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The Editor's Corner

The journal continues focusing on the transition research and emphasizing openness to different research areas, topics, and methods, as well as international and the interdisciplinary research nature of scholarly articles published in the journal. The current issue covers topics of the radical changes within regions, the unemployment duration and regional characteristics, public and financial institutions in transition economies, personal networking of the entrepreneur, and human resource management practices.

This issue (Vol. 7, No. 2) begins with a paper written by Yvonne von Friedrichs and Håkan Boter, who investigate the effects of radical changes within regions by focusing on the role of entrepreneurship and using data on Swedish municipalities from different regions. In the second paper, Darja Boršič and Alenka Kavkler present a study on duration of unemployment and regional characteristics of the unemployment rates by using data from Slovenia. In the third paper, Cristian Dragos, Daniela Beju and Simona Dragos study the public and financial institutions in countries with transition economies and present some particularities within countries from Central and Eastern Europe. In the fourth paper, Tina Bratkovič, Boštjan Antončič and Mitja Ruzzier investigate the personal network of an entrepreneur who owns a small family venture in Slovenia with the focus on the role of the spouse in the family firm's networking. In the last – fifth paper, Subhash C. Kundu and Divya Malhan examine the human resource management practices in insurance companies in India.

Boštjan Antončič
Editor

Meeting Radical Change and Regional Transition: Regional Closedowns and the Role of Entrepreneurship

Yvonne von Friedrichs
Håkan Boter

The aim of this paper is to describe and analyze the effects of radical changes within regions by providing an empirical base from 12 Swedish municipalities from different regions. The specific focus of the paper is the role of entrepreneurship, both as an opportunity-seeking activity in order to find and develop new business undertakings, as well as entrepreneurship as a perspective for supporting activities in the public or private spheres. The results are based on interviews and surveys, secondary data, information from regional governments, municipal websites and also from other public information channels. Two questions were raised in analysing the case: (1) What types of contextual factors are of strategic importance when regions are challenged by radical change, and what role do these factors have in a regional restructuring and development process? (2) What types of policy and support measures are productive for entrepreneurial activities in regions when adaptation to radical change is required? The results presented by the study provide insight into how the development of local economies is affected when conditions change in a region due to the closure of a major public workplace. The paper also tries to present opportunities through which municipalities are able to prepare for and take action to help entrepreneurial activity face ongoing structural change and a globalized local economy.

Key Words: radical change, regional transition, entrepreneurship, restructure, strategies, closedowns
JEL *Classification:* L26, R11

Introduction

The business environment is always changing. Sometimes slowly and gradually, other times very quickly and, occasionally, almost revolution-

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ary changes can take place. The globalization of the industrial economy, new international workforce divisions, rapid developments in information and communication technology and the changing roles of nation states are some examples of the major indications of rapid and radical change in the last century. One challenge in the twenty-first century will be how these changes combine with established institutional structures in local economies. There are indications that the impact of structural transformation processes varies in different parts of the world and that the globalization of society has made it even more important to discuss the various regional conditions for economically sustainable development. Increased competition between regions and the more globalised economy have created an urgent need for restructuring in order to achieve a sufficient level of innovativeness and competitiveness in different regions (Asheim and Isaksen 1997). Encouraging entrepreneurship and new business creation are often emphasized as means for creating local development and growth in a global economy; one challenge in the future will be how the public and private sectors are able to face these changes and how to support entrepreneurial efforts. Although new business creation always precedes regional economic growth there is no evidence that higher firm birth rates will guarantee economic growth (Reynolds, Storey and Westhead 1994). Studies show that entrepreneurship and leadership could be catalysers for economic growth, but that the number of entrepreneurial activities varies in different regions (Bygrave and Minniti 2000). It is therefore interesting to generate further knowledge about the impact of different contextual settings on entrepreneurial activities and what strategies to use in order to encourage entrepreneurial efforts for the preservation and development of regional prosperity in times of radical change.

In the second half of 2008 the global financial crisis affected all sectors of the global economy. The long-term consequences will be substantial, with considerable restructuring in some industries, down-sizing in other industries and, probably, some established business sectors will be replaced by radically new types of business ventures. The massive impact of the financial collapse on society at large has also mobilized governments. They are now taking initiatives to stimulate cooperation between private and public bodies in order to meet the current challenges and to create awareness of the necessity of creating economic recovery and renewal.

The purpose of this article is to elaborate on the opportunities for

regions to cope with radical changes in the local environment, as well as to discuss the policy implications of such changes. Moreover, the article starts out from a business support agency perspective and will specifically study the role of entrepreneurship, both as opportunity-seeking activity in order to find and develop new business undertakings on commercial markets, but also how entrepreneurship can be applied to study support organizations and mechanisms in sectors involving public, semi-public and private support agencies.

Sweden is in the middle of a process of radical change that aims to transform its national military capabilities from a traditional domestic defence force to nationally and internationally oriented smaller and more flexible task forces with high mobility. As there have been significant investments in military organization (bases, equipment, personnel, expertise etc.), this process of change is having a great influence on a number of sectors in the regional community. The empirical base for this study is linked to twelve widely distributed municipalities that belong to different regions. The perspective of the paper is that of studying the consequences of the closedown of twelve military bases in various locations in Sweden. In our analysis, we raise two questions:

1. What types of contextual factors are of strategic importance when regions are challenged by radical change, and what role do these factors have in regional restructuring and development processes?
2. What types of policy and support measures are productive for entrepreneurial activity in regions when adaptation to radical change is required?

Literature Review

Numerous studies have been carried out in order to understand the relationship between a firm and its environment (Parker 2005). Some of the more salient results of this research are the classification of the environment in terms of levels of complexity and turbulence, and the proper managerial routines and attitudes that are suitable for different environmental settings (Lawrence and Lorsch 1967). Strategic entrepreneurship is an emerging field in contemporary management research and this approach underlines the importance of companies, as well as organizations, continuously following a changing and often very dynamic context. While doing this, companies must exploit the competitive advantages of their existing market niches and simultaneously also work with

innovation and new opportunities in order to continuously renew strategic behaviour (Ireland, Hitt and Sirmon 2003). Smith and Cao (2007) have examined the literature in this field and found that two established views are emphasized in the literature. The first of these, the ecological view, focuses on the importance of the business environment, its structures, processes and norms, and that the individual firm must develop a good fit for these contextual conditions in order to be successful (Hannan and Freeman 1977). The second view focuses on the efforts of companies to develop effective routines and structural organisation in order to manage dynamic settings. The environment is not as rigid as in the first view and the firms are encouraged to react and adjust to changing external conditions (Nelson and Winter 1982).

A third view, according to Smith and Cao (2007), is strongly influenced by research into core aspects linked to entrepreneurship. According to Kirzner (1973) the entrepreneur has the capability to discover business opportunities in market segments and, with a generally alert approach, this will result in actions even when there is a relatively small basis for decision-making. In this entrepreneurial perspective the level of analysis changes, from the population level and the firm level of the first two perspectives, to that of highlighting the importance of managers and entrepreneurs within companies and organizations. This more proactive approach among strategic actors must also be linked to the role of belief systems and expectations as important resources for guiding sense making, information collection, decision-making and actions (Weick 1995). Active roles for core actors can positively influence and shape the environmental readiness to meet and act in states of emerging radical change.

Radical change processes can be linked to a major shift in market preferences, or be associated with essential development stages of core technology, and consequently these types of events and processes will occur relatively infrequently in the lifecycle of a company, organization, market or a sector in the society. Within the field of change management an important research aim is to understand the causes that created the changes, but also to contribute to the management of change, i. e. knowledge, models and best practices of how strategic planning will be adapted to the need for change (Frahm and Brown 2007; Dover, Lawler and Hilse 2008). Research results indicate that organizations in more dynamic contexts have also developed better capabilities for managing radical change (Brown and Eisenhardt 1997).

The mainstream definition of entrepreneurship is linked to private

companies, but there are also broader perspectives linked to the creation of new organizations (Gartner 1985) and various types of entrepreneurial activities associated with, and often within, larger companies and organizations, e. g. corporate entrepreneurship and intrapreneurship (Zahra, Jennings and Kuratko 1999; Antoncic and Hisrich 2001; Antoncic and Hisrich 2004). When meeting radical changes in a specific regional context it will be necessary to mobilize a wide range of actors in order to meet the challenges linked to the new situation. A wide set of actors within the business community will come forward, but so will various public organizations. Earlier studies of entrepreneurship linked to the public sector are few, but the number is growing (Ireland, Hitt and Sirmon 2003).

DiMaggio (1988) asserts that the role of entrepreneurs can be understood within the concept of institutional entrepreneurship, where interorganizational entrepreneurs at high, middle and low levels in all types of organizations are often the driving forces behind new development projects. The need for these types of roles is obvious in private as well as public organizations. Another understanding emanates from Morris and Jones (1999) who claim that corporate entrepreneurship is in many ways a concept well adapted to non-profit activities. They found many similarities between CE and a public context, such as a strong cultural environment and the importance of effective and well-developed routines for administrative control. Empirical results from studies in the public sector presented by Bartlett and Dibben (2002) demonstrate that the leadership in such organizations is not only linked to public groups and constituencies, but that there are also 'empowered champions' that are driven by their own conviction that change is necessary (Sundin and Tillmar 2008).

Johannisson and Nilsson (1989) indicated that public sector organizations not only work with concrete entrepreneurial activities but that their core tasks as public authorities and public service providers can be conducted in an entrepreneurial way and in close cooperation with companies. It is argued that CE involves organizational learning, and that the advancement is driven by collaboration, creativity and individual commitment and requires the integration of organisational practices (Zampetakis and Moustakis 2007).

A large part of the literature has focused on individual aspects, such as education, gender, and personality, but in this study it is of greater interest to make associations with research findings about geographi-

cal factors, university contexts and industrial structures (Lee, Florida and Acs 2004). More than forty years ago, Thompson (1967) suggested that municipalities and cities, with the right set of resources and knowledge, could attract new business activities and function as incubators. The consequences of context have been convincingly demonstrated in many studies, sometimes underlining and explaining the role of regional characteristics, such as access to strategic resources and the quality of support, while others have found that many contextual factors can be attributed to a country-specific institutional context and thereby mitigate the importance of regional uniqueness (Atherton and Frith 2007).

