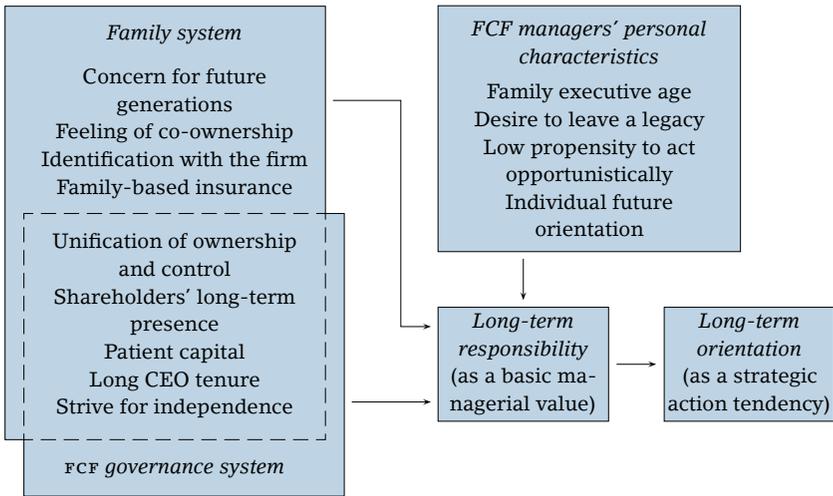


FIGURE 2 A model of managerial long-term responsibility in family-controlled firms

mine strategic choice tendencies (in this case LTO) (Hambrick and Mason 1984).

Figure 2 builds on the three propositions and presents a basic model of how FCF managers' personal characteristics and situational factors (in FCFs particularly those based on the specifics of the family system and its intersection with the governance system) influence on managerial long-term responsibility, and consequently also LTO, in FCFs.

The concept of managerial long-term responsibility and the three categories of influencing factors contribute to explaining how individual family executives acquire a LTO logic for their decision-making. Of course, one person alone with a high level of long-term responsibility within the top management team is not sufficient for building LTO as a dominant logic of the firm if there are multiple top decision-makers. Long-term responsibility therefore needs to develop not only on an individual but also on a group (for example, board) level in order to create a strong LTO in the firm. In addition to the managerial function, also owners play a crucial role here, following Chrisman, Chua, and Steier's (2011, 1110) argument that LTO is an 'implication of an intention for transgenerational sustainability on the part of family owners.'

There is ample opportunity for further research on managerial long-term responsibility and its effects on organizational strategies and performance. Empirical work could explore whether man-

agers in FCFS really show higher levels of long-term responsibility than their counterparts in non-family-controlled firms as predicted by the model. Further, it could be investigated whether there are differences in long-term responsibility between owner-managers and non-family members of the top management team of FCFS. It is also possible that different groups of FCFS show different levels of managerial long-term responsibility. As Miller, Le Breton-Miller and Scholnik (2008) argue, in entrepreneurial firms with individual founders but no further family involvement, rapid growth and value creation might be a more important tendency than firm longevity. Lumpkin and Brigham (2011) also point out that the level of LTO could be dependent on the generational stage that FCFS are in.

The influence of other situational factors outside of the family and governance systems on managerial long-term responsibility and LTO could also be of interest for further studies. For example, future orientation (or the degree of short- versus long-termism) has also been identified as a dimension of national culture (Ashkanasy et al. 2004). Bertrand and Schoar (2006) argued that also the desire to build a family legacy can be culturally influenced.

There are several practical implications of the model presented in this article. It highlights the importance of the characteristics of the top management team – in particular of long-term responsibility – for the development of LTO in an organization. Thus, selection and development processes for top executives could specifically also focus on identifying long-term responsibility as a managerial value. Owners of FCFS can also assess whether the existing governance system of their firm fosters the development of long-term responsibility of the top managers.

It is a more general contribution of this article that it highlights the key role that managerial responsibility – not only for the performance of a firm or in CSR terms, but especially also in the form of long-term responsibility – plays for laying the basis for sustainable success in FCFS. As LTO 'is a construct whose research implications and practical usefulness is not limited to family firms' (Lumpkin, Brigham and Moss 2010: 243), so is long-term responsibility. The exploration of the importance of this concept in a non-family firm context could therefore also be a worthwhile endeavor.

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# Analysis of the Financial Performance in the Slovenian Tourism Economy

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This paper aims to analyze the difference in financial performance of the different tourism economy activities in Slovenia. The analysis was performed for the period 1995–2009. We analyzed the financial indicators on the basis of the official company accounts data. The nominal financial data are deflated by the statistical deflator for value of inflation in order to obtain real values of financial indicators over the analyzed years. We included financial indicators that are related to the business performance of enterprises in the Slovenian tourism economy. The research hypothesis was tested using quantitative analysis employing non-parametric Kruskal-Wallis test and Wilcoxon-Mann-Whitney test of the secondary data used. The empirical analysis confirmed that there are significant differences in financial performance among different tourism economy activities in Slovenia.

*Key words:* financial analysis, financial performance, hypothesis testing, tourism economy, Slovenia

## Introduction

Tourism as an economic activity has been an emerging economic and social phenomenon of the late 20th century and is one of the largest global economic activities. Therefore, countries regardless level of economic development, political orientation and cultural diversity, emphasize the development of tourism as a strategic development orientation (Cvikl and Fabjan 2004, 1). Tourism is a phenomenon that is, in contrast to most other activities, in the basic definition defined in terms of demand, although there are many definitions, which define tourism from the supply side, or as a tourist economy or industry. The concept of a tourism economy in this case includes all activities which produce goods and services to meet the needs and desires of tourists (Cooper et al. 1998, 9; Vanhove 2005, 29).

The previous studies show that tourism at the international level, or at least in Europe, creates a net distribution of wealth from north to south and from richer to poorer countries, thereby contributing to the convergence process (reducing disparities). From a regional perspective, tourism by its nature acts as a tool of the development of less developed regions and so contributes to reducing regional economic disparities (Proença and Soukiazis 2008, 792). In this paper our focus is on the analysis of the role of tourism in the economy and particularly on the statistical analysis of the financial performance indicators in the Slovenian tourism economy.

### **The Role of Tourism in the Economy**

Tourism is one of the fastest growing and one of the most important economic activities significantly contributing to the gross domestic product (GDP) and employment. One of the main reasons why governments promote and encourage the development of tourism worldwide, is that tourism similar to other economic activities has a positive impact on economic growth and development. Tourism also generates jobs and incomes, and in addition, in several countries through tourism are reduced their balance of payment deficits.

Tourism is therefore expected to affect the GDP and GDP per capita, which is commonly used as a benchmark for the analysis of the economic development of countries. In addition, the tourism has multiplier effect on many other economic sectors such as transport, trade, construction, agriculture, etc. (Ivanov and Webster 2007, 379; Proença and Soukiazis 2008, 791).

Tourism industry is more broadly defined as one of the world's largest industry and as one of the fastest growing service industries. Due to its labor intensity it is one of the main generators of employment, particularly in remote and rural areas (World Trade Organization 1998). Tourism in the wider sense, which is also covered by the indirect effects, according to the World Travel & Tourism Council (2010), gave employment to over 235 million people in the world, while creating a 9.1 percent of global GDP.

Tourism is also important for the Slovenian economy. In 2010, tourism in Slovenia in the wider sense created 117,300 jobs or 13.6 percent of Slovenian employment. If the volume of tourism in Slovenia is presented with a share of GDP, it represented 12 percent of Slovenian GDP or 4,388,000 million EUR (World Travel & Tourism Council 2010).

Tourism industry is not limited only to hotels and restaurants, because tourism cannot operate without many other sectors of the

economy. The complexity of tourism economy itself is also a reason for a wide range of professions available in the tourism sector (Riley, Ladkin, and Szivas 2002, 21). Because of the complexity of tourism economy there exist multiple direct and indirect connections and impacts of tourism on employment in the national economy (Nemec Rudež and Bojnec 2007, 115).

Different methodologies are used in order to measure the economic role and impacts of tourism on the economy. There are two generally accepted methodologies: tourism satellite (TSAS) accounts and general equilibrium models (CGES) (Ivanov and Webster 2007, 380). CGES can better capture cross-sectoral and macroeconomic linkages (Zhou et al. 1997, 78). CGES are widely used in Australia, the United Kingdom, the United States of America and Canada (Dwyer, Forsyth, and Spurr 2004, 307). With CGES it is possible to estimate how the economy of a country responds to changes in policy, technology or other external factors change. CGES are useful when assessing the impact of such changes in one part of the economy on the rest of the economy (impact of value added tax on the price of tourist services and perhaps on wages and employment) (Hosoe, Gasawa, and Hashimoto 2010, xviii). Blake et al. (2006, 303) stated that CGES are appropriate when trying to quantify the macroeconomic and sector effects of changes in tourism demand.

TSAS represent an important step in the overall assessment of the economic importance of tourism in the economy (Sirše et al. 2004, 5). They are formed as a supplement to the system of national accounts, in which specific areas of tourism could not be fully considered as an independent economic sector (Commission of the European Communities et al. 2001, 3). By using the TSAS, the indirect effects of tourism on other sectors of the economy can be estimated (Prodnik and David 2009, 100).

A body of literature has developed on the economic importance of tourism in the economy and on the financial performance of tourism entities. A few authors have analyzed the financial performance of different tourism economy activities (Chen 2010; Sarıışık et al. 2011; Reichel and Haber 2005; Assaf, Knezevic Cvelbar, and Pahor 2012). Some of them compared the economic impact of tourism and other main tourism economy activities to the national economy (Sarıışık et al. 2011; Archer 1995). Some others used CGES in order to estimate the economic impact of tourism (Blake et al. 2006; Blake et al. 2008). From a macroeconomic perspective, the estimates of the economic impact of tourism on the economy are still the central focus of studies (Song et al. 2012).

Tourism statistics in Slovenia plays an important information role, because among other things it also indicates the level of development of the country. Governments also cannot effectively manage the future development of tourism economy without the full picture of the current state of the Slovenian tourism economy (Cvikl and Fabjan 2004, 2). In Slovenia there are several organizations involved in statistical monitoring of the tourism economy. These organizations also issue various publications on this topic.

Due to lack of comparability of statistics with other countries and international organizations, Slovenia in 1994 took over new classification, which is aligned with international standards (Cvikl and Fabjan 2004, 2). Standard Classification of Activities is a mandatory national standard used for recording, collecting, processing, analyzing, and disseminating data related to the specific economic activity. It is used to determine the classification of business entities for the purposes of official and other administrative databases, and for statistical and analytical purposes (see <http://www.stat.si>). Standard Classification of Activities covers 21 areas and the tourism economy can be found in four sectors. Hospitality sector can be found under sector Hotels and similar accommodation.

The Statistical Office of the Republic of Slovenia is the main producer and coordinator of carrying out programs of statistical surveys. In the field of tourism statistics, the Statistical Office of the Republic of Slovenia collects, processes and disseminates information in the following areas (Gruden 2004):

- Accommodation statistics by month.
- Arrivals and overnight stays of domestic and foreign tourists.
- Monitoring the number of visitors in selected tourist points of interest (museums, art galleries, natural beauties and attractions), swimming pools and casinos.
- Monitoring the work of Slovenian travel agencies (the number of one-day and multi-day trips and the number of participants on these trips).
- Monitoring of nautical tourism (number of vessels and persons in three Slovenian marinas).
- Follow-up surveys of trips by the local population.

To illustrate some basic developments in the Slovenian tourism economy, we can see in Table 1 that the number of arrivals and overnight stays is almost constantly increasing over the observed time period. But the number of overnight stays is increasing slower

TABLE 1 Arrivals and overnight stays of all tourists in Slovenia, 1995–2009

Year	Arrivals	Overnight stays	Year	Arrivals	Overnight stays
1995	1,576,672	5,883,046	2003	2,246,068	7,502,569
1996	1,657,669	5,832,244	2004	2,341,281	7,588,737
1997	1,823,129	6,384,062	2005	2,395,010	7,572,584
1998	1,798,925	6,295,308	2006	2,484,605	7,722,267
1999	1,749,532	6,056,563	2007	2,681,178	8,261,308
2000	1,957,116	6,718,998	2008	2,766,194	8,411,688
2001	2,085,722	7,129,602	2009	2,722,022	8,302,231
2002	2,161,960	7,321,061			

NOTES Adapted from <http://www.stat.si>.

than the number of arrivals. As a consequence the average length of stay is decreasing.

For business accounts and financial statements data important is the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES). The AJPES is an indispensable primary source of official public and other information on business entities in Slovenia. It provides data, which are important for a financial analysis of how Slovenian business entities have operated over a longer time period (from 1994 onwards). The AJPES offers access to a database of complete financial statements and the most important financial indicators about companies, cooperatives, sole proprietors and associations (<http://www.ajpes.si>).

Based on the analysis of selected tourism economy activities in the Slovenian economy, we formulated the research hypothesis that there are differences in financial performance among different tourism economy activities in Slovenia.

## Methodology

In order to obtain an answer to our research hypothesis, we analyzed five financial indicators that are related to the business performance of enterprises in the tourism economy on the basis of data provided by the AJPES: net profit or net loss, returns on assets (ROA), returns on equity (ROE), share of labor costs in total revenue, and total revenues per employee.

ROA is defined as:

$$ROA = \frac{\text{net income after income tax}}{\text{total average assets}}. \quad (1)$$

It measures the effectiveness of management's use of the organization's assets (Coltman and Jagels 2004, 155).

ROE is defined as:

$$\text{ROE} = \frac{\text{net income after income tax}}{\text{average stakeholder's equity}}. \quad (2)$$

It measures how each monetary unit of investment by stockholders contributes to net income (Dlabay and Burrow 2007, 129).

The analysis was performed for the period 1995–2009. The nominal financial data are deflated to the 1995 as the base year in order to obtain real values of data, which are used in the calculations of financial indicators over the analyzed years. The deflator for value of inflation was obtained from the Statistical Office of the Republic of Slovenia.

To confirm or reject our research hypothesis, we used the non-parametric Kruskal-Wallis statistical test. We used this test because the preliminary analysis confirmed that the selected financial data are not normally distributed. With Kruskal-Wallis test is investigated whether samples originate from the same distribution with the same median (Košmelj and Kastelec 2002, 81). Kruskal-Wallis test is used when comparing more than two independent or not related samples. We therefore tested whether there are significant differences in financial performance among different tourism economy activities in Slovenia. For the empirical analysis, we formed the null hypothesis ( $H_0$ ) and alternative hypothesis ( $H_1$ ):

$$H_0 \quad Me_1 = Me_2 = \dots = Me_K,$$

$$H_1 \quad Me_i \neq Me_j \text{ for at least one pair of medians, } i \neq j,$$

where  $Me$  is median, while from 1 to  $K$  are different tourism economy activities.

In the next step we performed the Wilcoxon-Mann-Whitney test in order to find out whether there are statistically significant differences in medians among tourism economy activities in Slovenia. The Wilcoxon-Mann-Whitney test is also a non-parametric statistical test. It is used to test the null hypothesis which assumes that the medians of two independent samples are the same (Jesenko 2001, 361). This is a test that uses an absolute range and their sum (Sagadin 2003, 337). We wanted to find out whether there are statistically significant differences in medians among tourism economy activities in Slovenia. Once more we formed the null hypothesis ( $H_0$ ) and alternative hypothesis ( $H_1$ ):

$$H_0 \quad Me_1 = Me_2,$$

$$H_1 \quad Me_1 \neq Me_2.$$

For the purpose of our analysis, we divided the tourism economy based on Standard Classification of Activities into the following specific tourism economy activities:

- Casinos
- Hotels and similar accommodation
- Restaurants and inns
- Ski centers
- Cable railway
- Travel agencies and tour operators
- Marinas

We are aware that selected tourism economy activities do not fully represent the entire tourism economy, but they capture the majority of tourism economy activities and therefore the data collected are sufficiently representative.