The concept of Regional Innovation Systems (RIS) has gained attention due to the increasing intensity of international competition in a global economy (Asheim and Coenen 2004; Doloreux and Dionne 2008). The RIS approach is very much linked to the influence of context and proximity and consists basically of two influential structures, techno-economic and political-institutional. Additionally, it is argued that the globalized contemporary economy promotes a new understanding of the institutional context, where territorially embedded socio-cultural structures have been emphasized as prerequisites for innovative and competitive regions (Asheim and Isaksen 1997). RIS highlights the importance of the region for the economic co-ordination that triggers innovation and for the development of networking and innovative actors, i. e. firms and non-firm organizations, to enable positive development. The approach 'emphasizes the dynamic, cumulative and social nature of the innovation process as well as the network of relationships between the structure of production and the institutional setting in which they are embedded' (Doloreux and Dionne 2008). Accordingly, innovation systems are influenced by firms and their support infrastructures as well as by informal and formal institutions that facilitate or impede innovative activities. In times of radical change in local society traditional structures, norms and values are challenged. One example of such challenges for regions could be when major private or public employers close down, people become unemployed and are forced to move to where the jobs are to be found; then the public sector has to become entrepreneurial in order to provide basic functions and act as a motor for local development.

Therefore, in this study we use established theories about the business environment and the strategic role of entrepreneurial behaviour in various settings, both in general and specifically when an organization or a region is challenged by radical change. We also propose that the con-

cept of entrepreneurship should be utilized with a broader definition, in order to incorporate the roles and activities linked to the private, public and semi-public spheres. We suggest that the understanding of CE covers both the mainstream understanding of entrepreneurship, with a focus on individual or corporate perspectives, and also the activities for exploring the opportunities and exploitation that take place within and between different organizations.

Fostering the Entrepreneurial Mindset

As previously mentioned, it has been shown that entrepreneurship and new business creation is vital for local development and economic growth. It is a regularly expressed opinion that a number of nations and regions in Europe have low entrepreneurial activity and that 'Europe needs to foster entrepreneurial drive more effectively' to cope with increased global competitiveness (European Commission 2004). A more global economy may cause some volatility in traditional regional structures, which may call for new and creative solutions to the problems that arise. The European Commission's recipe for the regions is to develop a capacity for adapting to economic and social changes (European Commission 2006a). The form of such processes depends on contextual settings and has, along with external and internal environmental triggers, an influence on how changes are met by organisations (Ireland, Kuratko and Morris 2006). Like other scholars (e. g. Kirzner 1973) we argue that radical changes in society could encourage the fostering of an entrepreneurial mindset in different settings in society, along with strategic measures that will vary according to the cultural contextual inheritance.

Bygrave and Minniti (2000) claim that 'the contribution of the entrepreneurial sector to economic growth is more than proportional to the relative size of the sector itself' and that entrepreneurship is self-reinforcing and path dependent. This means that the existence of an entrepreneurial history has a great impact on how the community succeeds in increasing entrepreneurial activity. Also, the size of the population in a community is important for the existence of path dependency. If the population is too small it can, in certain circumstances, be an obstacle to entrepreneurial activity. Moreover, Bygrave and Minniti show that cultural traits, along with economic and institutional characteristics, are important for attaining positive economic development and stimulating new business creation and entrepreneurial activities.

Sweden has a low degree of early stage entrepreneurial activity compared to most of the countries in the study Global Entrepreneurship Monitor (GEM) (Bosma et al. 2007). In comparison to other Nordic countries, which all have strong similarities concerning business infrastructures, culture, etc., only 4.2 percent of the Swedish population is involved in entrepreneurial activity, while equivalent figures for Finland, Norway and Denmark are 6.9, 6.5, and 5.4 respectively. One possible explanation for the relatively low level of entrepreneurial activity in Sweden could be that major parts of the Swedish economy are driven by the public sector. Sweden's public sector has undergone powerful expansion during recent decades; in 1970 the public sector counted for 44 percent of total GDP while in 1999 it amounted to almost 60 percent of GDP. During the same period the US has remained at approximately 30 percent, which is almost the same level for a period of 30 years (Klefbom 2001). A second explanation for the relatively low entrepreneurial activity level is the structure of the Swedish business community, where a small group of large multinational companies is dominant and acts as the hub for extensive industrial networks (Porter, Sölvell, and Zander 1991). A third reason could be risk aversion and a preference for employment over self-employment, as well as good job alternatives (Bosma et al. 2008).

The Federation of Private Enterprises in Sweden claim that over the last decade Sweden has had a negative development in the number of business owners while, on average, the rest of the original 15 EU members have experienced positive development (Företagarna 2006). A general challenge for Sweden is thus to increase entrepreneurial activity in order to maintain or stimulate positive development in different parts of the country. The Swedish government has issued a directive for this challenging work, 'to increase entrepreneurship, weak by international comparisons, the government plans to create a more competitive business environment' (European Commission 2006b). In order to achieve this task Sweden has to consider the lack of entrepreneurial experience in many parts of the country, which is due to a relatively stable tradition of industrialism since the end of the 19th century and the expansion of the public sector since the middle of last century. The OECD (2007) emphasises the importance of developing models for partnership between the public and private sectors in order to achieve positive development. Additionally, it has been shown that this encourages effective governance mechanisms at local and regional levels, integrating different economic actors in order to enhance entrepreneurial activities. 'National

and transnational innovation systems are ineffective if they are not based on sound local innovation systems that are closer to business, higher education and training organisations' OECD (2007).

As different regions bear different cultural inheritances the models for effective governance structures probably vary according to the external and internal triggers for such actions. Falcone and Wilson (2008) show, for example, that in times of change in rural or semi-rural areas alternative governance models may be of value in encouraging local economic development. Also, positive local development can be achieved by an organization that involves different cooperating actors from the public and private sector, and the support of proactive centres for economic operation within the region has some impact on local entrepreneurial activity. Harvey (1989) along with Perlmutter and Cnaan (1995) emphasises the necessity of a proactive approach in the urban environment too, to provide a good business climate aimed at encouraging urban entrepreneurialism in times of conditional change. Lumpkin and Dess (1996) show that entrepreneurial organizations outperform non entrepreneurial organizations. As entrepreneurship and innovation are the keys to economic growth, the concept of entrepreneurship and innovation in public organizations has gained momentum, leading to new public management in many countries (Kropp and Zolin 2008). It is also claimed that the environmental and contextual changes in society will 'necessitate a government to change the way it operates in structural design and in terms of process' (p. 597). A quest for public entrepreneurial approaches will become increasingly important as municipalities are subject to radical change (Perlmutter and Cnaan 1995). In order to be able to act entrepreneurially it seems to be vital to have an entrepreneurial orientation in a community.

Entrepreneurial orientation may differ between countries, regions or communities for various reasons, such as differences in dynamism and uncertainty (Kropp and Zolin 2008). The choice of strategy in meeting radical change may depend on the predomination of industrial or entrepreneurial orientation in different contexts. The choice of strategy has an impact on both the public and private sectors' degree of passivity, activity or pro-activity regarding participation and success in adaptation processes (Porter 1998). Sweden has a fairly strong tradition of industrialism that is reflected in the way private and public organizations perform, as well as in the division of labour and how responsibility for development issues are organized locally (Wigblad 1995). Lack of entrepreneuri-

alism in Sweden impedes the adoption of innovative solutions for how regions and municipalities can face ongoing radical change. Empirical studies in this field are sparse and growing environmental turbulence in regions and communities makes it necessary to have guiding principles regarding how to encourage entrepreneurship and innovation in order to cope with radical changes (Kropp and Zolin 2008).

Research Design

This study takes an exploratory approach and uses qualitative methodology (Glaser and Strauss 1967; Eisenhart 1991; Gummesson 2005). The collection of empirical data for this study was generated over a time span of two years, starting in the spring of 2005 and finishing in 2007 (von Friedrichs 2009). The government decision to close down military bases in Sweden between 1999 and 2006 involved a total of 12 garrisons. The data were collected from the 12 municipalities involved. Some significant actors were chosen to provide information about how each municipality met the ongoing local transformation processes. In the early stages, representatives from public business agencies and the Swedish Armed Forces in two municipalities were interviewed, with the descriptive and exploratory ambition of mapping the extent of the 'military retreat' in each location, as well as learning more about the general consequences. The relatively open approach at the beginning gradually led to a research design that focused on a more comprehensive study of 12 Swedish municipalities that were subject to the transformation of the Swedish Armed Forces. These 12 municipalities took part in compensation programmes established by the Swedish government in 1999 and 2004 to varying extents. The focus was on the impact of the closedowns on each municipality and the strategies used to face this by using transformation processes in the local society.

In Sweden all 290 municipalities have established business agencies that are owned or partially owned by the local government. Their main task is to encourage and stimulate the development of the local economy and to serve as mediators between private businesses and the public sector in each location. How they organise this can vary, but the business agencies normally have a strategic role in the overall development processes of the municipalities. The managers of the business agencies were selected as interviewees in order to collect information from the establishment, on the implementation and outcome of the local strategies in times of regional closedowns and transition.

A questionnaire was developed and in-depth interviews were conducted with the managers of the business agencies in 10 of the 12 municipalities. 2 respondents were interviewed in person, 6 respondents were interviewed via the telephone, 2 respondents sent in written answers to the questionnaire, 1 respondent refused to answer the questions and 1 respondent was not available. Each interview lasted between 1-2 hours and the notes that were taken during the interview were further developed in a more detailed form immediately after the interview. After the main interviews, missing information, ambiguities in the material, and follow up questions were taken via the telephone, in approximately 10 interviews. The questions asked were organised around issues relating to the development of the municipality, the impact of the military transformation, local business structure, strategies for coping with structural changes in society and future challenges for municipalities in Sweden. The results are based on the interviews and survey, secondary data, information from regional authorities, municipal websites and also from other public information channels. The multi-methodological approach (Yin 2003) also included the extensive use of international, national and regional reports and other material.

The data were coded, analyzed and interpreted in three steps using a careful approach, resulting in categories that were developed as a base for the discussion and conclusions. The first step was to assemble all the answers obtained from the respondents in a transcribed form and organise them in relation to the questionnaire. As a second step, the full text material was interpreted, so resulting in the development of significant categories. The last step was to relate these categories to the information obtained from secondary data and other public information channels.

Table 1 presents information about the 12 municipalities and their location in Sweden. Three are located in the northern part of the country, in a sparsely populated region. Four are located in the middle of the country in a region that shows greater variation in population density. Five are located in the southern part of Sweden where the population per square kilometre is more dense.