## Results and Discussion

### FINANCIAL PERFORMANCE INDICATORS

Prior to the statistical analysis to test the set hypothesis, we looked at financial results of selected tourism economy activities. Table 2 shows net profit or net loss for selected tourism economy activities and comparisons of these results with the Slovenian national economy as a whole. Net profit or net loss is the difference between total profit and tax revenue (Zaman et al., 2007, 125). The amount of net profit is therefore influenced by the level of income tax. In Slovenia, the tax legislation is unfriendly to business, because tax rates are high (Kosi and Bojnec, 2011). Companies (especially casinos) demand for lower tax rates. In addition, we can see considerable volatility in net profits or net losses over time. Finally, except for marinas, which in 2008 reached a high net profit because of increase in financial income, all other tourism economy activities have faced a steady reduction in net profit (or increase in loss since 2007.

Table 3 shows empirical results for calculated ROA and ROE. Both financial ratio measures are negative, particularly during the economic downturn in 2008 and 2009. As expected owing from income elasticity, the tourism economy activities have experienced even greater downturn with lower values than the Slovenian national economy as a whole.

We can see from Table 4 that throughout the analyzed period values of total revenue per employee are significantly higher for travel

TABLE 2 Net profit or net loss by different tourism economy activities and comparisons with the Slovenian national economy (in EUR in 1995 real amounts)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1995	-880,930	-10,028,063	-2,288,201	-13,173	-439,877	9,114,622	33,634	-162,864,515
1996	1,119,301	-10,890,567	-3,232,358	1,594	-171,325	9,519,876	1,247,574	-327,595,410
1997	6,040,393	-19,102,646	-1,704,226	11,848	345,719	-8,943,609	878,987	-18,015,895
1998	5,148,237	-11,866,751	-1,726,122	-165,170	575,497	7,457,935	939,217	150,071,588
1999	3,862,033	-4,845,728	-1,421,041	-221,325	-173,786	2,697,992	903,695	438,927,816
2000	3,461,947	-7,329,269	-2,332,074	-367,441	-531,970	6,454,772	564,845	374,263,490
2001	4,405,123	360,207	-1,624,819	-384,964	-1,735,612	4,237,550	901,923	-840,581,952
2002	2,745,597	2,209,397	-1,461,168	-569,910	-3,619,402	-4,211,785	1,047,062	541,758,694
2003	4,304,441	6,367,191	651,830	-562,983	417,112	1,562,366	466,529	732,266,282
2004	13,646,857	-5,031,659	505,682	-459,175	26,195	-965,207	745,982	863,298,571
2005	14,133,286	-1,593,037	-163,213	-363,546	484,219	3,201,233	823,250	930,838,700
2006	7,381,690	8,227,862	2,824,477	-140,582	336,857	738,785	751,842	1,288,258,091
2007	-2,992,268	7,327,507	-316,040	-283,846	73,813	3,644,536	608,249	1,631,194,318
2008	-4,816,569	-9,569,865	-3,626,346	-594,685	-106,257	-174,525	6,711,840	769,716,765
2009	-24,435,425	-13,756,045	-988,012	-642,562	-89,821	-2,857,231	792,560	250,779,445

NOTES Column headings are as follows: (1) year, (2) casinos, (3) hotels and similar accommodation, (4) restaurants and inns, (5) ski centers, (6) cable railway activities, (7) travel agencies and tour operators, (8) marinas, (9) national economy. Authors' estimations based on data from AJPES (<http://www.ajpes.si>).

TABLE 3 ROA and ROE by different tourism economy activities and comparisons with the Slovenian national economy

(1)	(2)		(3)		(4)		(5)		(6)		(7)		(8)		(9)	
	ROA	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA	ROE
1995	-1.2	-2.1	-1.7	-2.2	-3.5	-6.1	-0.3	-0.3	-7.5	-11.9	3.9	6.1	1.5	1.7	-0.5	-0.8
1996	1.7	2.9	-2.0	-2.8	-5.9	-11.6	0.1	0.1	-1.2	-3.5	5.1	8.1	9.4	11.6	-1.0	-1.9
1997	7.6	10.9	-3.8	-5.5	-3.3	-6.9	0.5	0.8	2.5	5.5	-5.5	-9.5	6.9	8.5	-0.1	-0.1
1998	5.4	7.2	-2.7	-3.9	-3.4	-7.0	-6.2	-11.4	3.9	7.8	5.1	9.6	7.0	9.1	0.5	0.9

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)							
1999	3.9	5.3	-1.0	-1.4	-2.8	-6.0	-5.9	-14.1	-0.8	-1.8	1.9	3.8	6.4	8.7	1.4	2.7
2000	3.4	5.0	-1.4	-2.0	-4.7	-9.8	-7.7	-19.4	-2.0	-6.0	4.9	9.7	4.0	5.2	1.2	2.4
2001	4.1	6.3	0.1	0.1	-3.1	-5.9	-6.3	-20.3	-6.0	-20.2	3.3	6.7	5.6	8.0	-2.6	-5.4
2002	2.4	4.0	0.4	0.7	-2.9	-6.2	-9.0	-42.3	-13.7	-52.3	-3.6	-7.5	5.3	9.5	1.7	3.6
2003	3.8	6.4	1.2	1.9	1.2	3.0	-8.3	-40.5	1.9	8.2	1.4	3.1	2.2	4.4	2.3	4.8
2004	10.0	17.4	-0.1	-1.5	0.8	2.5	-7.0	-20.8	0.1	0.3	-0.9	-2.0	3.6	7.0	2.6	5.6
2005	9.0	15.4	-0.3	-0.5	-0.2	-0.8	-4.4	-14.5	2.2	4.9	3.0	6.6	3.9	7.3	2.5	5.8
2006	4.4	7.8	1.4	2.5	3.3	12.3	-1.2	-5.2	1.4	3.4	0.7	1.6	2.6	4.7	3.4	8.5
2007	-1.5	-3.0	1.1	2.0	-0.3	-1.5	-2.0	-10.0	0.3	0.8	3.1	8.3	2.1	4.1	4.0	10.3
2008	-2.1	-4.6	-1.3	-2.6	-2.4	-7.3	-4.0	-24.1	-0.4	-1.2	-0.2	-1.8	18.8	37.0	1.7	4.6
2009	-10.9	-28.0	-1.7	-3.7	-0.7	-3.3	-4.1	-27.6	-0.3	-1.0	-3.2	-26.5	2.0	3.4	0.5	1.5

NOTES Column headings are as follows: (1) year, (2) casinos, (3) hotels and similar accommodation, (4) restaurants and inns, (5) ski centers, (6) cable railway activities, (7) travel agencies and tour operators, (8) marinas, (9) national economy. Authors' estimations based on data from AJPes (<http://www.ajpes.si>).

TABLE 4 Total revenue per employee and comparisons with the Slovenian national economy (in EUR in 1995 real amounts)

Continued on the next page

TABLE 4 *Continued from the previous page*

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2006	57,811	28,019	30,282	123,164	40,709	50,990	39,225	69,948
2007	53,353	28,431	24,781	147,578	41,921	61,778	33,214	74,049
2008	50,593	29,482	33,215	154,627	45,526	116,342	29,777	77,833
2009	47,127	28,019	23,593	138,566	39,938	53,689	35,319	68,331

NOTES Column headings are as follows: (1) year, (2) casinos, (3) hotels and similar accommodation, (4) restaurants and inns, (5) ski centers, (6) cable railway activities, (7) travel agencies and tour operators, (8) marinas, (9) national economy. Authors' estimations based on data from AJPEs (<http://www.ajpes.si>).

TABLE 5 Share of labor costs in total revenue and comparisons with the Slovenian national economy

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1995	51.22	33.25	30.74	13.28	40.85	17.07	—	16.72
1996	49.57	30.27	30.07	34.70	30.05	18.83	25.25	15.97
1997	47.44	29.94	28.50	34.82	20.92	16.49	24.16	15.39
1998	46.55	30.84	27.39	41.68	28.60	15.29	22.52	15.43
1999	42.96	33.24	27.67	32.60	29.65	15.59	22.45	15.38
2000	38.06	31.60	28.42	45.73	26.56	14.01	21.99	14.91
2001	37.96	31.94	27.44	44.11	33.05	13.34	19.42	14.99
2002	36.50	29.47	27.52	48.93	31.99	11.40	18.29	14.80
2003	37.36	29.91	27.07	27.95	17.78	10.84	20.28	14.70
2004	33.41	30.41	27.62	29.79	22.50	9.64	17.72	14.39
2005	31.57	32.29	27.31	27.88	23.98	8.96	14.89	14.27
2006	32.51	27.28	20.74	24.01	21.59	7.41	21.50	13.59
2007	32.34	25.31	25.76	25.86	21.71	6.46	16.32	12.85
2008	33.31	27.91	20.65	27.66	20.80	6.72	10.01	12.76
2009	33.59	32.29	28.47	22.77	23.22	7.39	20.77	14.48

NOTES Column headings are as follows: (1) year, (2) casinos, (3) hotels and similar accommodation, (4) restaurants and inns, (5) ski centers, (6) cable railway activities, (7) travel agencies and tour operators, (8) marinas, (9) national economy. Authors' estimations based on data from AJPEs (<http://www.ajpes.si>).

agencies and tour operators than for other tourism economy activities and the overall economy. The lowest values are for restaurants and inns. On average, the Slovenian national economy has experienced increase in total revenue per employee, but this development patterns do not hold for most of the tourism economy activities, except for travel agencies and cable railway activities.

From table 5 it is evident that in all tourism economy activities, except for ski centers, the share of labor costs in total revenue has declined. The share of labor costs in total revenue has also declined for the Slovenian national economy. We can also see that the share of labor costs in the tourism economy activities is much higher than in the national economy. This can be explained by two reasons: first, tourism is a labor-intensive activity and the human factor is indispensable for the provision of services. Second, Slovenian labor is highly taxed (Vodopivec et al. 2007, 61). Kosi and Bojnec (2010, 46) in their study found that in Slovenia the tax burden on labor is more than 40 percent, which places Slovenia among the countries with the highest tax burdens among Mediterranean countries. The effect of the high tax burden is lower net earnings (Daneu 2010, 3). Such high tax burden on labor has a negative impact on the competitiveness of Slovenia as a tourist destination (Kosi and Bojnec 2010, 47).

#### STATISTICAL ANALYSIS AND TESTING OF THE SET HYPOTHESIS

After examination of financial indicators, we performed statistical analysis to test the set hypothesis. In the first step, the Kruskal-Wallis test is used to test the set hypothesis. Table 6 shows the results of Kruskal-Wallis test. We rejected the  $H_0$  in favor of the alternative  $H_1$ . With the Kruskal-Wallis test we confirmed that at least one pair of medians is not equal and that therefore there are significant differences between the medians.

In the next step we performed the Wilcoxon-Mann-Whitney statistical test. We wanted to find out whether there are statistically significant differences in medians among tourism economy activities in Slovenia. The test showed that statistically significant differences exist among all tourism economy activities in Slovenia. The most apparent differences appeared at the share of labor costs. Therefore, we present in-depth results for this indicator.

Table 7 presents the results of Wilcoxon-Mann-Whitney test for the share of labor costs in total revenue. It can be seen that statistically significant differences occur in almost all tourism economy activities in Slovenia. At only two pairs of tourism economy activities it cannot be confirmed that there are statistically significant dif-

TABLE 6 The results of Kruskal-Wallis test

Item	Total revenue per employee	Net profit/loss	Share of labor costs	ROE	ROA
$\chi^2$	76.06	27.78	96.35	45.69	49.82
<i>df</i>	6	6	6	6	6
Asymp. sig.	0.000	0.000	0.000	0.000	0.000

TABLE 7 The results of Wilcoxon-Mann-Whitney test on the share of labor costs in total revenue

(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Casinos</i>						
Mann-Whitney U	48	0	0	0	0	0
Wilcoxon W	168	120	120	120	120	120
Z	-2.675	-4.666	-4.666	-4.666	-4.666	-4.666
Asymp. sig. (2-tailed)	0.007	0	0	0	0	0
<i>Hotels and similar accommodation</i>						
Mann-Whitney U		0	0	0	0	0
Wilcoxon W		120	120	120	120	120
Z (test statistics)		-4.666	-4.666	-4.666	-4.666	-4.666
Asymp. sig. (2-tailed)		0	0	0	0	0
<i>Restaurants and inns</i>						
Mann-Whitney U			0	0	102	0
Wilcoxon W			120	120	222	120
Z (test statistics)			-4.666	-4.666	-0.436	-4.666
Asymp. sig. (2-tailed)			0	0	0.663	0
<i>Ski centers</i>						
Mann-Whitney U				0	0	15
Wilcoxon W				120	120	135
Z (test statistics)				-4.666	-4.666	-4.044
Asymp. sig. (2-tailed)				0	0	0
<i>Cable railway activities</i>						
Mann-Whitney U					0	97
Wilcoxon W					120	217
Z (test statistics)					-4.666	-0.643
Asymp. sig. (2-tailed)					0	0.52
<i>Travel agencies and tour operators</i>						
Mann-Whitney U						0
Wilcoxon W						120
Z (test statistics)						-4.666
Asymp. sig. (2-tailed)						0

NOTES Column headings are as follows: (1) item, (2) hotels and similar accommodation, (3) restaurants and inns, (4) ski centers, (5) cable railway activities, (6) travel agencies and tour operators, (7) marinas.

ferences, namely at a pair travel agencies and tour operators and restaurants and inns. The second pair is marinas and cable railway.

Based on the results of statistical analysis we can reject the  $H_0$  in favor of the alternative  $H_1$ . With the Wilcoxon-Mann-Whitney test we determined that statistically significant differences occur in almost all tourism economy activities in Slovenia.

On the basis of the statistical analysis we can conclude that the selected financial indicators vary among different tourism economy activities in Slovenia. Therefore, we can accept the research hypothesis, that there are differences in the financial performance among the different Slovenian tourism economy activities.

### Conclusion

The empirical analysis confirmed that there are significant differences in financial performance among different tourism economy activities in Slovenia. It is important to analyze which tourism economy activities are financially more successful and which are less. This is a challenging issue also for future research as such findings might be relevant when creating new guidelines for the future development of the tourism economy. It would be also necessary to analyze in more detail each tourism economy activity in Slovenia in order to identify their competitive opportunities for further development.

Despite the increase in the number of arrivals and overnight stays, the Slovenian tourism economy has faced difficulties with relatively poor financial results. Therefore, attention should be directed towards increasing the competitiveness of the Slovenian tourism economy to increase revenues and towards rationalization in costs of operation. Finally, in the past, a lot of investments have been allocated in tourism infrastructure; now there is a need for restructuring to increase quality and to systematically invest in employees and in the development of jobs and tourism destination competitiveness. These are also issues for future research.

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# Financial Decentralization in Bulgaria: An Outlook

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This study is intended to provide a critical overview of the local government finance reform and analyze the process of strengthening financial decentralization in Bulgaria. First of all, the specifics of government structure and the main components of the legal base in the scope of local self-government are presented. The quantitative analysis is focused on dynamics of the public expenditure indicators and the structure of local revenues, based on fact figures for the period 1990–2011 and forecast for 2012. The influence of economic crises on local government finance is discussed and estimated. A comparison is drawn between the three most severe downturns of Bulgarian economy during the last 20 years, namely the price liberalization in the beginning of transition (1991–1993), the credit crunch and series of bank bankruptcies, which caused the financial crisis in 1996–1997, and the current worldwide crisis. Some of the most important actions, taken by the government in order to consolidate the crisis are described and evaluated on the base of their effects on the local finance. The conclusion is that although the current crisis reached Bulgaria at comparatively mature stage of financial decentralization reform, municipalities can do very little without active central government support and cannot substitute for it in regard of the basic anti-crisis measures.

*Key words:* financial decentralization, local finance, intergovernmental fiscal relations

## Introduction

The process of decentralizing public sector in Bulgaria started parallel to the transition from a planned, socialist type economy toward market based economy. During the last 20 years a remarkable progress has been achieved, although local government finance reform in Bulgaria proved to be a very long and difficult process. The main purpose of this paper is to provide a critical overview of the local government finance reform and analyze the process of strengthening financial decentralization in Bulgaria. It is structured in five sections. Section two introduces the specifics of country's government structure and presents the legal base of local self-government.

TABLE 1 Dynamics of administrative and territorial structure

Year	Regions		Districts		Municipalities	
	(1)	(2)	(1)	(2)	(1)	(2)
1950	—	—	14	516 300	2 178	3 300
1961	—	—	28	261 000	979	8 000
1979	—	—	28	315 900	291	30 400
1987	—	—	9	997 400	273	32 900
1999	—	—	28	284 800	262	30 300
2006	6	1 280 000	28	280 000	264	29 900
2011	6	1 230 000	28	263 000	264	27 900

NOTES Column headings are as follows: (1) number, (2) average population. Source: National Statistical Institute (<http://www.nsi.bg>).

Third section traces out the main stages in the evolution of financial decentralization. The role of different governmental tiers within the public sector of the country is analyzed on the base of the dynamics of public expenditures indicators. Development of the financial decentralization process is assessed through the relative importance of the local expenditures both in the consolidated public expenditures and the GDP. Special emphasis is placed upon the evolution of local budgets revenue structure over the period 1991–2012. The relative share of own-source revenues is analyzed as a precondition for expanding local financial autonomy. Fourth section illustrates the impact of economic crises on the local government finance. The last section concludes.

## Foundations of the Local Self-Government in Bulgaria

### GOVERNMENT STRUCTURE

Government structure of Bulgaria is not very fragmented. Due to the five administrative reforms, which have been conducted during the second half of the 20th century, the number of the administrative-territorial units at different levels decreased. Presently, as a unitary state, with 7.4 million population and territory of 111 000 km<sup>2</sup>, Bulgaria enjoys comparatively simple subordination scheme. Territorial structure of the country includes two regions on level NUTS I, 6 regions, defined as level NUTS II, 28 administrative districts corresponding to level NUTS III, and 264 municipalities, which represent the level LAU 1.<sup>1</sup>

It is important to note, that regions are not administrative, but only statistical units, created according to the Regional Development Act ('Zakon za regionalno razvitie' 2008, §4) and in compliance with the requirements of the European Union for allocation of regional

development funds. The districts are deconcentrated administrative units of the central government, which coordinate national and local interests, but they neither enjoy financial autonomy, nor provide public services to the population. According to the Constitution ('Konstitucia na Republika Bulgaria' 1991, §136), the municipality – a legal entity is the only one tier of really autonomous subnational government in the country. It has the right of ownership and adopts independent municipal budget, which must be used in the interests of the local population. The bodies of local government – Municipal Council and Mayor – are elected directly by the local population for a 4-year mandate with the purpose to make and perform local government decisions. The last local elections held in 2011, elected respectively 264 mayors and 264 municipal councils with 5 145 municipal councilors. Men prevailed among the municipal councilor seat takers (71.6%).

#### LEGAL GROUNDS OF FINANCIAL DECENTRALIZATION

The basic principles of local self-government in Bulgaria are provided by the Constitution, adopted by the Parliament in 1991 ('Konstitucia na Republika Bulgaria' 1991). In addition, there is a package of laws, shaping the legal grounds of decentralization. The Local Self-Government and Local Administration Act ('Zakon za mestnoto samoupravlenie i mestnata administracia' 1991) regulate organization and functions of local governments. The Act on Administrative and Territorial Structure of the Republic of Bulgaria (1995) determines the legal criteria and procedures for establishing, merging, splitting and liquidating administrative units. The Local Elections Act ('Zakon za mestnite izbori' 1995) and the Referendum Act (1996) prescribe the rules for citizens' participation in political process at local level. The issues of acquiring and managing municipal property are solved by the Municipal Property Act ('Zakon za obshtinskata sobstvenost' 1996), while procedure and organization of the municipal budgeting process are formalized by the Municipal Budgets Act ('Zakon za obshtinskite budjeti' 1998). Some important financial issues as type, base, and rate of local taxes and charges are specified by the Local Taxes and Fees Act ('Zakon za mestnite danaci i taksi' 1997), whereas the procedure, conditions and limits of local debt service are determined by the Municipal Debt Act ('Zakon za obshtinskia dolg' 2005). Thus, the most important legal pillars of the local self-government are stipulated, providing a stable base for expanding financial decentralization in Bulgaria. This is in consistence with the efforts of the EU coun-

tries for strengthening the legal base of government decentralization (Patonov 2011, 37)

## Local Government Finance

### EVOLUTION OF FINANCIAL DECENTRALIZATION

Local government finance reform in Bulgaria proved to be a very long and difficult process. Decentralization of the public sector was conducted by the transition process, from centralized, socialist type economy to a market based economy, which started in 1990. Basically, the process of reforming local finance comprised of several distinct periods. During the first period, in the very beginning of transition (1991–1993) the highly centralized system was preserved. The independence of municipal budgets within the consolidated state budget was acknowledged in 1993, meaning that the State abandoned centralization of local budgetary surplus and financing of local deficit. In addition, the intergovernmental fiscal relations were organized on the base of a newly introduced formula for distribution of the state subsidies to the municipal budgets.

The second period started in 1994, parallel to the process of gradually building the capacities of local authorities. The National Association of Municipalities in Republic of Bulgaria (NAMRB) and regional associations of municipalities emerged as main champions of financial decentralization. Several changes in intergovernmental relations were provoked, gradually eliminating mandatory priorities in the allocation of municipal expenditures. However, to the end of 2002, the intergovernmental fiscal relations remained centralized as far as the central government established a model of almost complete control over the municipal budgets (Thcavdarova, Ivanov, and Savov 2000, 36)

During the third period the real financial decentralization in Bulgaria evolved. It was initiated in 2003, based on the Cooperation Agreement, signed by the Council of Ministers and the NAMRB in 2002, whereby both parties agreed to decentralize local government and to increase financial independence of municipalities. Moreover, both the Financial Decentralization Concept and the program for its implementation were adopted. As a result, one of the main achievements in the scope of intergovernmental fiscal relations became a reality, namely the clear division between the local and central responsibilities for the public services. Provided for the first time by the Annual State Budget Act for 2003 ('Zakon za darjavnia budget na Republika Bulgaria' 2003) it was continued and improved during

the following years. Additionally, this law provided a framework for regulating a new, simple and transparent model of assigning government subsidies. As a result subsidies allocation is based on a formula, which takes into account the expenditure needs and revenue capacity of local governments.

The lack of local tax autonomy has been a fundamental weakness of the revenue assignment system in Bulgaria during the transition period. Before the constitutional amendments in the beginning of 2007 Bulgarian municipalities were prohibited from setting either rates or bases of local taxes. Property tax, motor vehicle tax, inheritance tax, donation tax, and tax on the real estate and movable property purchase, recognized as local taxes, were entirely regulated by the central governmental level. In this respect local taxes in Bulgaria have been considered as special transfers, based on the location of taxable property.

This is the reason why, 2007 can be pointed as a beginning of the fourth period, when two important legislative changes considerably influenced local taxation. Firstly, municipalities were given the authority to set local tax rates within certain legal limits. However, they are still disallowed to define local tax base and provide additional (or remove the existing) legal alleviations for certain taxpayers. Secondly, the patent tax was reassigned as a local tax. Basically, the patent tax is a net annual income tax, which is collected from the craftsmen and the owners of small enterprises, who offer handmade products and a variety of services. The patent tax replaces the payment of personal income tax or corporate income tax, so it has the potential as an important part of local revenues and powerful instrument of the municipal tax policy.

#### LOCAL GOVERNMENT EXPENDITURE

During the transition period public sector expenditures have been very dynamic, in response to the fast-changing legal and financial environment. Due to the economic stagnation, financial instability, and vertical imbalance in the last decade of the 20th century, the relative importance of local governments within the governmental system decreased. Moreover, regardless of the financial stabilization and economic growth, achieved during the first years of the 21st century, the downward tendency has proved its persistency. The relative share of local budgets in GDP has been reduced to 7.5% in 2000 and 6.1% in 2004 by comparison with 12.3% in 1990. At the same time expenditures of the local governments, which formed 21.5% of the consolidated state budget in 1991, reached respectively 17.9% in 2000

TABLE 2 Dynamics of the public expenditure indicators

(1)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(2)	51.11	53.66	56.09	54.41	49.09	43.65	34.29	38.45	40.52	41.99	40.45
(3)	10.95	13.04	11.30	9.24	7.71	6.34	5.68	7.40	7.84	7.50	6.69
(4)	21.47	24.33	20.16	16.99	15.71	14.53	16.57	19.24	19.34	17.85	16.56
(1)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(2)	39.30	40.63	39.15	38.92	38.93	38.93	37.95	39.50	37.90	35.70	38.00
(3)	7.38	6.48	6.14	6.40	6.79	7.42	7.57	7.40	6.70	6.20	4.70
(4)	18.78	15.95	15.68	16.24	18.24	19.20	20.40	19.80	17.50	17.50	12.40

NOTES Row headings are as follows: (1) year, (2) consolidated public sector expenditures/GDP (%), (3) local government expenditure/GDP (%), (4) local government expenditure/consolidated public sector expenditure (%). Source: Ministry of Finance (<http://www.minfin.bg>); data for 2012 are based on prognosis.

and 15.7 % in 2004. The reversion of this negative trend happened in 2005, due to the ongoing process of financial decentralization during the third period of local finance reform and increasing financial autonomy of local governments. The positive dynamics has been accelerated by the clear expenditure assignment, transparent intergovernmental transfer system, and local tax authority. In 2008 local governments appeared as an important part of the public sector in the country, accounting for 20.4% of total government spending. At the same time municipal budgets reached 7.6% of the GDP. In the period 2009–2011, as a result of the reflection of the worldwide economic crisis in Bulgaria, local government expenditures tend to decrease. In 2012 local government budgets are expected to reach to 12.4% of the consolidated budget and 4.7% of GDP.

#### COMPOSITION OF LOCAL REVENUES

In the beginning of the transition period, local governments have suffered more than the central government from the decreased financial capacity of the public sector in the country. Because of the advantages of taxation at the central level and spending at the decentralized level, public sector in Bulgaria has often ended up with vertical and horizontal fiscal imbalance. Several problems had a decisive influence on the own-source local revenues, causing a significant decline of their relative share, especially during the 1990s.

First of all, the difficult interrelation of the local governments and the tax administration, which in 1991 became subordinated to the Ministry of Finance. As a result, the efforts of centrally dependent officers were aimed at collecting taxes from the larger taxpayers, causing delays of the local taxes and charges collection and even waste

TABLE 3 Composition of local revenues (%)

(1)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(2)	3.9	5.1	4.9	19.6	20.4	20.6	8.3	15.2	17.6	18.1	22.0
(3)	0.7	0.9	1.2	2.3	2.5	2.9	0.5	5.0	4.8	4.9	5.2
(4)	96.1	94.9	95.1	77.1	77.7	77.5	91.4	83.9	80.3	81.9	77.6
(5)	—	—	—	3.3	1.9	1.9	0.5	0.9	2.1	—	0.4
(1)	2002	2003	2004	2005	2006	2007	2008	2009	201	2011	2012
(2)	23.9	31.7	33.8	35.6	36.9	40.2	35.4	35.1	32.4	35.5	37.4
(3)	7.0	9.6	9.3	9.5	10.7	13.4	13.4	13.6	11.6	13.1	14.5
(4)	75.7	67.9	65.9	64.0	61.3	58.7	60.3	63.2	67.4	64.4	62.6
(5)	0.4	0.4	0.3	0.4	1.8	1.1	4.3	1.7	0.2	0.1	0.0

NOTES Row headings are as follows: (1) year, (2) own-source revenues, (3) local taxes, (4) governmental transfers, (5) borrowing. Source: Ministry of Finance (<http://www.minfin.bg>); data for 2012 are based on prognosis.

of local revenues. In a dynamic inflationary environment any postponement led to additional losses for the municipal budgets. The second serious problem was the outdated tax base for the property tax, which was also used for the calculation of inheritance tax, donation tax, and tax on the property purchase. These were the reasons why in the period 1991–1997 local taxes accounted for less than 3% of the local revenues. Especially low was local tax revenue share in 1997 (0.5%), due to the hyperinflation, which additionally devaluated local tax base. Moreover, it was beyond the municipal competence to solve the problem. Although autonomous on paper, municipalities did not have any possibility to influence tax revenues. In addition, the inability of local governments to impose local charges and to set their rates freely, particularly in the inflationary situation, resulted in a growing gap between local revenue potential and the actual costs of local service provision. This was the reason why in 1990s own-source revenues accounted for only 12.8% of the total local revenues on the average.

During the period 2000–2007 local own-source revenues have gradually increased, from 18.1% toward 40.2% of the total municipal revenues, provoked by the expanding financial decentralization. Since 2003 local governments have been given full discretion over local charges and service prices, which have quadrupled their importance in real and relative terms. In 2006 municipalities started to collect local tax revenues. Especially high is the growth of local taxes in 2007 and the first half of 2008, due to the considerable revaluation of the property tax base on the one hand and the newly assigned tax competences on the other hand. At the same time, because of the

expansion of the own-source revenues, intergovernmental transfer system has lost its dominant role in financing local governments in Bulgaria. However, having in mind the great difference between the fiscal capacity in several richest municipalities and the rest of the local governments in the country, for the present the strong intergovernmental transfer system still has no effective alternative.

Of great significance for the process of strengthening financial decentralization in Bulgaria were some macroeconomic and financial factors, such as constantly increasing economic activity, low levels of unemployment, moderate inflation rates, dynamically decreasing public debt, and consolidated budget surpluses exceeding 3% of the GDP. This process was broken in the autumn of 2008, due to a new and deep worldwide financial and economic crisis. Due to the severe financial discipline provided by the Currency Board, which preserved financial stability, Bulgaria faced the crisis consequences later and in a milder form than most of the countries all over the world. In 2009 crisis hit Bulgarian economy with all its might. Decreasing economic activity (GDP reduction of -5.1%) strongly affected public finance by reducing government revenues and increasing social pressure, mainly due to the fast growing unemployment rate. As a result a budget deficit of 4.7% of the GDP was reported in 2009. Although completely different from the expected 3% surplus, Bulgarian budgetary deficit is among the lowest in the European Union. In addition, bank system remained stable, inflation rate decreased to 2.8%, and public debt did not exceed 15.5% of the GDP.

At the local level economic crisis both sharply reduced local own-source revenues and – via budget constraints at the central level – increased the pressure on the grant system. As a result own-source revenues decreased to 35.4% of the total local revenues in 2008 and hardly reached 35.1% in 2009. In 2010 own-source revenues decreased vastly to 32.4% of the total local revenue. Especially low are the revenues from the tax on movable and immovable property purchase, mainly because of the collapse of the real estate market, reduction of the construction sector, and decrease of motor vehicles purchases. The increased share of the own-source revenue for 2011 (35.5%) is partly due to the reduction of the state transfers and partly due to the increase in the tax revenue. In attempts to consolidate the crisis, national government centralized public sector expenditures, as the role of the state increased.