The Case of the Transformation of the Swedish Armed Forces

Since Sweden's entry into the European Union, the Swedish Armed Forces have been in a process of transformation, from a large counter-invasion defence force to a readily deployable military. Due to this ongoing transformation, major public-owned workplaces like military bases

TABLE 1 Regions and municipalities in the study

Region	County	Population/km²	Municipality	Inhabitants
North	Norrbotten	2.6	Kiruna	23,258
			Boden	28,002
			Arvidsjaur	6,791
Mid	Västernorrland	11.2	Sollefteå	20,849
			Härnösand	25,080
	Jämtland	2.6	Östersund	58,600
	Dalarna	9.8	Falun	55,267
South	Örebro	32.3	Karlskoga	30,159
	Värmland	15.6	Kristinehamn	23,848
	Västra Götaland	64.6	Karlsborg	6,880
	Gotland	18.1	Gotland	57,297
	Skåne	108.7	Hässleholm	49,381
Sweden		22.2		9,113,257

have closed down in different parts of the country. In several of those places the military had a long tradition and was a major local employer. In many cases the military also functioned as a supportive organization in the local community, partly as an employer for local civilians, and partly taking part in local events as volunteers. The focus of this study is to establish what the consequences were for local economies when the Swedish parliament decided in 1999, and later in 2004, to close down several military bases, as well as how local authorities met this challenge.

Sweden is known for having a dominantly tax-financed public sector, and most municipalities have been dependent on public workplaces for decades. It has become evident among politicians in Sweden that international and national business trends have a great impact on local municipalities and enterprises. The strategy for coping with increased international competition is focused on how to stimulate more entrepreneurial activities in the local community. The study shows that in half of the 12 municipalities the public sector predominates as the major employer. The business structure in these communities does not provide employment opportunities for local citizens, which causes migration and a loss of skills in the regions. The Swedish government has, as mentioned above, expressed the ambition to create and support sustainable development linked to local and regional needs where growth

is a central issue (Ministry of Industry, Employment and Communications 2001). Therefore, the Swedish government has tried to compensate for the loss of jobs in the regions with 'extraordinary measures,' such as the transfer of national public workplaces with the aim of stimulating local economic development. Accompanying these types of measures, the authorities have also expressed a desire for increased entrepreneurial activity in the various regions. However, in some municipalities these measures have had a counteractive impact on the division of labour between the private and public sectors, meaning that the public sector has expanded. Several municipalities have also reported that the extraordinary measures have exerted an influence on entrepreneurial activity. That is to say that increased attractiveness has drawn new business ventures, as well as people, to the region. One respondent says: 'the public establishments have influenced attitudes and given credibility to the municipality's opportunities for positive development' and, he continues, 'with public establishments, entrepreneurial activity has increased as has inward migration and degree of survival for the private business sector.'

Over the last few decades Sweden has experienced the loss of several big enterprises that have closed down plants and offices in different parts of the country. Andersson and Friberg (2005) argue that this is a consequence of an ongoing structural transformation of society and a result of increased global competition. This has forced many companies to improve efficiency or to relocate production units, or the entire company. When major workplaces close down or are relocated it affects local economies in different ways. If opportunities to find new jobs for the redundant labour force are limited in a region, individuals are forced to move to where jobs are available. This will directly diminish the tax base of the local economy. As Sweden has a welfare system that is mainly financed by the public sector through taxes, the migration of people and firms could have a major impact on local economic development. If the local economy depends on a publicly financed social welfare system, radical changes could cause problems for publicly financed services such as schools, care of the elderly, housing and local public investments. Municipalities have been forced to look for new models in order to adapt to ongoing significant transformation in several areas. Since there is no general blueprint or model regarding how to stimulate entrepreneurship, experimentation seems to be the key (Morris and Jones 1999). To find these new models we have to bring in more knowledge from different contextual settings. Learning from the municipalities' ex-

perience in dealing with radical change could bring more knowledge to such guiding models.

Results

The empirical material from this study was analyzed in the light of the views presented in the literature section. Firstly, we argue that contextual aspects are always of some importance in understanding the behaviour of entrepreneurs, companies and organizations. It is necessary for the individual actors to identify and capture these contextual factors in order to develop effective management routines for functional areas of the organization. Here we draw connections to the field of strategic entrepreneurship and find that the challenges emerging from radical changes in the environment can be analysed using two contextual categories: industrialism vs. entrepreneurialism. Our study shows that most of the respondents are well aware of the ongoing structural changes in local society and that a major hindrance in meeting these changes is the predominant industrialism. One respondent says: 'First it was the proprietor or mill owner that solved all the problems that arose in the local community, then the responsibility was taken over by the state.' The category of industrialism represents an environmental setting that is dominated by a manufacturing logic in which large companies are often motors for the development of numerous small firms. Public organizations in health care, education and military bases can also be important actors in regions with relatively rigid structures. In the category of entrepreneurialism the context is more diverse, with a mix of companies and organizations of various sizes and operations, where more dynamic processes are driven by entrepreneurial activities. Several respondents testified to weak interest from the private sector in involvement in dynamic processes and making contributions to regional development issues. 'The local companies only show up if they can do business as the outcome of the meetings, if not they do not show up,' says one respondent.

Secondly, the companies and organizations have strategic instruments with the purpose of surviving and developing within various environmental conditions. In some organizations the strategic intentions are relatively moderate, due to the combination of environmental setting and strategic ambitions in the organizations. The organizations adjust to rigid environmental conditions with reactive, sometimes inactive, strategies. On the other hand, other organizations believe that they can work in and influence an external context in a proactive way. The municipali-

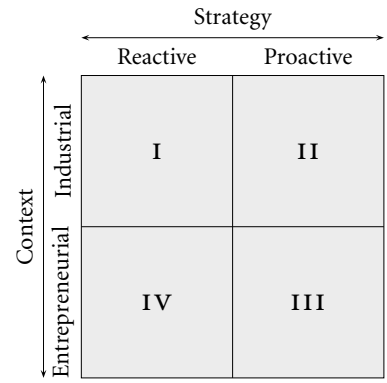

FIGURE 1 Type of context vs. strategic behaviour

ties in our study recognise the importance of stimulating entrepreneurial orientation as a contrast to the 'suffocating industrialism' that dominates most of Swedish municipalities. They also demonstrate how they try to stimulate entrepreneurialism in different ways, through establishing 'projects and training packages.' The theme of the projects could be changes in attitude, guidance, education and information for various actors in local society, such as staff in the public sector, but also for individuals and businesses in general. 'To hone the municipal treatment of entrepreneurs' and to 'facilitate new ventures and established entrepreneurs in finding their way into public support systems' seem to have top priority in most municipalities' work in encouraging entrepreneurialism.

As indicated in the methodology section, the analysis of the 12 municipalities in this study was guided by secondary documents as well as interview material and surveys. The study also aims to cover developments over time and this approach has further strengthened the results. The model presented in figure 1 was used to classify the 12 municipalities according to their main characteristics. Their general infrastructure and the business structure (e. g. large/small firms, manufacturing/service sectors, private companies/public organisations) were analyzed, following the model presented below, in order to classify the 12 municipalities according to their main characteristics. Another important aspect of the classification was an overview of the general business culture in the regions, the level of networking between firm constellations and the collaboration between the private and public sector in general.

In the first quadrant (industrialism – reactive) we find five municipalities that are all dominated by the public sector. Naturally, the military

investments in these regions are part of this public environment, and one important explanation for the public profile, but these municipalities all have a modern historical record of extensive public activities linked to the health and education sectors. Additionally, in one of the municipalities a large multinational company (state-owned) is very dominant in the development of the business community, as well as the civil service infrastructure.

In the second quadrant (industrialism – proactive) three municipalities in an industrial setting are working with regional development programmes in a proactive manner. The military sector has been an all-pervasive resource from the beginning of the twentieth century, in the form of military bases in two of the municipalities and in the third as a multinational armament factory owned by the state. In addition to the military investments the business communities in these regions have a more varied business structure, with a mixture of manufacturing and service sectors. Two of these municipalities are also located in intensive agricultural districts with a pronounced small business and entrepreneurial culture.

In the third quadrant (entrepreneurialism – proactive) we found that many of the private and public initiatives originate from an entrepreneurial platform. One of the three municipalities in this group is in a typical farming area with a history of small business units, like two found in the second quadrant, but this region has also developed into one of the most concentrated and general destinations for summer tourism. Also typical of this category is that the entrepreneurial culture obviously has a positive influence on resource sharing between companies, as well as on open and dynamic networking between companies and actors from the public sector.

Finally, the fourth quadrant (entrepreneurialism – reactive) is an adequate classification for only one of the twelve municipalities being studied. This region has been strongly dominated by large companies and a dynamic competitive extended environment. In particular, one major international city within 70 kilometres entails extensive company networks, with the main head offices in the city, as well as public organizations which are also strongly influenced by central offices, authorities and local government in the nearby city. The municipality has all the right conditions for entrepreneurial activities, but a relatively inactive development process in the region is explained mainly by the nearby city, resulting in trust for 'big brother' which means the indirect suppression of various regional initiatives.

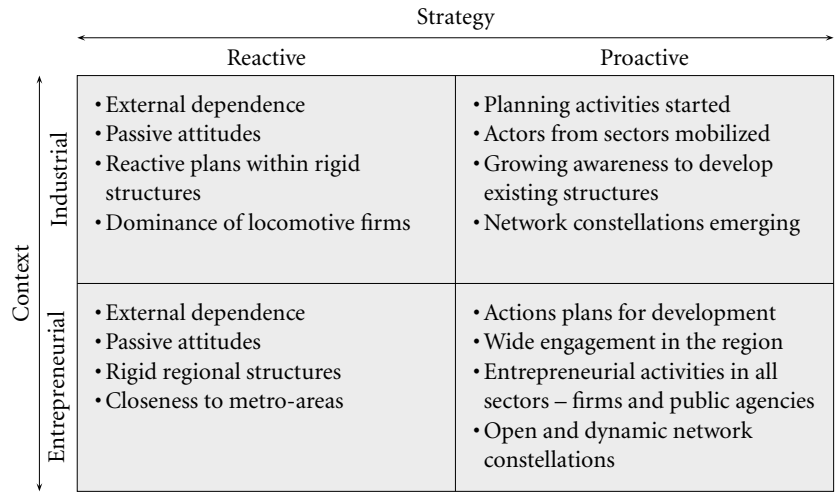

FIGURE 2 Regional Corporate Entrepreneurship

Figure 2 displays a summary of the results discussed above and shows some underlying elements in the municipalities' environments that influence how radical change is met by regions in transition.