### Local Finance in Times of Crisis

Current financial crisis is often defined as the worst worldwide economic crisis since the Great Depression. However, a brief review of

TABLE 4 Basic economic indicators

(1)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(2)	-11.7	-7.3	-2.4	1.4	2.5	-9.4	-5.6	4.0	2.3	5.4	4.1
(3)	11.1	15.2	15.8	12.8	11.1	12.5	13.7	12.2	16.0	18.1	17.5
(4)	303.2	92.0	73.4	121.3	64.1	121.6	1058.4	18.7	2.6	10.3	7.4
(1)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(2)	4.5	5.0	6.6	6.3	6.3	6.2	6.0	-5.1	0.4	1.7	2.9
(3)	15.6	13.7	12.0	10.1	9.0	6.9	5.6	9.1	10.2	11.2	11.2
(4)	5.8	2.3	6.1	5.0	7.3	8.4	12.3	2.8	3.0	3.4	3.2

NOTES Row headings are as follows: (1) year, (2) annual GDP growth (%), (3) unemployment rates (%), (4) inflation rates (%). Sources: Ministry of Finance (<http://www.minfin.bg>), Bulgarian National Bank (<http://www.bnb.bg>), National Statistical Institute (<http://www.nsi.bg>), National Employment Agency (<http://www.az.government.bg>); data for 2012 are based on prognosis.

the country's economic development showed that the current downturn is not the most severe crisis, faced by Bulgaria during the last 20 years, mainly due to the lessons for fiscal policy drawn from previous crises and the Currency Board, which preserved financial stability.

Since the beginning of transition from centralized to market based economy Bulgaria has survived during two extremely difficult periods. First of all, following the 1990 moratorium on external debt repayments, Bulgaria lost access to commercial external financing. During the period 1991–1993 the expansion of the private sector took place against the background of the steep decline in production and high unemployment associated with the transition. The cumulative decline in real GDP during this period reached almost 25%, mainly due to the drop in domestic demand and loss of the export markets. The restructuring of the economy resulted in enormous unemployment rate, which went up to 16% of the labor force and stabilized around that level. Price liberalization caused severe inflation in 1991 (303.2%). After the initial price shock the inflation rate steadily declined to 73.4% in 1993. However, the sharp changes in relative prices and costs, and the drop in imports led to additional decline in the output. Reflecting the economic conjuncture during the period, consolidated budgetary deficit reached 12.1% of the GDP and public debt was calculated to 180% of the GDP.

The second hard period was the financial crisis of 1996–1997. The two factors, which provoked the crisis, were bad loans on commercial banks' balance sheets and large government deficits. Until 1996, commercial credit in Bulgaria was expanded to a degree that was unprecedented relative to any other European transition economy. Government attempts to recapitalize the banks failed. The govern-

TABLE 5 Public finance indicators

(1)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(2)	-4.5	-7.0	-12.1	-4.6	-5.2	-15.4	-0.4	1.3	0.2	-0.6	-0.6
(3)	180.7	145.6	176.0	180.0	120.0	303.0	96.9	86.0	86.8	77.1	70.1
(1)	2002	2003	2004	2005	2006	2007	2008	2009	201	2011	2012
(2)	-0.6	0.0	1.7	3.2	3.6	3.8	3.0	-4.7	-3.2	-1.8	-1.3
(3)	55.9	47.9	40.9	33.3	23.0	18.5	15.0	15.5	16.1	16.7	16.2

NOTES Row headings are as follows: (1) year, (2) budgetary deficit/GDP (%), (3) consolidated public debt/GDP (%). Sources: Ministry of Finance (<http://www.minfin.bg>), Bulgarian National Bank (<http://www.bnb.bg>), National Statistical Institute (<http://www.nsi.bg>), National Employment Agency (<http://www.az.government.bg>); data for 2012 are based on prognosis.

ment replaced bad loans to enterprises with government bonds. Banks then made additional loans, so their balance sheets did not improve. The credit crunch was followed by series of bank bankruptcies. The economy slumped as a result of the collapse of the bank system. At the same time the government bonds increased the level of government debt (303% of the GDP) and the interest obligations on this debt ballooned, creating enormous government deficit (-15.4% of the GDP). Hyperinflation of more than one thousand percent was registered in 1997, which totally deformed all the economic and financial relations.

As a last resort, the Currency Board was introduced on 01 July 1997, in order to restore the confidence in the national currency and bank system, to impose financial discipline and stabilize the economy. Generally speaking, Bulgarian Currency Board proved to be a great success. It established a fixed exchange rate and relied on automatic mechanisms to restore macroeconomic equilibrium, limiting severely the discretion of policymakers. From hyperinflationary levels during the first half of 1997, inflation fell to very low levels in the following years. The significant decrease of nominal interest rates made it possible for the government to reduce large government deficits. The economy started to grow, although more slowly that might be hoped during a recovery period.

The anti-crisis measures in response to the current worldwide crisis were taken comparatively late – in the second half of 2009, mainly due to the national elections in mid July. The efforts of the newly elected government were aimed at stabilizing public finance and diminishing budgetary deficit to the end of the year. The government actions were related both to the revenue and expenditure side of the state budget, mainly intended to increase the efficiency

in the public sector. First of all, state administration was significantly reduced (by 15%), and salaries in the public sector were frozen for an indefinite period of time. As part of the measures intended to optimize administrative expenses, the Parliamentary Commission of Regional Policy and Local Self-Government discussed the possibility of merging municipalities with few citizens. According to the Law on Administrative Territorial Structure of the Republic of Bulgaria ('Zakon za administrativno-teritorialno ustroistvo na Republika Bulgaria' 1995, §8 (1) 1), municipalities must have population of at least 6000 in order to be administrative centers. Although local government in Bulgaria is not very fragmented, having in mind that the average municipality has 30 000 citizens, such a measure would affect 53 municipalities with population between 1242 and 5944. However, representatives of the central government declared that merger of municipalities could become a reality only after referendum.

Secondly, public sector investments were postponed for better times. Targeted capital investment subsidy, which used to be a significant source of financial resources for the local governments, has been reduced with 65.8%, from 205.5 million BGN in 2009 to 117 million BGN in 2010, 90.2 million BGN in 2011 and 70.2 million BGN in 2012. Under the circumstances, most of the local governments rely on the European funds for investment financing. Moreover, the central government assumed the responsibility to pay on behalf of the local governments the required 5% project co-financing, in order to support local investments.

Thirdly, tax collection efforts were strengthened. Bulgaria applies the lowest tax rates of the personal income tax and corporate income tax (both of them equal to 10%) among the EU countries, so the most unpopular anti-crisis fiscal measures (decreasing income taxes) are not applicable (European Commission 2009). Instead, the National Revenue Agency launched large scale audits of legal entities and physical persons in order to improve tax collection. Moreover, local governments were given full legal rights of public executives, meaning in essence that they can levy distraint upon the bank accounts, salaries, and properties of the incorrect taxpayers. In order to expand local fiscal capacity, the maximum rates of the tax brackets were increased from 0.2% to 0.45% for the property tax and from 2.6% to 3.0% for the tax on the movable and immovable property purchase. In spite of these measures, public sector revenues dropped significantly, especially in the second half of 2009, mainly due to the decreasing economic activity.

TABLE 6 Public sector arrears

(1)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(2)	54.8	2.2	4.8	4.6	2.8	8.0	602.2	237.2	169.4	146.9
(3)	74.3	42.3	47.9	51.4	54.2	73.6	196.8	194.3	207.1	179.2
(4)	129.1	44.5	52.7	56.0	57.0	81.6	799.0	431.5	376.5	326.1
(5)	57.5	95.1	90.9	91.9	95.3	90.2	24.6	45.0	55.0	55.0
(6)	-2.9	1.3	-5.1	2.4	-1.1	-4.2	-7.8	-1.8	-0.7	-0.3
(7)	0.0	4.3	8.0	9.6	8.9	7.9	-2.4	-10.6	-5.5	-10.4

NOTES Row headings are as follows: (1) year, (2) central government arrears (mio BGN), (3) local government arrears (mio BGN), (4) consolidated arrears (mio BGN), (5) local/consolidated arrears (%), (6) local deficit/expenditures (%), (7) consolidated deficit/expenditures (%). Source: Ministry of Finance (<http://www.minfin.bg>); data for 2012 are for Q1.

At the same time consolidated public sector arrears increased nearly ten times, from 81.6 million BGN in the end of 2008 to 799.0 million BGN in the end of 2009. Local government arrears reached 196.8 millions BGN in the end of 2009 and 207.1 millions BGN in the end of 2011, which is the highest level since the start of financial decentralization reform. It is interesting to note that public sector arrears are more rapidly accumulated at the central level than the local level. During the period 2004–2008 local governments' arrears have formed more than 90% of the total public sector arrears. In the end of 2009 they represent only 24.6%. The increased amount of local arrears is partly due to the low local revenues. In 2009 only 60.2% of the expected local revenues were actually collected. On the other hand, pressed by the scarcity of financial resources, central government retained 10% of the state subsidies for the municipalities, which is in accordance with the regulations of the Annual State Budget Act 2009 ('Zakon za darjavnja budget na Republika Bulgaria' 2009, §17).

It is interesting to note, that local governments in Bulgaria have generally not been sources of severe fiscal deficits in recent years, as a result of the adopted equalization scheme. According to the calculations smaller municipalities register lower indebtedness. The equalization scheme provides smaller local governments with more subsidies per capita and thus compensates them for the shortage of funds caused by low fiscal capacity. Because large and medium size municipalities traditionally rely more on the own-source revenues than on the governmental transfers, they have lost significant part of their revenues due to the economic downturn. However, the local deficit did not exceed 7.8% of the total municipal expenditure in

2009 and decreased to 1.8% in 2010 and 0.7% in 2011, so it does not represent a significant burden on the local budgets.

## Conclusion

During the period 1991–2012 Bulgaria has made remarkable progress in reforming and decentralizing local government finance. First of all, the most important pillars of the legal base of local self-government have been adopted, providing a stable background of financial decentralization. Secondly, the importance of local governments has significantly increased, as a share respectively into the gross domestic product and consolidated public sector of the country. Thirdly, expenditure assignment and intergovernmental transfer system have been put on a clear and transparent basis. Fourthly, local governments have been given full control over some of the own-source revenues (local fees, service prices and revenues from municipal asset management) and limited control over the local tax levy. As a result local governments became powerful component of the public sector.

The process of financial decentralization in Bulgaria has been hampered by the worldwide economic and financial crisis. In spite of the anti-crisis measures, public sector revenues dropped significantly, especially in the second half of 2009, mainly due to the decreasing economic activity. The current crisis reached Bulgaria at comparatively mature stage of financial decentralization reform, but municipalities can do very little without active central government support and cannot substitute for it in regard of the basic anti-crisis measures.

## Notes

1. NUTS I, NUTS II and NUTS III are the abbreviations respectively of the level I, II and III of the Nomenclature of Territorial Statistical Units within the meaning of Regulation (EC) no. 1059/2003 of the European Parliament and of the Council of 26 May 2003. LAU 1 is denotation for local administrative unit.

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# Workforce Professional Skills Development in Times of Economic Crisis

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Using unique individual-level data on the continuous professional training courses completed over the period 2007–2011 this paper addresses a topic a major concern for policy-makers and businesses in the light of the recent transformations emerging markets have suffered during the global financial crisis. The paper presents the analysis of the evolution of the demand for continuous professional training and the changes in the structure of the demand under the circumstances of the economic crisis. Findings reveal a significantly higher demand for continuous professional training for acquiring new qualifications in jobs requiring low educational attainment and competences in foreign languages and information technology in 2008 and 2009, while specializing and performance trainings in qualifications requiring secondary and tertiary education registered a significant increase during 2010 and 2011. More so, the average skill level of professional training is on the rise, demonstrating an increased preference for highly skilled jobs, in the detriment of the low skilled jobs.

*Key words:* workforce development, skills, qualifications, continuing education and training, economic crisis

## Introduction

Nowadays it seems that most managers agree that people represent the most important asset of a company. The idea is not new, but managers when discussing the competitive advantages of their companies have successfully embraced it. Launched in 1950 by Drucker, the idea revolutionized managerial thinking, and set the premises for a new approach in human resource management. In the knowledge economy, the performance of a company and the prosperity of a place are increasingly tied to the talents of people. Previous research studies found that regions with larger proportions of skilled workers grow faster and are economically stronger (Glaeser and Shapiro 2001; Florida 2002; Gottlieb and Fogarty 2003).

Scholars, educational practitioners and policy makers have used the concept of workforce development extensively. Although there

was a general consensus about the economic and social benefits that are expected from workforce development programs (Grubb and Lazerson 2004), several authors noted a limited discussion about its meaning (Harrison and Weiss 1998; Grubb 1999; Giloth 2000). On a related note, Ronald and Joshua (2009) acknowledged the wide meaning of the term: 'workforce development has evolved to describe any of a relatively wide range of national and international policies and programmes related to learning for work.' Other scholars explained the term from a strategic perspective: workforce development represents the 'strategies that influence the environment affecting the training, work practice and careers of practitioners/workers' (Riddout et al. 2002). In a narrow sense, workforce development involves transferring of knowledge and skills and building capacities within practitioners so they can effectively deliver service (Curry, Caplan, and Knuppel 1994; Davis et al. 1992; Rapp et al. 2005).

The vast changes in the economic landscape that have occurred over the past decade set the context for workforce development. A connection between educational attainment and personal income become evident. More so, the current economic and financial crisis has demanded individuals to be more adaptable and flexible on the labour market. These attributes are gained by participating in continuing education to upgrade and update individual skills and competences.

The current economic context places higher expectations on individuals. It is the main purpose of this study to investigate how has the crisis affected individuals demand for skill development training. Studies that investigate or assess the continuing professional development needs of the workforce provide intelligence on workforce development needs (Hughes 2003). The motivations to graduate continuing training courses differ according to the employment status of the individual. Active individuals sought to remain competitive on the labour market or to improve their skills and qualification to accede to a better position through specialization and performance in current occupations, and initiation and specialization in foreign languages and information technology. Inactive individuals aimed to restore their employability status completing initiation trainings in basic occupations.

### **Economic Context and Evolutions in the Labour Market**

Emerging market economies were major beneficiaries of the economic boom before the present global financial crisis. In many cases

with fragile economic and financial systems, they easily have become the victims of the crisis after 2007. In a world with strong economic inter-dependencies, the evolutions of the emerging market economies depend to a high extent on the international economic prospects. Many researchers have attempted to identify and discuss the effects of the crisis on emerging markets (Dooley and Hutchison 2009; Blanchard, Faruqee, and Das 2010; Eichengreen 2010; Dabrowski 2010; Eggins and West 2010). Dooley and Hutchinson (2009) found that 'the policy measures taken in emerging markets to protect from global financial developments proved inadequate in the face of the credit crunch and decline in international trade that followed the Lehman bankruptcy in September 2008.'

Southeastern European (from now on referred to as SEE) emerging economies were facing the challenges of catching up with the developed EU Member States, enjoying long-awaited periods of economic growth after the Fall of Communism. The financial crisis that shook the Western economies as of 2007 took a while to be felt in SEE. Signs that the region would face major economic downturn appeared by the end of 2008. In Romania, the first signs of the economic and financial crisis were felt at the beginning of 2009 when the economy shrank suddenly, moving from an economic growth of 7.3 percent in 2008 to minus 6.6 percent in 2009 (National Institute of Statistics 2008; 2009; 2012). The reduction of the economic activity has had a significant impact on other macro-economic indicators, such as public debt, current account deficit, inflation and unemployment. The fall in output has several explanations, among which the main are: the reduction of the external demand from Western trading partners which led to the drop of exports; the reduction of the internal demand due to the lack of financial resources; and the fall in the volume of workers' remittances from Western economies, due to the worsening of the economic conditions in these economies as well (Banca Națională a României 2012).