Discussion

The transformation of our society will force nations, regions, municipalities, firms and other organizations to adopt adaptation processes of various kinds. It will also challenge our taken-for-granted solutions and models for how we use and organize our businesses, as well as our publicly financed resources. Adaptation to the radical transformation of society and the globalized economy will force regions into restructuring processes, in order to be able to sustain regional prosperity and positive development. Regions will have to face and meet radical change in the local environment more frequently. The study shows that the different municipalities and the various contexts have developed different strategies for coping with radical change. It seems that the awareness of external and internal radical change in the local economy affects the choice of strategy, as do traditions and the general attitude towards how to deal with problems that arise.

When studying the 12 cases and the collected material, an overarching analysis of the last decade's development can be carried out. The downsizing of the military sector started in the 1990s, but has accelerated dramatically over the last 5–8 years. Generally, municipalities that were sites

for military garrisons did not, in the early stages of radical change in the early 2000s, scan the external environment in order to find political, military or economic indications and risks regarding the future dismantling of the national armed forces. This passive perspective was still the prevailing viewpoint five years later, even if a few municipalities indicated that they had now integrated business intelligence routines into the existing administration. Obviously the traditional long-term planning perspective, with small adjustments to the previous year's budget, is strongly dominant and preparedness for new elements of radical change can be estimated as weak. One explanation for this attitude could be the influence of a strong expansion phase with a good economic climate in Sweden since the beginning of this century. This situation probably had some impact on municipalities' awareness of what the consequences of the ongoing changes in the global economy could be for future local development and prosperity.

As discussed in the theory section, several studies show that it is difficult for any organization to stand alone in the globalized economy and that co-operation between different actors is vital in most competitive environments. A traditional industrial setting, with hierarchical structures and control by top management or, in our case, local government, could create obstacles for a more entrepreneurial spirit in a region. The study shows the regional dimensions of institutionalisation and entrepreneurship policies. A general pattern of the material is that the regions with a uniform and more rigid environmental setting, often linked to traditional manufacturing business communities, have a public-oriented perspective. This is the case for all the regions in the first quadrant and obviously this can prevent private, as well as public, actors from taking steps away from a passive and reactive attitude, towards a more proactive command of development programmes, reorientation and new investments in regions faced with radical change. In the regions with a more proactive focus for coping with their new situation, we find that five out of six municipalities have a private-oriented culture. However, this latter group demonstrates that these types of proactive strategies for meeting external threats can also be mobilized and developed in regions that have traditional industrial characteristics.

Empowering regional solutions to radical change means that the national government has to be flexible and sensitive regarding regional diversity and that contextual models for supportive structures and strategies have to be developed. From the literature, we can see that strategic

entrepreneurship can be used in studies of radical change. Primarily, the role of strong entrepreneurship among individual companies and organizations in uncovering, and also exploiting, new business opportunities in new market segments, comprises the absolutely basic and necessary undertaking that must be performed in order to meet radical change. However, the concept of entrepreneurship is also linked to belief systems, expectations and norms and, in the end, with the right information, the decisions and actions of entrepreneurs will ultimately also shape environmental readiness to act when the region is challenged by radical change. The results of this exploratory study have to be further tested on more extensive material, but we are finding indications that regions with proactive attitudes and strategies also show successful positive development. We propose that it is not only organizations in very dynamic contexts that can develop the capacity to meet radical change, but that this is also the case for organizations with a proactive attitude in many types of regions and, in the end, this will result in positive trends that build on gained experiences and circular learning.

Other studies have found that it may be necessary to mobilize a number of different actors in order to meet radical changes at a regional level. In the last decade particular interest has been shown in successful Triple Helix constellations, where representatives from the business community cooperate with partners from the public sector. In this study the radical changes have not resulted in any visible cooperation of this kind in about half of the regions involved. In the other six regions we find a wide variety of network models, spanning from feeble attempts among a couple of actors to very intensive cooperative projects covering a number of fields, involving many partners and with sustainable operations over many years. One observation concerning the categories of participating partners in these networks is that there seem to be some impediments for small and medium-sized firms becoming involved in the cooperative groups. The reason for their absence in this context is mainly lack of time. The large companies in the region are traditionally well integrated in the official networks linked to local politics and infrastructural investments.

The findings of other studies also indicate that entrepreneurship within existing companies and organizations can indirectly widen the scope for regional development. Thus, research on CE has verified that the core characteristics typical of entrepreneurs, such as specific strengths and talents in risk-taking, innovative behaviour and proactive attitudes, are also strategic factors in large organizations and the triggers for change

and development. The material from this study exhibits a number of examples of active CE. Some of the directors of the support agencies are strategic actors in cooperative activities, such as network construction, responsibility for the management of strategic projects and 'watchmen' for the fulfilment of agreed tasks in the networks. A couple of local politicians can also be classified as entrepreneurs with a proactive attitude and a pragmatic view of how to realize the agreed development prospects.

Conclusions and Policy Implications

To use the concept of CE at a regional level and involve different organizations with various attitudes towards radical changes could offer regional organisations and other stakeholders a better understanding of the processes needed for organisational renewal. The study shows that the regional context and the regional awareness of ongoing structural changes in society influence the choice of strategy. The aim of the policies of Swedish regional government is to empower local initiatives in stimulating local entrepreneurial and innovative activities, in order to meet radical change and a globalized economy. The municipalities in the study show different preparedness as regards how to tackle these changes. The consequence of this is that governmental supportive structures and the means to stimulate entrepreneurship and innovation have to take different shapes depending on regional cultural inheritance and business structure.

We argue that the use of a CE approach at a regional level could serve as a model for the development of proactive strategies in times of radical change, as CE is a process of organisational renewal. It could help policymakers to make entrepreneurial activities happen in times of radical change when productive and supportive resources have to find ways to make new combinations. As corporate activity often demands radical change to internal organisational behaviour patterns, the regions' desire for different models is obvious. Previous studies may, along with the results of this study, form a basis for looking at CE from a regional perspective; a perspective that will leave obsolete models behind in favour of the creation of new contemporary models that embrace a number of actors. It seems that in order to stimulate regions to take steps towards a more differentiated business structure, the public sector has to subsidize supportive organisations and active networking arenas.

A number of policy implications can be drawn from this study. Regions with a reactive, and sometimes even inactive, behaviour when con-

fronted with a radically new context can result in situations with 'wait-and-see' responses. Dependence on large organisations and on old, established structures can produce a passive attitude, and sometimes decrees are established so that no one 'rocks the boat.' Instead, an implicit culture recommends that they should wait for the government (and others) to decide on subsidies, compensation and suchlike. In these situations it is important to stimulate the production of proactive strategies that involve many partners from many categories in open networks, in order to create a dynamic environment.

Patterns in the material indicate a slow but powerful momentum in which old and rigid structures are slowly dissolving and being replaced by more dynamic sets of various business actors and different network constellations. An important issue for policy makers is investment in dynamic arenas where representatives from small and large companies, support agencies, venture capital companies, political groups, local authorities and universities can meet and cooperate.

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Duration of Regional Unemployment Spells in Slovenia

Darja Boršič
Alenka Kavkler

The paper begins with an overview of the unemployment rate in Slovenia and focuses on duration of unemployment and regional characteristics of the unemployment rates. It is shown that the dispersion of regional unemployment rate is gradually decreasing and is also slightly below European average on NUTS 3 level. The analysis of the duration of regional unemployment spells is based on the data obtained from the Employment Office of the Republic of Slovenia, which consists of the unemployment spells between January 1st, 2002 and November 18th, 2005 with more than 450,000 entries. The Kaplan-Meier estimates of the survival function are presented and the effects of region on the duration of unemployment spells are discussed.

Key Words: unemployment, regions, survival analysis, Kaplan-Meier estimator, Slovenia
JEL *Classification:* P33, P34

Introduction

In the previous system the regions within transition countries had been more or less equally developed and had registered similar volume of economic activity. The structural change witnessed by these countries due to adopting the market economies in many cases caused substantial regional differences.

According to Huber (2007) the regional consequences of transition raise a number of issues: identifying the causes of regional differences, labour market mechanisms regarding wage flexibility and migration, new firm creation and economic policy response to regional disparities. Answering these questions could help in coping with characteristics of national labour markets, and thus, improve the efficiency of economic policy.

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Analyses of regional unemployment in transition countries include Römisch and Ward (2005) and Landesmann and Römisch (2006). Recent review papers on the topic of regional unemployment include Elhorst 2003, Huber 2007, Ferragina and Pastore 2008. Empirical estimates of regional unemployment and its persistence in transition economies are presented in Bornhorst and Commander (2006). Western European countries are empirically tested in Bayer and Jüssen (2006), while Taylor and Wren (1997) evaluate UK regional policy in the mid-1990s. Feragina and Pastore (2008) address two cases for explaining regional disparities in transition countries: (1) regions with high unemployment deal with low job creation rates due to similar labour market trends after the transition on the national level, (2) on the other hand the regional differences are an outcome of diverse speed of restructuring.

In the last couple of decades different survival analyses and duration techniques have gained popularity in the social sciences to model the length of unemployment spells and strike duration. Moffitt (1999) applied the usual econometric techniques in labour economics, including the proportional hazard methods and the duration models. Examples of duration model applications in labour markets can be found in Green and Riddell (1995), D'Agostino and Mealli (2000), and Arranz and Romero (2003). They explain the effects of different determinants of unemployment duration for Canada, nine EU15 members and Spain, respectively. Newell and Pastore (2006) apply duration models to estimate the effect of regional unemployment variation on aggregate economic restructuring in Poland. Factors of unemployment duration in Ukraine are discussed in Kupets (2006) by using the Cox proportional hazard model with two competing risks. The author concludes that age, marital status, income during unemployment and local demand constraints significantly affect the duration of unemployment.

Analytical papers investigating unemployment in Slovenia are rather rare. Slovenian unemployment is analysed by Vodopivec (1995a; 2004), Domadenik and Pastore (2006), Orazem, Vodopivec, and Wu (2005) and Kavkler and Boršič (2006; 2007). Vodopivec (1995a) uses a duration model in presenting effects of unemployment insurance on the unemployment duration. While Domadenik and Pastore (2006) test the impact of education and training systems on the participation of young people in the labour markets of Slovenia and Poland. Kavkler and Boršič (2006; 2007) estimate the effects of age, gender and education on duration of unemployment by duration data techniques.