The trade activity of SEE emerging economies suffered from the falling demand of key EU trade partners under recession (see [www.eurostat.org](http://www.eurostat.org)). The region's exports declined, with the consequence of lowering the industrial production. Romania situated within this regional trend of decreasing exports. A major cause of the economic contraction was the reduction of the economic activity due to the substantial decline of the exports to the Western economies, already affected by the economic and financial crisis. Romanian exports decreased by 13.8 percent in 2009, as compared to 2008. European countries were the main destination of Romanian exports: in 2008,

TABLE 1 The evolution of selected export categories of Romania (2008–2010) (in%)

Export category	2008	2009	2010
Motor vehicles, trailers and semi-trailers	12.8	16.2	16.3
Basic metals	9.2	5.5	6.9
Refined petroleum products and coke	9.0	5.5	4.8
Wearing apparel	8.4	7.7	6.3
Machinery and equipment not elsewhere classified	7.6	7.4	7.1
Electrical equipment	7.2	7.2	7.4
Chemicals and chemical products	5.5	3.6	4.0
Computer, electronic and optical products	5.2	8.2	9.5
Products of agriculture and hunting	4.1	4.5	4.9
Other transport equipment	4.0	5.1	3.5
Other export categories	27.1	29.1	29.3

NOTES Adapted from National Institute of Statistics (2012).

87.5 percent of the Romania's exports went to other European countries. In the following years, the important share of the exports to other European countries in the total Romania's exports maintained at 88.4 percent in 2009 and at 88.1 percent in 2010, according to the National Institute of Statistics (2012).

The years of crisis have changed the structure of Romania's exports. This is worthy to be mentioned in the view of the future investigation of skills development during the economic crisis. The evolution shows a reorientation of Romania's industrial production from raw materials products and work-intensive products towards industries that require electronics and IT skills. The automotive sector ranked 1st in the structure of Romania's exports between 2008 and 2010, but the analysis of the exports' structure indicates that the category 'Computer, electronic and optical products' registered the strongest increase in the total exports as compared to 2008, ranking 2nd in 2010. Also, increases in the share were recorded for electrical equipment and products of agriculture and hunting (table 1). The following categories registered decreases of weight: metallurgical products, refined petroleum and coke, wearing apparel, and chemicals (table 1). This evolution generated the need for more specialized skills, providing professional training providers with several opportunities.

The business activity suffered the strong impacts of the crisis and of the public policy measures aiming to counteract the effects of the crisis. The rapid evolving environmental changes triggered modifications in the organization and management of activities. Businesses were forced to adopt flexible business practices to cope with the re-

TABLE 2 The evolution of the unemployment rate in Romania over 2002–2011 (%)

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
8.4	7.4	6.3	5.9	5.2	4.0	4.4	7.8	7.0	7.0

NOTES Adapted from National Institute of Statistics (2008; 2012).

duction of demand. Businesses struggling with the crisis have ceased production, lay off workers, use hire freezes, apply wage cuts, or shortened working hours.

On the labour market, crisis' impact varied across different labour market segments. Adjustments occurred both in the public and private sectors. The public sector envisaged the reduction of the salary expenses through: a cut-off with 20 percent of the salaries, the introduction of hiring freezes and the limitation of the retired workers' replacement. The private sector used mainly wage cuts, cuts of in-kind benefits, temporary technical unemployment schemes, and employees' layoffs. According to EC-DGEFA (2011) the largest wage cuts in Europe were recorded in Romania and the Baltic countries. The flexibility of wages was aimed through several collective agreements at sectorial level concluded since 2008 and an amended Labour Code in 2011.

Under these circumstances, the labour market in Romania was significantly affected the economic downturn. The unemployment rate increased steeply from 4.0 percent at the end of 2007 and 4.4 percent at the end of 2008 to 7.8 percent at the end of 2010 – level that was previously reached in April 2003 (table 2). The job cuts in the public sector, the temporary cease of production in the case of private companies, and the close down of firms due to poor economic conditions and increased tax burdens determined the increase of the deficit of the social security budget for the assistance of unemployed. In 2010 and 2011 the unemployment rates oscillated around 7 percent, approximately 3 percentage points under the EU average of 9.9 percent (National Institute of Statistics 2012).

A major characteristic of the Romanian labour market is the reduced workforce as compared to the total population. The crisis has aggravated the situation, decimating the number of employees. As shown by figure 1, only 4.11 million people were employed in Romania in 2011, representing about 42% of the active labour force. A slight increase in the number of employees was registered in the first months of 2012, due to hiring in the private sector, especially in the industry and constructions.

Another characteristic of the Romanian labour market is the geographical concentration of highly skilled labour force in particular

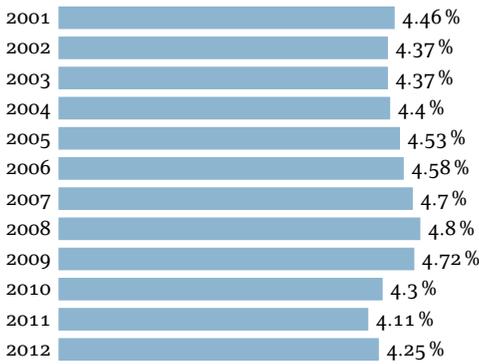


FIGURE 1 The evolution of the number of employees in Romania over the period 2001–2012 (adapted from National Institute of Statistics 2012)

areas of the country, especially in the capital city and several other major cities. The closedown of industrial facilities spread all over the country due to the economic crisis (and several examples were provided previously) has aggravated the situation of low-skilled individuals, who found themselves in the need of improving qualification and even re-qualification.

In addition to the deteriorating situation on the national labour market, Romanian workers from abroad started to return home. The exact number of the Romanian emigrants is not known, but the figure is estimated to be between 1 million and 3 millions. Constructions, agriculture, trade, merchandise road transport, or elder- or childcare, are the most common activities Romanian labourers are performing abroad. With the deterioration of the economic conditions in Western countries, most of them lost their jobs, stopped sending remittances and/or returned to Romania, increasing the unemployment.

### **Workforce Professional Skills Development during Economic Downturn**

The economic context and the conditions from the labour market in times of recession place at the centre of the debate the issue of workers' skills now more than even before. The discourse of skills acquisition and development prevails in all branches of activity. It might seem that 'skills have become the global currency of 21st century economies' (see [www.skills.oecd.org](http://www.skills.oecd.org)). Topics like 'new/emerging skills,' 'skills mismatch,' 'skills shortages,' 'brain drain' have emerged on the agenda of policy makers being considered to be major issues

facing countries, companies and individuals today. Discussing about structural unemployment, Krugman (2012) sees it having two determinants: skills and geography. Skills, or better said, their absence, represent one side of the coin, and refer to the lack of the right knowhow. On the other side, geography says that workers are in the wrong places. Both affect the labour market from Romania.

Numerous efforts were made to stimulate skills acquisition and development, and strategies for the maximization of use of skills were elaborated at all levels: at international level by international bodies, at national and regional levels, and at organizational level. OECD proposed countries an important framework of reference with three pillars: i) the development of the relevant skills by encouraging and enabling people to learn throughout life, by fostering international mobility of skilled people to fill skills gaps, and by promoting cross-border skills policies; ii) the activation of the supply of skills by encouraging people to offer their skills to the labour market and by retaining skilled people in the labour market; and iii) the placement of skills in effective use by creating a better match between people's skills and the requirements of their job, and by increasing the demand for high-level skills (see [www.skills.oecd.org](http://www.skills.oecd.org)).

During an economic downturn, the lack of financial resources generally impedes upon the budgets for training and development, in the case of both employers and individuals (either employed or unemployed). Also, public funds for learning are usually cut, to ease the pressures on the public deficit. Still, Nour (2008) recommends employers a three-pronged strategy to respond to the economic downturn: 1) attracting new talent, 2) retaining top performers, and 3) training and developing staff. Workforce training and development provide companies during an economic downturn with at least two major benefits: the attraction and retention of talent, and the growth of the own stock of expertise and skill supply.

Skills development was studied in various countries mainly before the current economic crisis, but several researchers have tried to capture also the effects of the global economic crisis of skills development. The impact of the 2007–2009 global economic crisis on the training and development budgets was studied by Shen and D'Netto (2012). They identified an overall reduction in training budgets among Chinese export-oriented enterprises. They found a clear distinction between the measures adopted for off-the-job training based on an individual's level in the organizational hierarchy demonstrated by a significant reduction in off-the-job training for low level managers and non-managerial employees, while con-

tinuing to provide off-the-job training for middle managers as a talent retention strategy. Masso and Krillo (2011) studied the impact of the crisis on the labour markets of the Baltic States placing particular emphasis on how the impact varied across different labour market segments. Other studies have focused on the Asian crisis' (1997–1998) impact on the workforce development and labour markets (Smith and Abdullah 2004; Zhu 2005). Rowley and Warner (2004) concluded that appropriate human resource management helps businesses survive and tackle the long-term challenges of economic crises.

From employers' perspective, the question of what to do with the workforce during an economic downturn seems to have a simple answer: keep the best employees and layoff the ones no longer needed. Retained employees are also affected by the economic situation: some employees continue to be trained generally with a lower budget; some employees are applied wage cuts or reduced working hours. Nevertheless, these situations seem better than the layoff, which can harm the capability of both workers and organization to recover. In Romania over 600,000 employees – representing 14 percent of the today's workforce – have been laid off over the period 2008–2011. At the same time, the remaining employees were forced to undertake more responsibilities for the same or reduced wages. This led many employees to seek new positions, especially at competitor companies.

Recruiting and retaining talent was the biggest concern for the CEOs from Romania, according to a PwC (2012) survey. In this context, several employers have started to value and build employees' loyalty through workforce development methods that would benefit not only the employees, but also the business. According to the same study, the availability of skilled workers was a major concern. Creating and fostering a skilled workforce was the main objective mentioned by 68 percent of top managers for which they plan to increase the investment over the next three years (PwC 2012). Mihai (2012) provides the example of Dacia – Renault Group which has invested 35 million EUR for the training of its 17,500 Romanian employees in the last 12 years.

The decision to invest in workforce development is made on the basis of several factors. The vast majority (61 percent) of the investigated CEOs from Romania agreed that the most important factor when deciding investment in workforce development were the quantifiable returns on the business. Secondly, the investment decision-making process considers the improvement of the over-

TABLE 3 Rationales for investment in workforce development

Statement	Percentage
We require quantifiable returns to our business for any investments we make in workforce development	61
We invest primarily to improve overall living and working conditions where we operate	55
We invest primarily to ensure a future supply of potential employees	52
We are investing in adult/vocational training programmes	48
We invest primarily to enhance our reputation	27
We are investing in formal education systems	27

NOTES Adapted from PWC (2012).

all living and working conditions in the operating environment (55 percent). Thirdly, workforce development investments aimed at ensuring a future supply of potential employees (table 3) (PWC 2012).

## Empirical Research

### Methodology

Workforce skills development through continuing professional training (CPT) courses was analyzed over the period 2007–2011 in Romania through a quantitative analysis. The research objectives were:

- to discover the evolution of the demand for qualifications and skills during the period of economic downturn;
- to analyze the structure of the qualification training levels and its evolution during the investigated period.

Basically I wanted to discover if the crisis led individuals to seek new skills acquisition and / or skill development, taking into account the major changes in the economic context and the crisis impact on the labour market in Romania presented in the first part of the paper. Secondly, I wanted to identify and measure changes in the skills on demand, like for instance a potential shift from low-skilled training programs to knowledge-intensive training programs.

Data on the number of graduates of continuing training courses were collected to analyse the demand for qualifications, on a market characterised by an excessive offer (ANC 2012). The continuing training courses are professional training courses organised by providers of continuing education that need to be certified as such by the National Authority for Qualifications. These data were collected from the committees that manage the registries for continuous professional training from different parts of Romania, more precisely from counties with different economic development. I investigated

a number of 13 counties, out of 45 counties of Romania. The investigated counties were: Alba (AB), Arad (AR), Argeş (AG), Bistriţa Năsăud (BN), Braşov (BV), Galaţi (GL), Gorj (GJ), Hunedoara (HD), Ialomiţa (IL), Prahova (PH), Satu Mare (SM), Suceava (SV), Vâlcea (VL). These counties were randomly selected, and the results presented in this working paper refer only to these counties.

The investigated period of time of 5 years is a rather short period to allow trend analysis, and it may be difficult to see whether the pattern of the demand movement within the period of crisis is the result of the crisis or not. This may represent a potential limitation of this study.

### Findings and Discussion

Skills development appears to have different motivations according to the stage of the economic cycle. On one hand, in times of economic growth skilled workforce is likely to become a scarce resource. In accordance, employers seek to develop the workforce as a method to build employee loyalty in order to increase employee's retention. On the other hand, in times of economic downturn, the compression of the economic activity determines business downsizes that give employers the possibility to filter out the low performance employees. The pressures put on human resources increase fuelled by the fear of unemployment. In this situation, individuals are those seeking to develop their skills so as to become or remain competitive on the labour market. Few were the employers that decided to continue the training of the workforce during the economic crisis with own financial resources.

Irrespective of the reasons for which individuals pursue skills development in times of economic downturn, there appears to be a significant need for skills and qualifications on the Romanian labour market. This need has determined the professional training providers, NGOs, and public institutions to offer a wide range of continuing professional training programs in Romania. The market for continuing professional training (CPT) is supervised by a National Authority for Qualifications with the main role of authorizing CPT courses and providers, and supervises their activity. According to the depth of the knowledge and skills, continuous professional education courses are of five types: for initiation, for qualification, for re-qualification, for specialization, and for performance. The initiation represents the acquisition of minimum knowledge, skills and abilities to perform an activity. Training courses for qualification aim to equip learners with a set of professional competences that al-

TABLE 4 Evolution of the number of graduates of CPT courses per type of course

Category	2007	2008	2009	2010	2011
Initiation	524	2903	2252	2336	4110
Qualification	4494	22129	8697	10919	7215
Specialisation	245	3151	1913	4364	2910
Improvement	1276	13728	3782	5749	4930
Requalification	0	242	0	0	0
Total	6539	42153	16644	23368	19165

lows them to perform activities particular to a job or profession. The courses for performance refer to the improvement of professional competences within a qualification. The specialization courses aim learner's acquisition of knowledge and skills in a narrow area of a profession. Last, re-qualification means the acquisition of specific competences of a different profession than the initial profession.

The first years of the economic crisis lead individuals with lower educational attainment and qualification to complete a formal training to acquire or improve their skills. Looking at table 4 one can easily note that most of these learners sought to acquire qualifications when the crisis began, fact demonstrated by the largest number of graduates of qualification of CPT courses. This pattern continued over the next years of crisis, although CPT for performance and specialisation got an increased interest from the demand side. The analysis of the share each type of CPT course had over the period 2007–2011 considering the number of graduates indicates an explosion of the demand for initiation courses (+784.4 percent): from 524 graduates in 2007 to 4110 graduates in 2011 (table 4). Given the non-existence of requalification courses (with one exception presented in what follows) one can easily conclude that individuals opted for initiation courses in new fields of activity instead of requalification courses. A single requalification CPT program was conducted in 2008 at the request of Dacia – Renault Group for 242 employees. Therefore, the increase in the number of graduates of CPT courses demonstrates a significant demand for qualifications and skills development in Romania, after the beginning of the economic crisis.

The requirements for specialized skills have generated an increase of the demand for CPT for specialization and improvement during the years of crisis. The number of the graduates of CPT for specialization constantly grew from 245 graduates (2007) to 4364 graduates (2010), to register a decrease in 2011. The number of CPT for improvement had a similar evolution, from 1276 graduates in

2007 to 5749 graduates in 2010; less graduates were registered in 2011 (4930 graduates). The changes in the structure of the economic activities in general, and in the industrial output and exports in particular, which were presented earlier, have generated the need for more specialized skills possessed by the workforce. During the past years, the demand for training courses for specialization and skills improvement has constantly increased.

For the investigation of the second objective, the skill level of the qualification was also considered. The skill level represents the minimum educational attainment needed to perform the job for whose qualification the continuous professional course was graduated. For each job that exists in Romania, the Registry of Occupations requires a minimum educational attainment that can range from 1 to 4, where 1 = primary education (elementary school), 2 = primary education (gymnasium and other primary vocational education), 3 = secondary education (high school and other secondary vocational education), 4 = tertiary education. Continuous professional training courses are designed for selected occupations from the Registry of Occupations and lead to the qualification to perform the respective occupation.

Workforce development through continuing professional training courses was reduced in 2007. In this year, individuals sought to obtain specialisations mainly in the field of agriculture (e.g. apiarist, forester, farmer, plant grower). A year later, to the agricultural specialisations added the low-skilled specialisations and basic trainings in IT and foreign languages (e.g. English). The economic growth led to an increased demand for security agents to guard shops, banks and companies' premises. A closer look at the place where the courses for security agents were organised reveals that rural areas represented a good source for labour force during economic boom. Indeed, a common practice used during 2007 and 2008 was the training of rural available workforce and relocating it to cities, to serve mainly as security agents and taxi drivers. Unfortunately, most of them were sent back home in 2009, when the crisis impacted severely on the business activity. Legal requirements for specific qualifications boosted the demand for the training and certification of the respective qualifications (e.g. HR specialist; work security and health specialist, trainer). In 2009, the demand for English courses increased, together with the appetite for basic computer skills and data input and processing activities. Low-skilled qualifications (e.g. bartender) and agricultural qualifications (e.g. apiarist) continued to be requested in several counties. Soft-skills courses emerged in the offer of continuing professional training providers, registering some

TABLE 5 Evolution of the skill level of graduated professional courses (%)

Skill level	2007	2008	2009	2010	2011
Skill level 1	0.0	0.0	0.0	0.1	0.1
Skill level 2	75.8	70.3	68.0	57.8	56.8
Skill level 3	8.7	13.4	16.6	19.9	25.7
Skill level 4	15.5	16.3	15.4	22.2	17.3
Mean	2.4	2.5	2.5	2.6	2.6

success (e. g. leadership, negotiation, communication, and teamwork skills). In 2010, the preoccupation of employees for foreign languages increased, German courses added to the English courses. The management of public funds obtained as grants required particular skills and competences, like project management skills, trainer and public procurement expert certification. In 2011, new qualifications were introduced to attract individuals, like: mentor, landscape designer, entrepreneurship, controller and environmental specialist. Nonetheless, the demand for workforce development through continuing professional training courses decreased, although employees' training might prove a good method to retain employees when financial incentives are scarce, as it is the case in times of economic crisis.

Table 5 presents the structure of the graduated CPT courses based on skill levels needed for their graduation. The mean is in fact the weighted mean of the number of graduates per each skill level and that skill level. In general, an ascending trend can be noticed. Also, it is easily noticeable that there were no courses designed for individuals with skill level 1 (elementary school). In the first four years, the mean increased from 2.397 in 2007 to 2.641 in 2010, while in 2011 it registered a decrease. In other words, the weighted average 'moved' from the skill level of 'primary education (gymnasium and other primary vocational education)' towards the superior level of 'secondary education (high school and other secondary vocational education).'

The workforce development through continuing professional training courses had been influenced by the availability of funds for human resources development from the European structural funds. The structural operational program for the development of human resources (SOP-DHR) made possible the partial or entire funding of CPT courses. The SOP-DHR Programme is financed by the European Social Fund and is implemented in Romania through 7 Priority Axes in a total number of 21 key areas of intervention (KAI). The 1st Priority Axis 'Education and training in support for growth and

development of knowledge based society' aimed to enhance the development of flexible lifelong learning pathways and increasing the access to education and training by delivering modern quality initial and continuous education, providing thus a financial support for individuals seeking continuing education.

### Conclusions

The years of financial crisis have generated structural changes in the economic activity in Romania. The labour market was severely hit, and the risk of unemployment started to become imminent for many individuals, after a worry-free period of economic boom. Continuing education and training play important roles during economic downturn and have positive several effects. First of all, investments in human resources have the potential to stimulate growth in the economy. Continuous professional training is a simple method to raise the quality of human resources, in times when the business activity is reduced. Also, qualifications provide people with high self-esteem and confidence, especially in difficult times. Periods of economic instability affect people's finances, but have also psychological effects. Several fears (e.g. fear of losing the job, fear of bankruptcy) particular to crisis situations might be overcome by continuing education and training.

Small but flexible training providers that had some ability to adapt to the rapidly changing environmental circumstances dominate the market for specialized training in Romania. As a result, the number of graduates of continuous professional training courses has registered a massive explosion in 2008, when the dawns of the crisis appeared. The years of crisis have shaped the demand for workforce development through continuing professional training courses, revealing a tendency from lower qualification courses graduated to higher and more specialized qualifications courses graduated.

The volume and the structure of the demand for continuous professional training varied at regional level according to the local economic and social conditions. The long-standing agricultural tradition is reflected by the specializations individuals seek to acquire, especially for facilitating the access to the European funds for agriculture. Eight of the analyzed counties have agriculture as the major occupational activity in which the active population is employed. The industry is spread in different parts of Romania, according to the Communist plans for the industrialisation of the country. Industry was severely affected by the economic crisis, and over 600,000 employees were laid-off over 2008–2011. The spatial allocation of

economic activity influenced the type of qualifications individuals sought to acquire.

This piece of research provides lessons for different parties. The government should oversee the structural transformations the labour market suffers especially in times of economic crisis, and should promote continuing education programs through the existing specialised agencies for the qualifications mostly needed with priority, and to better supervise and co-ordinate their activities. The actors from the business sector need to be aware of the importance of CPT and budget the expenses with the workforce development, as required by the legislation, even in times of crisis. Professional training suppliers should increase their responsiveness to the needs of the business environment and of trainees, which have different requirements according to the category they belong to: adults in work who have a need to update their skills and capabilities in order to remain employable, adults who are out of work and thus need re-qualification or additional qualifications to re-enter the workforce, and adults seeking to 'position' themselves with regard to the labour markets in which they wish to participate. Last but not least, the individuals are expected to be the most active seekers of skills and qualifications improvement, due to their increased vulnerability a the labour market affected by times of economic downturn.

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# Perceptions on 'Effective' Head Teacher's Leadership within the Slovenian Context

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The paper presents some research findings about 'effective' head teacher leadership within the Slovene post secondary school context which indicate the dimensions of head teacher leadership processes. The head teachers' responses to a questionnaire indicating features of knowledge about leadership, which were captured in four interpretative categories, namely 'being,' 'knowing,' 'acting,' and 'effecting.' Furthermore, the findings of some case studies gave a funneled perspective on contextually bounded leadership knowledge. The present paper points to dimensions of and to the nature of knowledge about leadership and, moreover, to some dilemmas and questions about the ways in which knowledge about leadership could be understood and learned.

*Key words:* school leadership, leadership effectiveness, the nature of leadership knowledge

## Introduction

The purpose of this paper is to present a deeper understanding of a social phenomenon, leadership, which 'has been, and continues to be, a source of endless curiosity to academic commentators, journalists, practitioners and the general public' (Gronn 1999, 67). The topic is not new: it has been studied quite extensively. Caldwell (2006), for example, mentions that he has a personal professional library of about 900 books, mainly on educational leadership, management, and policy. However, the focus of this research is on effective head teacher leadership in the Slovenian context.

Slovenia declared and gained independence from former Yugoslavia in 1991. The 'ex-socialist' republic became a parliamentary democracy. The transition in the field of economics, as well as in other areas of social life, was marked by the development of market competition, integration into the European Union (2005), and managerialism: the new ideology that replaced the 'old' one (which was self-management) (Kuzmanić and Sedmak 2006).

In the field of education, major changes started to occur during the period of transition and continued thereafter. These changes sprang from two sources: first, the change of the state's political and economic systems, and independence, which required changes in legislation as well. Second, which was specific for education, was the intention to modernise education. A package of legislation that was adopted in 1996 was subjected to adjustments and has been continuously upgraded according to the ongoing restructuring of education. The interest in effective leadership of schools increased. The expectation that the training provided by the National School for Leadership in Education would change the perceptions of effective leadership and hence the practice of head teachers, has received professional and scientific interest. As in other countries in transition, in Slovenia also there emerged a search for good practices that had been 'imported' from other countries where the literature and empirical research on headship and leadership was already extensive. Moreover, the literature used for this research was mainly produced in western countries. However, it forms the basis of this study for two simple reasons: a) there is still little empirical research on leadership in Slovenia and b) we can trace a sort of 'policy borrowing' (see Novoa and Yariv-Mashal 2003; Trnavčević and Roncelli Vaupot 2007; Trnavčević, Logaj, and Trunk 2008), mainly from the English speaking countries.

### Methodology

The present study is rooted in qualitative methodology (Fine et al. 2000; Kincheloe and Mc Laren 2000) and could be considered as an exploratory study (Bouma and Atkinson 1995) regarding the unexplored Slovenian context.

In this study, grounded theory was used as an analytical approach as it is viewed as being useful in 'unexplored' contexts because 'it is inductively derived from the study of the phenomenon it represents' by Strauss and Corbin (1990, 23). In spite of grounded theory have been subjected to a considerable amount of criticism, according to Haig (1995) it embodies a conception of scientific inquiry. Charmaz (2000) argues that 'essentially, grounded theory methods consist of systematic inductive guidelines for collecting and analysing data to build middle-range theoretical frameworks that explain collected data' (p. 509). The method used and the emerging concepts and relationships among them are generated inductively and also provisionally tested through triangulation. This study consists of two parts. For each part, one method of data collection was used.

## SURVEY

A survey in a non-standardised form of questionnaire (Johnson 1994) with open-ended questions was used, because it 'gives the respondents an opportunity to state a position in their own words' (Fink and Kosekoff 1985, 23). The questionnaire consisted of questions which address the variability of the sample. The head teachers were asked about their gender, about their experiences at work, in education, and in headship. Further on, they were asked about (1) what they perceive as 'effective' head teacher leadership, (2) what they regard as indicating such leadership within the school context, (3) what are, according to them, examples of 'effective' head teacher leadership, (4) what, in their opinion, makes a head teacher effective, and (5) they could also add anything they thought was important. The purpose was to construct a more general account in the Slovene context of the views of respondents and a maximum variety of Slovenian head teacher's perceptions of effective head teacher leadership. A suitable sample was drawn from the population and 197 head teachers, 99 males and 98 females, of Slovenian primary and secondary schools out of the 644 of all head teachers were included in the sample. The volume and diversity of the data collected was considerable. All responses of one particular respondent have been considered as being 'a case per se,' still they were regarded as indicating elements of more general interpretative categories. Themes which were common across cases were searched. Four generic dimensions emerged from the data. The dimensions embedded within each response were identified. The responses were taken apart and categorised, each of them into categories of 'being,' 'knowing,' 'acting,' and 'effecting.' This laid the groundwork for constructing a more general perspective on what the informants of this study perceived as 'effective' head teacher leadership. After that, the data were categorised into each category and thematic subcategories. On the basis of this categorisation and subcategorisation, a provisional typology of effective leadership was developed.

## THE CASE STUDY

The case study provided an opportunity for collecting data for an in-depth understanding of various actors in school life, such as teachers, pupils, and head teachers. The informants can be seen as 'knowledgeable agents of social life' (Giddens 1984). That is to say, all social actors know a great deal about the conditions and consequences of what they do in their day-to-day lives (p. 6), the social

agents are knowledgeable, and their knowledgeability is based in their practical and 'discursive consciousness' (p. 6) as well as on their unconsciousness (tacit knowledge). Therefore this study could be considered as interweaving both the process of constructing this knowledge and the search for understanding what informants of this study understand as being 'effective' head teacher leadership.

The data was collected by means of semi-structured interviews. Six secondary schools were defined as cases (case studies), because they are 'an instance of some concern, issue, or hypothesis' (Merriam 1991, 10). Within each of the six schools, interviews with the head teacher, six teachers, and six pupils were conducted. When the data of the interviews were interpreted, the data of the specific school context was also considered through case studies, which were based on a substantive theme rather than on an institution itself. The basic research question was: How do participants understand and interpret the topics concerned in this study in their own cultural context? For that purpose, an exploratory form of interview was adopted. 'The purpose of exploratory interview is essentially heuristic: to develop ideas and research hypotheses rather than to gather facts and statistics' (Oppenheim 1992, 67). The sampling strategy was an adapted variation of a sampling technique called the 'snowball technique' (Guba and Lincoln 1989), by which rich cases were identified. The phenomenon was studied through the perspectives of one head teacher, six teachers, and six pupils from each school, because understanding 'effective' head teacher leadership means viewing it from various perspectives, not only from that of the head teacher.

Two analytical strategies were used to analyse the gathered data: the categorisation of responses and the ethnography of case studies. They both opened two qualitatively different, yet still interrelated, perspectives on 'effective' head teacher leadership. They appeared as a horizontal perspective which embedded a great amount of 'dotted' individual perspectives of each respondent on the questionnaire about 'effective' head teacher leadership that were contextually detached, but still had some common glue (i.e., the idealisation), and a funnelled perspective which was contextually bounded (concrete school settings) and triangulated (head teachers, teachers, pupils, and the researchers) in a concrete school setting.

For the purpose of improving the credibility of the findings, a triangulation, something which has been generally considered as a process of using multiple perceptions to clarify meaning, verifying the repeatability of an observation or interpretation, was employed.

So, multiple data sources such as head teachers, teachers, and pupils, were used. Two methods, a survey and case study method were combined for the purpose of triangulation. The aim was to increase the validity of this study. Once the data were analysed, the possibility of triangulating the sources with different theoretical schemas was used in order to see what might be the most illuminating fit between the formal theory, the data, and the emerging theory.

### Findings from the Survey: Horizontal Perspective

Patterns of the emerged data were classified and honed into categories (interpretative and thematic). From this study four interpretative categories emerged: 'being,' 'knowing,' 'acting,' and 'effecting.' 'Being' indicated immanent personality characteristics of the head teacher and might be viewed as reflecting the 'state' of a head teacher's personality. 'Knowing' emphasises the varieties of a head teacher's knowledge. It is considered as already possessed and also as 'required' knowledge (what is 'important,' 'should/has to be known'). The 'acting' mode views the head teacher in 'action,' emphasising the process dimension of effective leadership. The 'effecting' mode might point to the outcomes ascribed to leadership. Although such categories might be viewed as unexceptional, they indicate the nature of effective leadership as seen widely in the current management literature and are hence an echo of it in the Slovenian context. The findings based on this study cannot simply be generalised beyond the boundaries of a case study. Yet they can be viewed as a small step towards a generalisation (Stake 1994).

#### THE 'BEING' DIMENSION

The 'being' category points to the head teacher's personality characteristics, which might also be seen as a person's potential to influence others. It might be viewed as presented in the management literature, which is oriented towards the personality of a leader (traits and behaviour) in relation to their effectiveness at work (Bass 1990; Yukl 1998). Although the trend in leadership studies could be regarded as moving away from focusing on the personality traits of a leader (Gronn 1999; Geijsel, Meijers and Wardekker 2007), there are components of it in the 'new' leadership styles (charismatic leader), which can be noticed in practice in the context of the global economic crisis. The trends in leadership studies might be seen as oriented towards why and how a leader is ascribed as such by followers or towards the power and influence that a school leader exercises (Geijsel, Meijers and Wardekker 2007). The 'being' of a leader might

be viewed as indicating a 'personality potency' which enables influencing others. This is consistent with Gronn's (1999) arguments that a 'leader's capital' is what made them influential in the eyes of 'followers,' and hence accepted as a 'natural' (emerging from the group) and not only as a 'formal' leader. It could be assumed that the 'being' category characterises the head teacher's 'personality potency' and that this potency is related to effectiveness in a professional role.