All the above listed papers are devoted to the aggregate labour market in Slovenia. To the best of our knowledge, there is no analytical paper dealing with regional issues of unemployment in Slovenia. Thus, this paper attempts to estimate the effect of regional disparities on the duration of unemployment in Slovenia by duration data techniques, namely the Kaplan-Meier estimator. Although Slovenia is in general regarded as relatively equally developed throughout the geographical area, regional differences do exist. There are disparities of regional activity rates and regional GDP. The pace of restructuring after the transformation of the economic system was not equally distributed throughout the country. Consequently, regional unemployment rates differ significantly. That is why we expect the results of our empirical analysis to confirm the significant effect of regional differences on the duration of unemployment in Slovenia. Given that the analysis is based on a huge database consisting of more than 450,000 entries, this paper sheds light on additional information about regional differences and notably contributes to the existing studies about the Slovenian labour market. Namely, analysing regional labour market issues can give information about labour market flexibility, which is of prime importance for an effective functioning of monetary union. Additionally, such analysis also provides vital information for establishing an appropriate structural funds policy. Thus, the message of this paper can be important not only to national but also to EU authorities.

The paper is structured as follows. The introduction is followed by an overview of the characteristics of total unemployment rate in Slovenia presenting important stylized facts about the labour market against which regional differences evolved. Then, the regional unemployment rate is discussed and compared to European regional developments. Next, a description and preliminary analysis of the dataset is presented. It is followed by a brief presentation of duration models and survival analysis. Results of Kaplan-Meier estimates are discussed. The paper concludes with a short summary of the main findings.

An Overview of Aggregate Unemployment Rate in Slovenia

The low rate of registered unemployment in Slovenia prior to transition (below 2%) is not difficult to explain, since the old economic system provided assurance in the labour market by striving to achieve full employment and equal wealth distribution. Consequently, severe regulation of labour market was necessary in order to provide jobs for practically

everyone. The unlimited assurance of employees was even a constitutionally guaranteed right in former Yugoslavia (Vodopivec 1995b). After the economic transformation the registered rate of unemployment rose to more than 14.4% in 1993. It remained above 13.9% until 1998, when it gradually started to fall and had reached 7.7% in 2007.[1]

Significant changes occurred in labour demand during the transition, which caused the high increase in the unemployment rate at the beginning of the nineties. Young people suddenly had no assurance of getting a job after completing education. Since the high level of employment in the former system was artificial, they were also unlikely to get a job easily. In order to produce more efficiently, most of the companies started with massive lay-offs. Many older workers became unemployed and were also very unlikely to get a new job. The relative advantage of high educated workers increased. Higher educated employees were changing jobs more easily; they were less likely to become unemployed and had better chances of re-employment, if needed.

According to Vodopivec (1995b), women represented a higher share in the two highest vocational classes (managers and leading clerks) in comparison to men in the mid-1980s. Consequently, women in Slovenia had no disadvantages in the labour market at the beginning of transition, which was not the case in other transition economies.

According to Kajzer (1998) the relatively high level of unemployment in the nineties is mostly a consequence of a combination of the following:

- increasing disequilibrium in the labour market was prolonging the long term unemployment;
- the effect of increasing investment activity on employment was neutralised by the structure of investment and increasing structural discrepancies;
- the effect of economic growth on employment was decreased by wage growth, hidden unemployment among the employed in the former system and employers' caution in employment.

The main characteristics are low level of employment and high level of unemployment among the low educated, extremely low employment rate of older people, relatively high rate of unemployment among young people and non-intensive human resource management in enterprises (Kajzer 2005).

Table 1 presents the duration of unemployment in Slovenia in the last seven years. It can be seen that the highest share of unemployment is

TABLE 1 Duration of unemployment in Slovenia in % of total number of unemployed

Duration	2000	2001	2002	2003	2004	2005	2006	2007
Up to 3 months	17.9	20.2	20.2	23.6	25.5	22.7	22.4	21.7
From 3 till 6 months	10.0	13.2	13.0	14.0	14.3	13.9	11.3	12.6
From 6 till 9 months	5.5	6.2	7.0	8.4	8.2	8.8	8.1	7.8
From 9 till 12 months	5.2	5.8	7.5	8.0	7.5	8.3	7.5	7.2
From 1 till 2 years	15.3	14.2	18.5	19.1	19.4	18.3	20.4	18.2
From 2 till 3 years	12.1	9.0	8.1	9.7	9.1	9.5	9.7	10.3
From 3 till 5 years	16.4	13.5	10.2	7.3	7.7	8.8	9.7	10.1
From 5 till 8 years	10.5	9.3	7.5	4.4	3.6	4.5	5.3	6.3
More than 8 years	7.2	8.6	7.9	5.4	4.7	5.2	5.5	5.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total in persons	104,583	104,316	99,607	95,993	90,728	92,575	78,303	68,411

NOTE Based on data available on the Employment Office of the Republic of Slovenia web site (http://www.ess.gov.si/).

represented by the spells of less than 3 months. This is mainly due to the fact that all unemployed receive a financial compensation as a certain share of their previous wage in the first three months of unemployment. The duration of up to 3 months is followed by the duration of 1 to 2 years, which represents the long-term unemployment. It has increased in the last seven years from 15.3% in 2000 to 20.4% in 2006. On the other hand, very long-term unemployment, measured as duration of unemployment above 2 years, amounted to 30.2% of total unemployed workers in 2006, which is 16 percentage points less than in 2000.

Relatively generous unemployment benefits throughout the observed period makes people less motivated for searching for a new job (Kajzer 2005). This can be also confirmed by observing the difference among ILO[2] unemployment rate and registered unemployment rate. In Slovenia, there is a large discrepancy among the two rates of unemployment. Table 2 shows significant differences among the rates, although it is gradual in the recent years. This is mainly due to above mentioned financial aid, relatively high level of informal work and a high share of long term unemployed who become passive and do not meet the second criterion of actively seeking for a job in the Labour Force Survey (Kajzer 2005). Consequently, registered rates imply that Slovenia has high unemployment, while ILO rates show that it has low unemployment. Taking into account international criteria, the ILO rates should be considered. We

TABLE 2 Comparison of the registered and ILO unemployment rates for Slovenia

Unemployment rate	2000	2001	2002	2003	2004	2005	2006	2007
Registered	12.2	11.6	11.6	11.3	10.6	10.2	9.4	7.7
ILO	6.7	6.2	6.3	6.7	6.3	6.5	6	4.9
Difference (% points)	5.5	5.4	5.3	4.6	4.3	3.7	3.4	2.8

NOTE Based on data available on the Employment Office of the Republic of Slovenia website (registered rates, see http://www.ess.gov.si/) and on the Eurostat website (ILO rates, see http://ec.europa.eu/eurostat).

present the comparison of Slovenia in the EU according to ILO rates in the rest of this section. While the analytical part of the paper below is based on registered unemployment data, since the database required for the duration analysis is not available in the Labour Force Survey but was provided by the Slovenian Employment office.

According to the Labour Force Survey the unemployment rate in Slovenia is below the European average. The light gray columns for individual countries in figure 1 present total ILO unemployment rates, while the gray columns denote the long term unemployment rate, measured as a share of long term unemployed[3] in the active population of individual countries. Both unemployment rates for Slovenia are below EU15 and EU25 in 2006. The total unemployment rate is 6.0%, which is 1.4 and 1.9 percentage points below the EU15 and EU25 averages, respectively.

While the long term unemployment in Slovenia is 2.9%, which is 0.2 percentage point below EU15 average and 0.7 percentage point below the EU25 average. The highest total unemployment rates were recorded for Poland (13.8%), Slovakia (13.4%) and France (9.5%), while the lowest rate is 3.9% for Denmark and Netherlands. As far as the long term unemployment rate is concerned, the highest rate was noted for Slovakia (10.8%), Poland (7.8%) and Germany (4.6%). On the other hand, the lowest long term unemployment rates are recorded for Denmark (0.8%), Cyprus (0.9%) and Sweden (1.1%).

Regional Unemployment in Slovenia

According to the Statistical Office of the Republic of Slovenia there are twelve statistical regions in Slovenia: Pomurska, Podravska, Koroška, Savinjska, Zasavska, Spodnjeposavska, Jugovzhodna Slovenija, Osrednjeslovenska, Gorenjska, Notranjsko-kraška, Goriška and Obalno-kraška. Registered unemployment rates in these regions clearly indicate the East-West distribution. Eastern regions, such as Pomurska and Po-

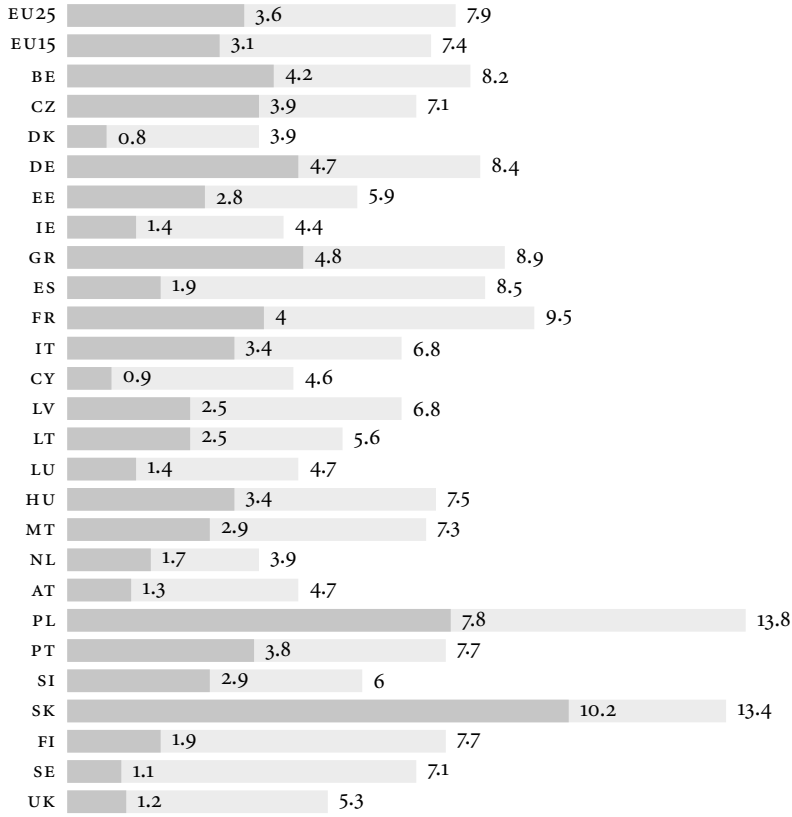

FIGURE 1 ILO unemployment rates in EU25, 2006, in % (light gray – harmonized unemployment rates, yearly averages; gray – long-term unemployment in % of active population)

dravska, have the highest unemployment rates while Western regions, such as Gorenjska, Goriška and Obalno-kraška, have the lowest unemployment rates. The order of regions is the same regardless of which unemployment rate is taken into account. The difference is only in the levels as noted above for the aggregate data (table 2).

The reasons for the East-West distribution of unemployment rates can be mainly attributed to different patterns of economic activity in the former system as well as different pace of restructuring after the economic transformation. Namely, in the former system eastern regions were characterized by a large share of manufacturing activities specifically specialized in labour intensive industries, such as textile industry, automobile industry, etc. When restructuring took place many manu-

facturing companies were abolished, leaving behind huge numbers of unemployed workers, who had difficulties in finding new jobs due to at least two reasons: (1) required qualification in other sectors and (2) the problem of overall lower labour demand. Despite the fact that many new small firms arose, their labour demand was/is much lower compared to the large socialist companies in the previous system. Moreover, investigating patterns of regional specialization and concentration of manufacturing, Traistaru, Nijkamp and Resmini (2002) found that in Slovenia regional specialization had not changed significantly in the period 1990–1999. Thus, the regional distribution of sectoral activity has not changed much in comparison to the former system. Consequently, the high level of unemployment persists in regions with a high share of manufacturing.

Differences among regions can be presented by the coefficient of variation. This is one of the structural indicators by which the EU follows the implementation of the Lisbon strategy in employment, innovation and research, economic reforms, social cohesion and environment (Pečar 2005). According to Eurostat's methodology, the coefficient of variation of regional unemployment rates is based on the weighted variance of unemployment rates, which is defined as:

$$Var\left(\frac{x_i}{y_i}\right) = \sum_i \left(\left[\frac{x_i}{y_i} - \frac{\bar{x}}{\bar{y}}\right]^2 \frac{y_i}{\sum_i y_i}\right). \quad (1)$$

where x_i denotes unemployed persons in region i, y_i represents active population in region i, $\bar{x}$ and $\bar{y}$ stand for the averages of x_i and y_i, and $\bar{x}/\bar{y}$ is the unemployment rate at national level. The coefficient of variation of unemployment rates is the square root of the variance stated in Equation 1 divided by the unemployment rate at national level. It gives a measure of the regional spread of unemployment rates.

In the period 2000–2002 the coefficient of variation was increasing and it reached the highest point of 35.1% in 2002. Afterwards it was decreasing and it reached the lowest value of 30.8 in the first half of 2006. This development of coefficient of variation implies that the regional differences in the unemployment rate in Slovenia have been decreasing during the last four years (figure 2).

Also the regional level of unemployment and its regional dispersion can be compared at the European level. Eurostat (2006) divides statistical units according to the Nomenclature of Territorial Units for Statistics

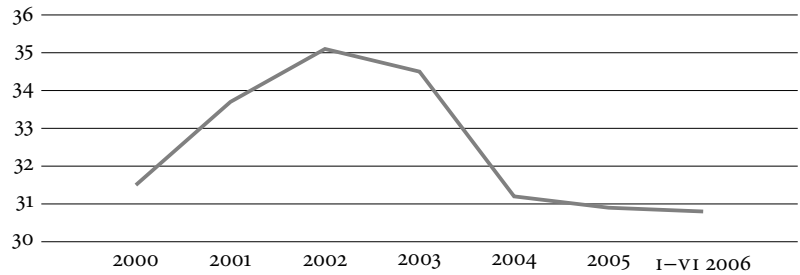

FIGURE 2 Coefficient of variation of regional unemployment in Slovenia, 2000–2006 (adapted from Pečar 2006)

(NUTS) adopted in July 2003 and revised in 2005. The NUTS regulation comprises three main levels of statistical regions according to population size NUTS 1 (3 million–7 million), NUTS 2 (800,000–3 million) and NUTS 3 (150,000–800,000). Below NUTS 3 level, there are so called Local Administrative Units (LAU), which represent districts and municipalities and are not subject to NUTS regulation. Thus, NUTS classification divides Europe into 89 regions on NUTS 1 level, 254 regions on NUTS 2 level and 1214 regions on NUTS 3 level (Eurostat 2007).

According to the size of Slovenia, the whole country belongs to NUTS 2 level, while each of the 12 statistical regions described above belongs to NUTS 3 level. Thus, Slovenia as a whole is one of the 254 regions and Slovene statistical regions are 12 among 1214 European regions.

At NUTS 2 level the lowest rates of unemployment in 2005 were recorded in Herefordshire, Worcestershire and Warwickshire in UK (2.6%), Provincia Autonoma Bolzano/Bozen in Italy (2.7%) and North Yorkshire in UK (2.9%). While the highest regional unemployment rates were attained in Výhodné Slovensko in Slovakia (23.1%), Dolnośląskie (22.8%) and Zahodnieopomorskie (22.7%) in Poland (Mladý 2006). As noted above, at the same level Slovenia has reached the unemployment rate of 6.5% (SORS 2006).

Table 3 presents regional unemployment rates at NUTS 3 level for 2005. The first part are the lowest rates, below 3%, in the second part are the 12 statistical regions in Slovenia and the third part of the table shows the highest unemployment rates in Europe, above 25%. It can be noted that the unemployment rates below 3% were recorded for 6 regions in UK, 4 regions in the Netherlands, 3 regions in Italy and 2 regions in Austria. On the other hand, the highest unemployment rates were registered for 8 German regions, 3 Polish regions and 1 Greek region. Slovenian regional

TABLE 3 European Regional Unemployment Rates, NUTS 3 level, 2005

Region (country)	Rate
EU25 *minimum*	
Overig Zeeland (NL)	2.4
Oxfordshire (UK)	2.4
Bolzano-Bozen (IT)	2.7
Bologna (IT)	2.7
North and North East Somerset, South Gloucestershire (UK)	2.7
Salzburg und Umgebung (AT)	2.8
Innsbruck (AT)	2.8
Warwickshire (UK)	2.8
Kop van Noord-Holland (NL)	2.9
Midden-Noord-Brabant (NL)	2.9
Devon CC (UK)	2.9
Oost-Zuid-Holland (NL), North Yorkshire (UK), Surrey (UK)	3.0
Slovenia	
Goriška	4.2
Gorenjska	4.7
Obalno-kraška	4.8
Osrednjeslovenska	4.9
Notranjsko-kraška	5.1
Jugovzhodna Slovenija	5.6
Koroška	6.8
Spodnjeposavska	7.4
Savinjska	8.1
Podravska	8.7
Zasavska	8.8
Pomurska	11.0

Continued on the next page

unemployment rates in 2005 range from 4.2% in Goriška to 11.0% in Pomurska region.

At NUTS 3 level Eurostat has information about 21 countries. Their dispersion of regional unemployment rates, measured by the coefficient of variation, is shown in figure 3. In 2005 the estimated coefficient of variation for Slovenia was 30.9%, which is 0.9 percentage point below the

TABLE 3 *Continued from the previous page*

Region (country)	Rate
EU25 *maximum*	
Nordvorpommern (DE)	25.0
Ostvorpommern (DE)	25.7
Uckermark (DE)	25.9
Görlitz, Kreisfreie Stadt (DE)	26.0
Sangerhausen (DE)	26.0
Mansfelder Land (DE)	26.1
Jeleniogórsko-walbrzyski (PL)	26.5
Slupski (PL)	27.2
Elcki (PL)	27.3
Demmin (DE)	27.9
Kastoria (GR)	28.5
Uecker-Randow (DE)	29.8

average of 31.8%. Below the average are also differences among regions in Sweden (15.6%), Ireland (16.6%) and Denmark (20.3%), while the most evident are the differences among regional unemployment rates in Italy (62.5%), Czech Republic (46.6%) and Germany (45.3%).

In general, the European regional dispersion of unemployment rate has decreased at NUTS 3 level in the last three years. Considerable falls in the regional difference were recorded for Italy (19.4 percentage points), Hungary and Germany (both 6.8 percentage points). On the other hand, there were also some gaps expanded, as for Slovakia, Estonia and Lithuania with an increase in coefficient of variation by 6.8, 6.1 and 3.7 percentage points, respectively.

Regional Comparison of the Length of Unemployment Spells in Slovenia

The data for our empirical investigation were obtained from the Employment Office of the Republic of Slovenia. The database consists of the unemployment spells completed between January 1st, 2002 and November 18th, 2005 and all of the ongoing spells on November 18th, 2005. For each of the unemployment spells, the start and end date and the factors sex, age, level of education and statistical region were made available to us. Since the Employment Office of the Republic of Slovenia is not al-

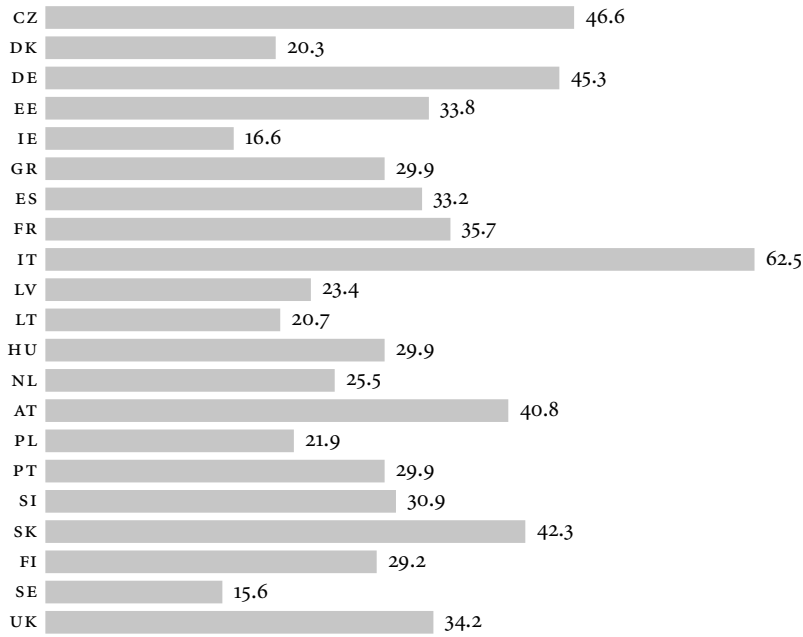

FIGURE 3 Dispersion of regional unemployment rates in EU (NUTS level 3) in 2005, in %

lowed to disclose personal data about the unemployed, only a personal identifying number was added to enable identification of repeated spells. 455,581 unemployment spells are included in our database with the maximal length of 13,547 days.