The perceptions of the respondents are grouped around personality characteristics that can be regarded as influencing interpersonal relations, around abilities for playing a professional role, and abilities related to the execution of tasks. That might mean that the personality of a head teacher is perceived as synonymous with professional performance and could, because of that, be regarded as 'being a potency' for performing the job. The term 'being' also implies the innate nature of such 'potency.' The data does not indicate which characteristics are regarded as inborn and which learned, although the responses strongly indicate that a head teacher needs 'something inborn' to be 'effective.' Which part of that is inborn can only be the subject of speculation. A clear distinction between what is perceived as innate and what is perceived as acquired is not evident from the data. The same dilemma also confronts personality studies (Musek 1993; 2000) where it is argued that it is not 'objectively' possible to prove what is 'purely' an inborn characteristic of personality and what is not so.

#### THE 'KNOWING' DIMENSION

The data from this study indicate that the respondents perceive the head teacher as 'knowing,' thus possessing knowledge related to their profession (teaching and headship) and broader areas of work, which are also determined by legislation, such as pedagogy, economy, law, management, and leadership. The data also imply that a head teacher 'knows' how to approach each concrete situation, and is capable of 'planning,' 'decision making,' 'communicating,' 'organising,' 'problem solving,' etc., and hence possesses knowledge about practical approaches at work. It could be assumed that the head teacher is regarded as possessing professional expertise. Moreover, the respondents also view the head teacher as having a 'broad' knowledge and as being 'well educated.' That implies that their knowledge is not viewed as framed in a narrow version of a profession but as based on knowledgeability in a broader sense of the word.

The importance of knowledge for head teachers in general is

explicitly emphasised by authors such as Sergiovanni (2001) and Reeves, Moos, and Forrest (1998). Knowledge is also viewed as related to the specific requirements of the job, such as 'knowing the job through and through' (Day 1999) and to specific fields of work, such as 'communication' (Bredeson and Johansson 1999), 'building vision' (Silins 1994), 'delegation' (Kushner 1994), 'managing of changes' (Fullan 2008; Hargreaves 2009), and 'reculturing schools' (Geijsel, Meijers and Wardekker 2007). The authors argue that a 'broader knowledge' (McCleary 1992; Berg 2000) as well as an 'expert/professional' knowledge (Fiedler 1996; Eraut 1993; Hyland 1994; Hughes 1998; Carr 1993) are important. The head teacher is also expected to 'know' 'what is going on out there' (Hargreaves and Fullan 1998) and also how and what one knows: 'knowledge about learning' (Day 2003a). A strong emphasis on the 'knowledge' dimension of the head teacher's work might be indicated in competence studies (Eraut 1993; Esp 1994; Roncelli Vaupot 1997). In that context, theoretical and practical knowledge need to be demonstrated via performance (Thomson 1990). Knowledge is regarded as a ground (established knowledge) as well as an aim (embedded in objectives and assessed) of various approaches to the training and education of a school/leader (Gronn 1999; Day 2003a; 2003b; Caldwell, Calnin and Wise 2003; Harris 2003; Hopkins and Jackson 2003). That might point to understanding leadership as a learned/trained activity, as a rational induction to leadership, viewed as a profession and also suggesting belief that leaders could be 'made' by learning although the failures in such 'making' are commonly ascribed to 'unpredictable' factors.

#### THE 'ACTING' DIMENSION

In this study, the respondents see the head teacher's 'acting' as related to interacting intensively with 'followers,' by means of 'motivating' and 'collaborating,' in a way which could be seen as 'positive' in relation to others, 'caring,' 'stimulating,' and 'supportive,' which might imply that they try to be accepted by the followers and, through that, be perceived as good leaders. Besides that, they also view the head teacher as enabling the school to operate well through 'organising,' 'co-ordinating,' 'trouble shooting,' ensuring that the school is developmentally oriented, 'planning,' 'setting goals,' 'improving quality,' and 'building vision.' That might well influence the perceptions of the followers as well as it might raise the image of the head and consequently the school's accountability in the community.

Various dimensions of a leader's activities, such as 'listening'

(MacBeath 1998), 'creating, maintaining and constantly monitoring relations' (Day 2000), 'empowering and supporting others' (Fernandez 2000; Blase and Blase 2001), 'caring and behaving protectively' (Blase and Anderson 1995), 'collaborating' (Leithwood and Jantzi 1990), and 'communicating,' which is also viewed as related to a 'broader image' of a head teacher, such as 'being' invitational (Stoll and Fink 1996) and 'being a welcoming person' (Bridgeman and Woods 1999), are emphasised in the current management/leadership literature. Views on distributing leadership across a school (Spillane 2005) and hence 'removing' a school leader from the centre are also present. Leithwood and Jantzi (2006) emphasize three dimensions: setting direction, developing people, and redesigning the organization.

In some school leadership studies, an emphasis is put on the 'acting' of a head teacher, which could be related to the need to be recognised and accepted as a 'natural' leader as might emerge from within a group. So Jantzi and Leithwood (1996) state that 'doing good work on behalf of one's school, and being seen to do such work, is likely the most powerful strategy for positively influencing teachers' perception of one's leadership; put simply, it is what you do, not what you are, that matters to the teachers' (p. 531). Moeller (2000) also views the head teacher's 'acting' as related to being 'perceived as a leader of a school.'

#### THE 'EFFECTING' DIMENSION

The 'effecting' category of this study strongly emphasises both the effects of positive climate ('satisfactory,' 'pleasant,' 'relaxed,' 'working,' 'good') and people/child centred culture of the school ('child is in the centre of school work,' 'respecting') as well as the outcomes/results ('academic achievements,' 'results,' 'successes') of school work. It might be assumed that the 'effecting' of a head teacher's leadership might be viewed as oriented to the 'outcomes' rather than to the processes of influencing teachers.

The 'effecting' dimension might be viewed as 'derived' from school effectiveness studies, which argue that a leader makes a difference to school work (Mortimore 1998; Stoll and Fink 1996; Hallinger and Heck 1996). These could be seen as instrumental views about the effects of leadership, which means that leaders are expected to demonstrate that they 'act as causal agents who engineer desired effects or outcomes which, but for their actions, would not otherwise have occurred' (Gronn 1999, 9). The 'effects' of leaders might be viewed as deduced from the perceived (defined by indicators, stan-

dards) effective work of the school, implying that the head teacher has an impact on school, although the direct impact is not easily defined (and/or measured) or that it might be viewed as consequential (through teachers) (Leithwood and Jantzi 1999; 2000). The school 'effectiveness' studies could also be regarded as re-oriented from viewing head teachers as managers towards primarily viewing them as school leaders (effective school or educational leaders).

In that context, various dimensions of such leadership are emphasised, such as transactional and transformational leadership, post transformational leadership, moral instructional cum pedagogical leadership, and leadership related to learning organizations and organizational learning. Leadership can also be viewed as a shared process and not a 'property' of formally appointed leaders, and hence, as distributed. Discussing educational leadership has almost grown into an 'art of leadership' area, where inspiration, vision, non-hierarchical relationships, shared decision-making (Anderson 2004; Harris 2003), and collegial relations (Rubin 2002) are asserted. This suggests that studies have re-oriented their focus from school effectiveness to a search for strategies for the collaboration of formal leaders with teacher leaders by 'empowering' these teachers through enabling their participation in leadership. This, consequently, leads to an influence on the school's work and effects as well.

The initial categories of 'being,' 'knowing,' 'acting,' and 'effecting' could not be regarded as distinctive to this study but as widely present in the existing management literature. On the one hand, the initial interpretative categories might be viewed as epistemological presumptions about the nature of leadership presented through the respondents' perceptions. And on the other hand, they might also be regarded as a kind of reflection of the management literature, which is predominantly created in the West.

The respondents, however, perceived all these dimensions as interrelated. That, on the one hand, created an image of an ideal head teacher who exerts 'effective' leadership, and on the other hand, it also pointed to the fact that their perspectives on the phenomenon being researched needed to be regarded as not narrowly monistic, but as broad and variegated. In order to gain a funnelled perspective rather than claiming to gain an in-depth perspective, a case study was carried out.

### **Findings from the Case Study: The Funnelled Perspective**

The aim of the second part of this research was to understand and interpret the 'effective' head teacher's leadership through the var-

ious perspectives of those who experienced it in a concrete school situation, in order to construct an in-depth or, rather, a funnelled perspective.

#### COMMON FEATURES OF AN EFFECTIVE HEAD TEACHER'S LEADERSHIP IN SIX CASE STUDIES

Despite various contextual specifics which pointed to some differences, all the case study schools had some common characteristics which were perceived by the teachers and the pupils. For example, the head teachers in these case studies were regarded as: 'real' people facing real situations and having problems (enrolment rates, resources, equipment, quality of teaching, climate, etc.); they were criticised (for being too democratic with pupils, too open, not always there for teachers and pupils); they were involved in conflicts (some teachers and pupils struck) and also caused critical incidents. They were perceived as individuals who have specific personal histories (that the teachers and pupils know about), which was in turn perceived as part of the head teacher's reputation (good former teachers, innovators, mentors, and various leaders, etc.). They had a long history within the schools (ex-pupils, ex-teachers, ex-deputies), which they led; they were also regarded as having (there as well as out of school) various leadership experiences (pupil leaders, teacher leaders, leaders of community boards). It appeared as if head teachers were a part of the school's tradition—its culture. They also seemed to like their work (they felt dedicated to their profession, perceiving it as their personal mission and not only as a job). They were regarded as outstanding teachers (two of them remained teachers even during their headship). They also seemed to know the schools they led very well, even from the pupils' perspective.

#### *Building Strong Social Alliances*

It seemed that head teachers were building strong social alliances with their deputies, teachers (specific responsibilities within the school), pupils (mainly with their representatives), and also people out of school. All these social alliances functioned in a way in which the head teachers could be regarded as being the only (formal) link among all the members of such an alliance (dyadic communication links). They could be seen as a sort of reinforcement of the head teacher's influence and as being a protective shield for the head teacher as well as the school.

### *Homogenisation of the Perspective on Future Development*

The congruence of the perspective on the future development of the school was identified and appeared to be regarded as extremely high. It was considered that such processes could be a results of (intentional and perhaps unintentional) processes of homogenisation and unification (a sort of fusion of ideas into some mainstream ideas) of perspectives, in this case of the head teacher's social circle. The head teacher's strong motivation for realising the vision might also reinforce the pressure to homogenise their perspectives: to accept the initial vision as if it were their own. And teachers which were interviewed as well as pupils neither perceived their contribution to the vision clearly nor did they consider it important, but still followed 'that' vision.

### *Head Teachers As 'Teachers' for All (Pupils and Teachers): Pedagogy of Interpersonal Relations*

Head teachers could be regarded as the ones who educate teachers as well as pupils in intensive contacts with them. They appeared to be using an influencing strategy which they had adopted when they were teachers in the classroom. They could also be regarded as perceiving teachers and learners and who need to educate others about what is 'right' for the school and even for their own professional and personal growth. Their 'teaching/educating' appeared to be following values which might be characterised as specific to the school context. They were seen as being engaged in helping teachers to learn how to improve teaching in the school. They also created good conditions for the teachers' learning. The teachers were required to adopt that philosophy and so the head teacher expected such values to become an intrinsic part of their motivation for continuous improvements in learning. Head teachers, as well as teachers, also indicated how they directly influenced the teachers' teaching. They mentioned lesson observation. Head teachers often adopted the role of teachers and used different interactions for that purpose. It could be speculated that within the school culture, the role of teacher and learner was defined by one's position in the school's hierarchy. It was never claimed that the head teacher was taught by teachers nor did such heads talk about their learning in that way.

### FOCUSING PUPILS IN THE CENTRE OF CONCERN

Intensive interaction with pupils was identified, such as 'centring' pupils in the focus of their concern and by that also the school's

concern. They regarded this role as very important. They had regular contacts with their pupils and by that they could anticipate the pupils' needs; they could spontaneously teach pupils in daily interactions and were perceived to be personally caring for the pupils' needs as well as fostering the teacher's consideration of the pupils' needs within the school. They were regarded as systematically setting out to gain the pupils' affection and to have established good interpersonal relations for educational purposes. They seemed to use various kinds of contacts for teaching them, and for being models to them as well. They consider the relations with the pupils as good for pedagogical ends, including the interpersonal dimensions with them. That indicated the head teachers' general and specific care for pupils, directly as well as indirectly: through teachers and through ensuring good working conditions.

### *Fostering Good School Climate*

The head teachers were also perceived as influencing the school climate. It was indicated that all interviewees were very satisfied with the school climate. In general, all interviewees perceived their school to be a pleasant place, which sounded like an ideal. It might also be inferred that the head teachers could also be regarded as influencing such a state by being a model to the teacher and pupils of good relations, and by contributing to good feelings within the school. They fostered good feelings by initiating, supporting, and taking an active role in the social life within their schools.

### *Head Teachers as People*

*Affable.* It appeared that the head teachers influenced others by being very close to the teachers and pupils as human beings: the heads could be seen as social and affable people. They were predominantly perceived as influencing others through face-to-face interactions (individual or group approaches and other channels of communication with pupils, e.g., addressing pupils by internal radio and writing circulars).

*Strong Personality.* The teachers and the pupils perceived the head teachers to have strong personalities and to be determined to achieve what they intended to do. They were also successful in doing that as well. They were regarded as highly engaged in fulfilling their goals (important for the school and pupils) and for reinforcing their authority. They were also successful in carrying out their ideas through the teachers. However, they adopted various strategies for that, and

all these strategies were based on authoritative grounds: the head teachers basically decided by themselves what was right and they most commonly made others accept those decisions through a 'seductive' behaviour. They also built their charisma on gaining the attraction of others. They knew the context and had a long history within the school. It could thus be supposed that, to them, the school had been a learning medium for their leadership (various leadership roles).

*Having Charisma.* The head teachers could also be regarded as charismatic leaders and as very proficient in exerting power: on the one hand, they developed a very attractive behaviour and on the other hand, they decided everything possible within the school. It could be inferred that they had learned leadership by experiencing it in various situations and occasions. As experienced leaders, they knew how to influence others in order to achieve what was needed by them or required of them, as well as in congruence with others. They might be regarded as having emerged as natural leaders. Specifically, they were accepted as positive people (good, trustworthy, helping, collegial); as good teachers (experts in teaching, introducing novelties, project leaders), and then as good head teachers: as being humane to all teachers and pupils, as having visible results (new buildings, equipment, projects, matured results, high academic achievement, competitions, etc.) and as building a positive image of their school (of which all the informants seemed to be a part). They were also perceived as: good problem solvers; having visions for their schools as well as concrete goals; motivated; having established social alliances and strong interpersonal relations with the people around them (in particular with the pupils) and having strong motives for improvement. It appeared as if the head teachers had succeeded in building (continuously) a 'story' for the school with a good reputation and were regarded as a part of the school's extended family, in a relation regarded as at least tinged with paternalism rather than management.

*A Balance between the Tendency Towards Achievement and the Tendency Towards Helping Others.* It might be inferred that the approach adopted by the head teachers indicated both a strong tendency toward achievements as well as a tendency to help others (a social component). It might be speculated that the head teachers very proficiently balanced two main considerations in their leadership: being affable, humane, and close to the teachers and pupils as human beings on the one hand, and on the other hand, as determined to

realise their ambitious visions and maintain the good reputation of their schools.

### Conclusions: The Merging Views

Some common characteristics emerged from the survey and case studies. The head teachers were perceived as strong and affable personalities, who emerged as leaders within the school culture and had played various leadership roles in their previous careers. They built their charisma through the years, especially by acting as excellent teachers and as teachers who have good professional reputations and excellent interpersonal relations, particularly with their pupils. It was obvious that they were putting pupils in the centre of their concern and forced the teachers to follow them in that action. Their 'effecting' was strongly related to building strong social alliances within the school, which were very strong with pupils, as well as with various individuals and social partners outside the school. In that way, they fostered their influence inside the school culture on the one hand, and through close social circles of co-workers and other social networks they also spread the influence inside the school as well as outside, on the other hand. They also put into 'effect' a homogenisation of the perspective on future developments and by that also built a incorporative school culture of continuous improvements. The dimensions of 'Being,' 'knowing,' 'acting,' and 'effecting,' which emerged in the survey approach, were also mentioned by the interviewees.