In a preliminary analysis, the descriptive statistics for the 348,281 spells completed on November 18th, 2005 were calculated. The mean, standard deviation and the 95% confidence intervals of the mean for the 12 Slovenian regions can be found in table 4. Already from the 95% confidence intervals for the mean one may observe significant differences among different regions.

One of the visual aids to present such results are the boxplots (figure 4). The boxplot (also called the box-and-whiskers plot) summarizes a single numeric variable within categories of another variable. Each box shows the median, the quartiles and the whiskers that extend to the last point within 1.5 times the interquartile range. The outliers are usually also given in the boxplots, but we left them out due to the fact that our distribution has a very long right tail.

The difference between Podravska, Zasavska and Savinjska region on the one hand and Gorenjska, Goriška and Obalno-kraška region on the

TABLE 4 Descriptive statistics for the duration of unemployment spells, in days

Region	(1)	(2)	(3)	(4)
Total	348,281	479.69	791.11	(477.07, 482.32)
Pomurska	31,122	472.54	815.10	(463.49, 481.60)
Podravska	76,393	565.38	906.26	(558.95, 571.81)
Koroška	13,633	467.75	756.92	(455.05, 480.47)
Savinjska	50,941	509.86	809.46	(502.83, 516.89)
Zasavska	9,873	505.27	791.79	(489.65, 520.89)
Spodnjeposavska	14,542	486.75	813.92	(473.52, 499.98)
Jugovzhodna Slovenija	19,503	510.35	893.39	(497.81, 522.88)
Osrednjeslovenska	60,716	426.60	660.58	(421.34, 431.85)
Gorenjska	33,227	375.98	636.94	(369.13, 382.83)
Notranjsko-kraška	7,947	452.62	714.22	(436.92, 468.33)
Goriška	12,938	395.48	668.45	(383.96, 407.00)
Obalno-kraška	16,736	430.46	779.92	(418.64, 442.28)

Column headings are as follows: (1) *N*, (2) mean, (3) standard deviation, (4) 95% confidence interval for the mean.

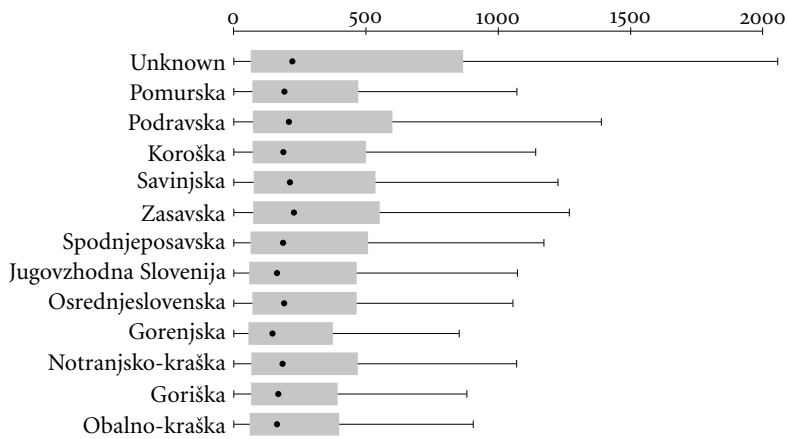

FIGURE 4 Boxplots depicting the duration of unemployment spells (in days) for different regions

other hand is obvious. The regions of Gorenjska and Goriška are the most advantageous in the labour market with mean length of unemployment spells of 376 and 395 days, respectively. The unemployed from Podravska region are in the worst position, as they have to wait for 565 days on average to find a new job. The mean length of unemployment spells for the unemployed from Savinjska, Zasavska and Jugovzhodna

Slovenija is slightly above 500 days, whereas the mean lengths of other regions are between 400 and 500 days. The region is thus a crucial factor when searching for a job. Note that the boxplot in figure 4 displays the median of the length of the unemployment spells, whereas in table 4 the mean length of the unemployment spells is given.

To test the null hypotheses that the mean duration of unemployment spells is the same for every region, we performed the nonparametric Kruskal-Wallis test. ANOVA is inappropriate in our case, because the distribution is asymmetrical. The null is strongly rejected, since the p-value is lower than 10^{-6}.

The above described database allows us to take a look into different characteristics of duration of unemployment by regions:

1. According to gender, in Osrednjeslovenska and Notranjsko-kraška region men and women have similar durations of unemployment. The biggest difference among them is in Zasavska region, where women need on average 43 days more than men to find a new job. Women are in a worse position also in Pomurska, Podravska and Koroška region. On the other hand, it takes longer for men to get re-employed in Goriška and Spodnjeposavska region.
2. Regarding age, in all regions the unemployed aged between 40 and 60 years are in the worst position. It is interesting to note that young unemployed (18 years or less) have a relatively long duration of unemployment in Jugovzhodna Slovenija, Spodnjeposavska, Zasavska, Podravska and Pomurska region.
3. As for level of education, the length of regional unemployment in general decreases with higher levels of education with a few exceptions. In many regions the longest unemployment was experienced by those who finished 3-year lower vocational education (Obalno-kraška, Goriška, Osrednjeslovenska, ...). Also post-secondary vocational education does not prove the above statement, as this level of education required longer unemployment than lower levels of education in many regions. The next exception is master's degree in Obalno-kraška, Gorenjska, Spodnjeposavska, Koroška and Podravska, and doctorate in Jugovzhodna Slovenija and Zasavska.

Survival Analysis and Duration Models

Survival analysis and duration models originate in biostatistics, where the survival time is the time until death or until relapse of an illness.

During the recent years these techniques have also gained popularity in the social sciences to model the length of unemployment spells and the strike duration. One of the unavoidable problems encountered when analyzing the duration data is the so-called *censoring*. Since the event under observation (i. e. death or the end of the unemployment spell) has often not occurred till the end of the study, it is only possible to estimate the lower bound of the survival time. This kind of censoring is called the *right censoring*.

A comprehensive overview of the methods and models used in survival analysis is given by Therneau and Grambsch (2000) and by Klein and Moeschberger (1998).

BASIC NOTIONS

Let the random variable T denote the *survival time*. The distribution function of T is defined by the equation $F(t) = P(T < t)$ and measures the probability of survival up to time t. Since T is a continuous random variable, its density function can be computed as the first derivative of the distribution function $f(t) = F'(t)$. The *survival function* $S(t)$ denotes the probability to survive until time t or longer and is given by

$$S(t) = P(T \geq t) = 1 - F(t). \tag{2}$$

The limit

$$\lambda(t) = \lim_{\delta \to 0} \frac{P(t \leq T < t + \delta \,|T \geq t)}{\delta} \tag{3}$$

represents the risk or proneness to death at time t. The function $\lambda(t)$ is usually called the *hazard function* or the *failure rate* and measures the instantaneous death rate given survival until time t.

By integrating the hazard function over the interval $[0, t]$ one obtains the so-called *cumulative hazard function*

$$\Lambda(t) = \int_o^t \lambda(u)du. \tag{4}$$

In addition to defining basic notions, we shall also derive the relations between them that will be needed in the following subsections. Obviously,

$$\lambda(t) = \lim_{\delta \to 0} \frac{P(t \leq T < t + \delta \,|T \geq t)}{\delta} =$$

$$= \lim_{\delta \to 0} \frac{P(t \leq T < t + \delta)/P(T \geq t)}{\delta} =$$

$$= \frac{1}{S(t)} \lim_{\delta \to 0} \frac{F(t+\delta) - F(t)}{\delta} = \frac{F'(t)}{S(t)}. \tag{5}$$

It follows from the definition of the survival function $S(t)$ given by equation (4) that $F'(t) = -S'(t)$, therefore

$$\lambda(t) = \frac{-S'(t)}{S(t)} = -\frac{d\log S(t)}{dt}. \tag{6}$$

Rewriting the last equation in the form $\lambda(u)du = -d\log S(u)$ and integrating from 0 to t yields

$$-\log S(t) = \int_0^t \lambda(u)du = \Lambda(t), \tag{7}$$

therefore

$$S(t) = e^{-\Lambda(t)}. \tag{8}$$

We have observed the fact that $\log S(0) = \log 1 = 0$ since $P(T \geq 0) = 1$.

NONPARAMETRIC METHODS

The parametric models are often used because of their simplicity. It has to be emphasized that they impose a complex structure on the data, which can lead to distortions in the estimated hazard rates. Better models may be obtained by using nonparametric methods that impose very few restrictions.

Kaplan-Meier estimator

The derivation of the Kaplan-Meier estimator of the survival curve can be found in Greene (2003) and in Zeileis (2002). This estimator of the survival function is also called the *product limit estimator* for reasons that will be clear later on.

Given n individuals with p distinct survival times $t_1 < t_2 < \ldots < t_p$ and d_i deaths at t_i, assume at first that no censoring occurs. For the time t from the interval $[t_s, t_{s+1})$ the survival function can be estimated in the following way:

$$\hat{S}(t) = 1 - \hat{F}(t) = \frac{n - \sum_{j=1}^{s} d_j}{n}, \quad t_s \leq t < t_{s+1}. \tag{9}$$

If the numerator and the denominator of the previous expression are

successively multiplied by factors of the form $n - d_1 - d_2 - \cdots - d_i$, $i = 1, 2, \ldots, s-1$, one obtains

$$\hat{S}(t) = \frac{n-d_1}{n} \cdot \frac{n-d_1-d_2}{n-d_1} \cdot \ldots \cdot \frac{n-d_1-d_2-\cdots-d_s}{n-d_1-\cdots-d_{s-1}}. \qquad (10)$$

Let $r_i = n, i = 2, \ldots, p$, denote the number of individuals whose observed survival time is at least t_{i-1} and let r_i. In other words, the *number at risk* r_i takes into account all individuals alive during the time interval $[t_{i-1}, t_i)$. Under the assumption of no censoring, the equation $r_{i+1} = r_i - d_i$ holds, whereas $r_{i+1} = r_i - d_i - c_i$ if censorings occur, with c_i equal to the number of censored observations in the interval $[t_{i-1}, t_i)$. The final version of the Kaplan-Meier estimator can thus be written as

$$\hat{S}(t) = \left(1 - \frac{d_1}{r_1}\right) \cdot \ldots \cdot \left(1 - \frac{d_s}{r_s}\right) = \prod_{j=1}^{s} \left(1 - \frac{d_j}{r_j}\right), \quad t_s \le t < t_{s+1}. \qquad (11)$$

RESULTS

Recall that the survival function $S(t)$ denotes the probability of survival time greater than or equal to t. In our case, the probability for the unemployment spell to last until time t or longer is measured. Figure 5 depicts only the two extreme levels of the factor region with the highest and lowest probability of survival, namely the survival curves for Podravska and Gorenjska region, respectively, to make the figure easier to read. The survival function estimates for other regions lie between the two extremes. The differences between the survival function estimates are clearly visible. The estimate of the unemployed from Podravska decreases to 0 at a much slower rate, indicating that the unemployed from Gorenjska region have a far better position in the labour market.