The key words, such as 'strong,' 'decisive,' 'self-affirmed,' 'highly engaged,' 'affable' and 'communicative,' 'visionary,' and 'respectful,' as 'knowing' how to teach ('quality of instruction'), 'knowledgeable,' 'caring,' 'sharing power,' 'mastering daily routine,' 'creating a positive image of the school,' and 'improving the quality of the teaching,' reflected an idealised person. However, these characteristics were not a set of unique images, but were instead related to specific contexts and interrelated with the new dimensions of leadership, which also reflect the old leadership dimensions that were identified and studied extensively in general management and school leadership. It seems there is still a need for an idealised leader in the school context, as if a merely 'standard' person would not suffice. We hesitate to argue that schools in Slovenia are in the intersection of highly technically strong leadership and inspirational, visionary leadership. This could be the reason why a two-tier system has been implemented in educational institutions. Also, it seems to be interesting that despite the highly competitive and marketized environment of

schools, they still need strong, emotional, caring, etc., leaders. It looks like they counterbalance the competitive environment through the perspectives of being idealised leaders and through their daily practice.

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# Abstracts in Slovene

## Dolgoročna odgovornost managerjev v družinskih podjetjih

*Dietmar Sternad*

Podatki kažejo, da dolgoročna usmerjenost kot prevladujoča strateška logika prispeva v vzdržnem delovanju družinskih podjetij. Z združitvijo pregleda literature o dolgoročni usmeritvi s teorijo oskrbnništva in pojmovanjem teorije vodilnih kadrov članek predstavlja tipologijo managerske odgovornosti in vpeljuje pojem dolgoročne odgovornosti kot značilnosti managerjev, ki je najpomembnejša gonilna sila dolgoročne odgovornosti. Ugotovljeni in v integriranem modelu predstavljeni so tudi predhodniki dolgoročne odgovornosti v okolju, značilnem za družinska podjetja (družinski izvor, način obvladovanja in osebne značilnosti managerjev družinskih podjetij). Članek prispeva k izčrpnemu razumevanju odločanja v družinskih podjetjih in pojasnjuje, zakaj so pogosto bolj dolgoročno usmerjena od ostalih podjetij.

*Ključne besede:* odgovornost managerjev, dolgoročna usmerjenost, družinska podjetja, oskrbnništvo

*Management* 8 (2): 93–107

## Analiza finančnega poslovanja v slovenskem turističnem gospodarstvu

*Tanja Planinc, Štefan Bojnec in Saša Planinc*

V prispevku smo ugotavljali, ali obstajajo statistično značilne razlike v finančni uspešnosti med posameznimi dejavnostmi turističnega gospodarstva v Sloveniji. Analiza je bila izvedena za obdobje 1995–2009. Finančno uspešnost smo merili s pomočjo finančnih kazalcev in kazalnikov, ki so dostopni na spletnih straneh АРРЕS. Finančni podatki so revalorizirani na leto 1995. Kot deflator smo uporabili vrednost inflacije. Raziskovalna hipoteza je bila testirana s pomočjo kvantitativne analize sekundarnih podatkov (Kruskal-Wallisov preizkus ter Wilcoxon-Mann-Whitneyev test). Analiza je pokazala, da med posameznimi dejavnostmi obstajajo statistično značilne razlike v uspešnosti poslovanja.

*Ključne besede:* finančna analiza, finančna uspešnost, turistično gospodarstvo, Slovenija

*Management* 8 (2): 109–123

## Finančna decentralizacija v Bolgariji: pregled

*Desislava Stoilova*

Namen pričujočega članka je ponuditi kritičen pregled finančnih reform lokalne samouprave v Bolgariji. Najprej so predstavljene posebnosti in pravna podlaga lokalne samouprave. Kvantitativna analiza se

osredotoča na dinamiko kazalnikov javne porabe in na sestavo prihodkov lokalnih oblasti ter temelji na podatkih za obdobje 1990–2011 ter na napovedih za leto 2012. Članek obravnava in skuša oceniti vpliv gospodarske krize na finance lokanih oblasti. Narejena je primerjava med tremi najhujšimi padci bolgarskega gospodarstva v zadnjih 20 letih, in sicer med liberalizacijo cen na začetku tranzicijskega obdobja (1991–1993), kreditnim krčem in vrsto stečajev bank v letih 1996–1997 ter sedanjo svetovno krizo. Opisani in ovrednoteni so najpomembnejši vladni ukrepi za obvladovanje krize. Članek ugotavlja, da, kljub temu, da je sedanja kriza dosegla Bolgarijo v razmeroma zreli fazi finančne decentralizacije, lahko občine zelo malo storijo brez podpore centralnih oblasti. Slednjih občine tudi ne morejo nadomestiti pri uveljavljanju protikriznih ukrepov.

*Ključne besede:* finančna decentralizacija, lokalne finance, proračunska razmerja med oblastmi

*Management* 8 (2): 125–138

### **Poklicni razvoj zaposlenih v času gospodarske krize**

*Irina Alina Popescu*

Članek na podlagi podatkov o stalnem strokovnem usposabljanju posameznikov v obdobju 2007–2011 obravnava tematiko, ki je zelo pomembna za oblikovalce politik in poslovneže, še posebej v luči sprememb, ki so doletele trge držav v vzponu med zadnjo gospodarsko krizo. Članek predstavlja analizo razvoja potreb po stalnem strokovnem usposabljanju in spremembe v strukturi povpraševanja med gospodarsko krizo. Izsledki razkrivajo bistveno večje povpraševanje po stalnem strokovnem usposabljanju z namenom pridobitve novih kvalifikacij ter znanj tujih jezikov in informacijske tehnologije v poklicih, v katerih je v letih 2008 in 2009 zadoščala nižja raven izobrazbe. V letih 2010 in 2011 pa so se zelo povečale zahteve po specializaciji in izpopolnjevanju v poklicih, ki zahtevajo drugo in tretjo stopnjo izobrazbe. Še več, zvišuje se povprečna raven zahtevanega poklicnega izobraževanja, ki se kaže v povečanem povpraševanju po visoko kvalificiranih poklicih in v manjšem povpraševanju po nizko kvalificiranih.

*Ključne besede:* razvoj zaposlenih, večšine, kvalifikacije, stalno izobraževanje in usposabljanje, gospodarska kriza

*Management* 8 (2): 139–155

### **Dojemanje učinkovitega vodenja ravnateljev znotraj slovenskega šolskega konteksta**

*Silva Roncelli Vaupot in Anita Trnavčević*

Članek temelji na ugotovitvah kvalitativne raziskave o »uspešnem« vodenju srednjih šol v Sloveniji in nakazuje razsežnosti procesa vodenja ravnateljev. Odgovori ravnateljev na vprašalnik o uspešnem vodenju so

strnjeni v štiri interpretativne kategorije: »biti«, »vedeti«, »delovati« in »učinkovati«. Nadalje, analiza študij primerov kaže skupne dimenzije ravnateljevega vodenja in omogoča bolj »poglobljeno«, v konkretni šolski kontekst vpeto, razumevanje tovrstnega vodenja. Izkazuje pomen razumevanja kontekstualne pogojenosti znanja o raziskovalnem fenomenu. Članek kaže z različnimi raziskovalnimi metodami na razsežnosti in naravo pridobljenega znanja o vodenju ravnateljev ter izpostavlja dileme in vprašanja, povezana z razumevanjem in učenjem znanja o vodenju.

*Ključne besede:* vodenje šol, uspešnost vodenja ravnateljev, narava znanja o vodenju

*Management 8 (2): 157–174*



# Reviews

## **Knowledge and Sustainable Economic Development**

*Iván Bélyácz, József Fogarasi, Katalin Szabó in Erzsébet Szász*

Oradea and Nagyvárad: Partium, 2012

ISBN 978-606-8156-30-9

The volume edited by Iván Bélyácz, member of the Hungarian Academy of Sciences and Professor of Finance at University of Pécs, József Fogarasi, Associate Professor at the Partium Christian University and Senior Research Fellow at the Research Institute of Agricultural Economics, Katalin Szabó, Professor of Comparative Economics of the Budapest Corvinus University and Erzsébet Szász, Assistant Professor at the Partium Christian University comprises the selected papers of the international conference entitled 'Knowledge and Sustainable Economic Development' organized by the Faculty of Economics of the Partium Christian University held in October 2011.

The contributors of the volume include well-known experts from the region and from international academic communities. Some of the most prominent contributions are the following studies: 'On the Sustainability of the Single Currency' by László Csaba, member of the Hungarian Academy of Sciences and Professor at the Corvinus University of Budapest and at the Central European University in Budapest; 'Problems of Rural Development in Romania' by Matthew Gorton, Reader at Newcastle University; 'Fifty Years of Environmentalism' by Sándor Kerekes, Professor of Environmental Economics at the Corvinus University of Budapest; 'National Business Culture: The Foundation for Sustainable Economic Development' by Sebastian Văduva, Associate Professor at the Emanuel University of Oradea; 'Learning and Innovation' by Balázs Hámori, Professor of Comparative Economics at the Corvinus University Budapest; 'Knowledge and Perception on Sustainable Energy Development' by Štefan Bojnec, Professor of Economics at the University of Primorska, 'Time-to-Degree for Management PhD' by Imre Fertő, Professor of Agricultural Economics at the Corvinus University of Budapest; and 'Global Financial Crisis: Causes and Consequences in Financial Theory' by Iván Bélyácz.

The seven parts of the volume cover different aspects of the question of knowledge and sustainable economic development, having the unifying purpose of offering guidelines for the public and private sector and for those engaged in teaching future economists. The first part, entitled 'Macroeconomic Development in the Emerging Economies of Central and Eastern Europe' presents the macroeconomic issues of the topic and offers methods for more efficient crisis management for EU member states and the Community itself. The chapters of second part address the financial dimensions of sustainability, presenting the various impacts of the financial crises in the different sectors of the econ-

omy and showing the most important factors that should be addressed in the future.

Agriculture has always been in the center of sustainable economic development, thus the third part of the book comprises chapters that are connected to agricultural and rural development, covering a wide range of issues, like the impacts of the EU accession on the rural development of Romania and on the Hungarian food prices, the possibilities of increasing employment in the agricultural sector, or different aspects of the Hungarian poultry, pig, chicken and wine sectors. The fourth part turns towards the environmental dimensions of sustainability, stressing the social dimensions that threaten sustainable development and having a glimpse on a wide range of topics of business economics.

The last three parts of the book cover different aspects of knowledge and higher education. The high number of research papers written in this field shows the awareness of researchers of their responsibility in educating future generation and the importance of knowledge and innovation in economics.

All in all, we can conclude that the various papers of this multidisciplinary volume, *Knowledge and Sustainable Economic Development*, offer relevant information for both the public and private sector and important material for debate for the members of the academic community, and hopefully it will be a valuable source for students, researchers and policy decision makers who wish to address the topics covered by the papers.

Orsolya Szabó

*Jezikovna pravilnost in slog.* Pričakuje se, da so rokopisi jezikovno neoporečni in slovnično ustrezni. Uredništvo ima pravico, da zavrne prispevke, ki ne ustrezajo merilom knjižne slovenščine.

Slog naj bo preprost, vrednostno nevtralen in razumljiv. Pregledna členjenost besedila na posamezne sestavine (poglavja, podpoglavja) naj sledi sistematičnemu miselnemu toku. Tema prispevka naj bo predstavljena zgoščeno, jasno in nazorno, ubeseditvev naj bo natančna, izražanje jedrnatost v gospodarno. Zaželeno je raba slovenskih različic strokovnih terminov namesto tujk. Logične domneve naj bodo utemeljene, sklepi dokazani. Razpravna oblika je praviloma prva oseba množine.

*Oblika članka.* Rokopisi za objavo v reviji morajo biti oblikovno urejeni. Besedilo naj bo oblikovano za tiskanje na papirju formata A4, pisava naj bo Times New Roman velikosti 12 pt, vsi robovi naj bodo široki 2,5 cm, razmak med vrsticami pa 1,5.

Na prvi strani rokopisa naj bodo navedeni samo naslov članka (v krepki pisavi) ter ime in priimek avtorja (oz. avtorjev), akademski ali/in strokovni naziv, institucija in elektronski naslov avtorja oz. avtorjev. Za potrebe vpisa v Cobiss se navede tudi letnica rojstva (v članku ne bo objavljena). Na drugi strani naj bodo povzetka v slovenščini in angleščini (vsak po največ 100 besed) in ključne besede v slovenščini in angleščini (3–5).

Naslovi poglavij in podpoglavij naj bodo oštevilčeni (1, 2, 2.1 itn.) in napisani z malimi črkami v krepki pisavi, poudarki v besedilu naj bodo v ležeči pisavi. Daljši navedki so ločeni od drugega besedila, izpusti pa označeni z oglatim oklepajem.

Opombe pod črto se ne uporabljajo, končne opombe pa naj bodo pred seznamom literature. Preglednice in risbe se vstavijo v besedilo, toda v članku naj ne bo preglednic ali risb, ki bi bile v celoti povzete po že objavljenih delih.

*Bibliografski sklici in seznam uporabljene literature.* Pri navajanju bibliografskih sklicev med besedilom se zapišejo samo priimek avtorja oz. avtorjev, letnica izida dela in številka strani oz. obseg strani, npr. (Gomezelj Omerzel, Biloslavo in Trnavčević 2010, 14–15). Vsakemu bibliografskemu sklicu v besedilu naj ustreza navedba dela

v seznamu literature, v njem pa naj ne bodo navedena dela, na katera se avtor v besedilu ne sklicuje.

Pri oblikovanju seznama literature se ravnajte po *The Chicago Manual of Style* (University of Chicago Press 2010; glejte tudi [http://www.chicagomanualofstyle.org/tools\\_citationguide.html](http://www.chicagomanualofstyle.org/tools_citationguide.html)), vendar navajajte samo začetnice imen in upoštevajte slovenska pravopisna pravila:

- Anderson Analytics. 2007. »Brands and Countries.« <http://www.andersonanalytics.com/reports/BrandAndCountries.pdf>
- Catana, S. W. 2003. »Vital Approach to Transition: Slovene Multiple Case Study.« *Managing Global Transitions* 1 (1): 29–48.
- Gomezelj Omerzel, D., R. Biloslavo in A. Trnavčević. 2010. *Management znanja v visokošolskih zavodih*. Koper: Fakulteta za management.
- Kim, J., S. J. Lee, and G. Marschke. 2005. »The Influence of University Research on Industrial Innovation.« NBER Working Paper Series 11447, National Bureau of Economic Research, Cambridge, MA.
- Mumby, D., in R. Clair. 1998. »Organizational Discourse.« V *Discourse as Social Interaction*, ur. T. A. van Dijk, 181–205. London: Sage.
- University of Chicago Press. 2010. *The Chicago Manual of Style*. 16. izd. Chicago in London: University of Chicago Press.

*Oddaja članka.* Članek se pripravi v programu ms Word ali L<sup>A</sup>T<sub>E</sub>X, shrani v datoteko, katere ime naj bo priimek prvega avtorja (npr. Novak.doc), in se pošlje na elektronski naslov [mng@fm-kp.si](mailto:mng@fm-kp.si).

*Postopek za objavo članka.* Pred objavo vsak članek pregledata vsaj dva neodvisna recenzenta. Recenzije so slepe. Avtorje pozitivno ocenjenih člankov uredništvo povabi, da za objavo pripravijo končne različice člankov, upoštevati pa morajo pripombe recenzentov in članov uredništva. Z oddajo prispevka v postopek za objavo v reviji Management avtor zagotavlja, da besedilo še ni bilo objavljeno in da ni v postopku za objavo pri drugi reviji.



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