To test the null hypothesis that the survival functions are the same for two or more levels of a given factor, the so-called log rank test with the χ^2-distribution under the null can be used. When performed for our data, the highly significant p-value (lower than 10^{-16}) confirms the results derived graphically from the Kaplan-Meier estimates of the survival functions.

Since the differences between the highest and the lowest unemployment region might be specific to the regions considered, we also performed the Kaplan-Meier analysis for the 4 lowest and the 4 highest unemployment regions pooled together (figure 6). The log rank test is again highly significant with a p-value of less than 10^{-6}.

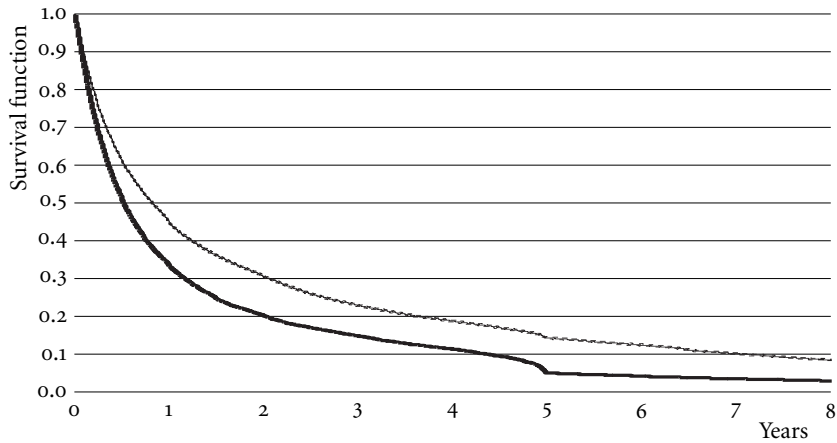

FIGURE 5 Survival function estimates for the unemployed from Podravska region and the unemployed from Gorenjska region (in bold)

Although having the advantage of being non-parametric and therefore of not imposing restrictions on the shape of the survival function, the Kaplan-Meier estimator has a major shortcoming. Namely, it does not allow testing for the presence of an omitted heterogeneity bias. This can be done in the penalized Cox proportional hazards models setting, or equivalently, with the help of the frailty models. These models embrace the idea that different individuals have different frailties, and that those who are most frail will die earlier than the others. The notion of frailty is modelled as a random effects term in survival models. A comprehensive discussion about frailty models can be found in Therneau and Grambsch (2000).

We fitted a gamma frailty model (since hazard cannot be negative) with the help of the survival package of the open source code statistical software R (see http://www.R-project.org). The random effects variable is highly significant (p-value is equal to 0.00046), thus the null hypothesis of no omitted heterogeneity bias has to be rejected. Omitted heterogeneity suggests the existence of some unobserved reason why regional unemployment differences might persist.

We can look for reasons of persistent regional disparities in regional labour market adjustment mechanisms: migration, wage flexibility, investments and changes in labour force participation. According to Gacs and Huber (2005) the unemployment rate accommodates to a minor part of regional asymmetric shocks in first round candidate countries (including Slovenia), on the other hand employment losses turned out

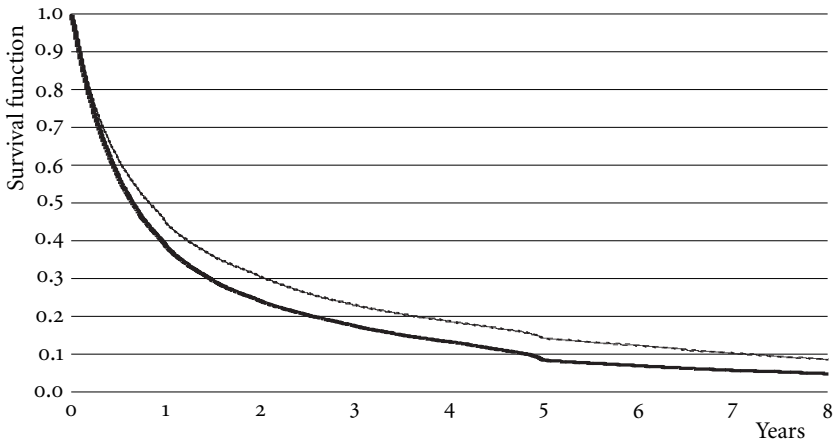

FIGURE 6 Survival function estimates for the unemployed from the four highest unemployment regions and the unemployed from the four lowest unemployment regions (in bold)

to be highly persistent, while participation rates importantly contribute to the adjustment.

Internal migration in Slovenia is low, has fallen during the transition, and it is not effective in reducing regional disparities (Huber 2007; Fidrmuc 2004). Such characteristics of migration despite substantial regional differences are in contrast to economic theory, according to which the migration should increase rather than fall. One of the major impediments for migration could be real estate market: house ownership and high land prices contribute to lower migration, while increased construction accelerates migration to a region (Huber 2007).

As far as wage flexibility is concerned, there is no straightforward outcome of existing studies for transition countries as well as for Slovenia. In general, Slovenia is known to have a high degree of labour market rigidity (Ferragina and Pastore 2008). Büttner (2007) does find a correctly signed (negative) and significant effect of regional unemployment rate on wage level in Slovenia after controlling for industry composition of employment. Although his findings show that the negative impacts of unemployment rates on wage level are similar to those of old EU members, this does not automatically imply a high level of wage flexibility, since EU countries are known for a relatively high level of wage rigidities to regional unemployment rates.

For transition countries Bornhorst and Commander (2006) show that a substantial fall in labour demand results in very slow employment re-

covery. Capital mobility has a limited role in diminishing regional disparities. Since Slovenia is a small country, close to EU markets, there is a dispersed structure of FDI across regions (Huber 2007) indicating there is no capital mobility effect in decreasing regional differences. In other transition countries stylized facts show that border regions and regions with the capital city are in better position in comparison to other much poorer regions. Due to the smallness of the country these effects are insignificant for Slovenia.

Conclusions

The highest unemployment rates are registered in Pomurska and Podravska. While the unemployment rate used to be the highest in Podravska, it is persistently decreasing in the last couple of years. Above average unemployment rates were also recorded in Zasavska, Spodnjeposavska and Savinjska regions. Notranjsko-kraška, Jugovzhodna Slovenija, Gorenjska, Obalno-kraška, Osrednjeslovenska and Goriška are the regions with the unemployment rate persistently below Slovenian average. The lowest unemployment rate was recorded in Goriška: 6.5% in 2005. Slovenian regional unemployment rates belong to the NUTS 3 level of European statistical regions and are below the EU average. Also the differences among regions are below European average and are gradually diminishing.

Survival analysis of the duration of unemployment spells based on a comprehensive dataset, with more than 450,000 observations in the period from January 2002 and November 2005 yielded the following results. Regarding the region of the unemployed, the probability of re-employment is the lowest for the unemployed from Podravska, Savinjska, Zasavska and Jugovzhodna Slovenija. The unemployed from Gorenjska region have a far better position in the labour market. The probability of remaining unemployed for the latter region is slightly lower than for the unemployed from Goriška region. The two extreme regions with the lowest and the highest mean length of unemployment are Gorenjska and Podravska region, where the unemployed have to wait for 376 and 565 days on average to find a new job, respectively. The differences between the Kaplar-Meier survival function estimates are highly significant. The probability of re-employment for the unemployed from Gorenjska is the highest among all regions, while being the lowest for the unemployed from Podravska.

The analysis has proven that the characteristics of duration of regional

unemployment are specific. The reasons for significant regional disparities can be found among low internal migration and high level of wage rigidity. The results can help to identify potential target groups of unemployed in different regions in order to improve the efficiency of an active employment policy. Furthermore, one of the prime policy objectives should be to enhance migration by, for example, providing a more attractive real estate market in the regions with high employment rates. Slovenia has lately experienced a lack in using EU structural funds. There is an obvious need for a more effective structural funds policy. Thus, the results of this study can help in identifying regions which fulfil the requirements and have high needs for structural funds usage. Despite high wage rigidity to unemployment rates, the wage levels differ across regions, resulting in different levels of unemployment benefits, which also contribute to different regional incentives for the unemployed to find new jobs.

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Notes

1 Based on data provided by Employment Service of Slovenia (http://www.ess.gov.si/slo/Dejavnost/StatisticniPodatki/Kazalci/GibanjeRegBP.htm).

2 ILO unemployment rate streams from the Labour Force Survey conducted by the Statistical Office of the Republic of Slovenia according to International Labour Organisation (ILO) instructions. It is internationally comparable. ILO unemployed are those who meet the following criteria: are not working for payment, are not employed or self-employed (1), actively seek for employment (2) and are willing to accept work immediately or within two weeks (3) (Kajzer 2005). On the other hand, registered unemployed are those who are listed in the register at the Employment Office of the Republic of Slovenia.

3 According to Eurostat long term unemployed are those who are unemployed for 12 months or more.

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Public and Financial Institutions in Transition Economies: An Overview and Recent Evidences from Central and Eastern Europe

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This article is a survey of economic literature about the public and financial institutions in countries with transition economies. It also presents some particularities within the countries from Central and Eastern Europe. We investigate the factors that influence a certain institutional architecture and the impact of those institutions on several economic aspects such as growth, trade, corruption, stock markets, inflation, unemployment, etc. For the financial sector we investigate some specific problems: stock markets, deposit insurance, central bank and credit market, consolidation, globalization and international investment in financial services.

Key Words: institutions, transition, economic reform, Central and Eastern Europe
JEL *Classification:* P33, P34

Introduction

In the 1990's the countries from Central and Eastern Europe embraced democracy and capitalism, which led to numerous radical socioeconomic transformations over a short period of time. However, the degree to which each country has changed is extremely variable. Obviously, these changes have affected the institutional framework as well, which in turn had a significant impact on the development of the society in general and on the economic development in particular. The aim of this article is to overview the literature on the institutions, especially financial institutions, with specific reference to the transition countries.

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In the first part of the article we survey the economic literature, which describes the institutions in transitions with case studies regarding the countries from Central and Eastern Europe. We make a succinct description and a comparison of the main results of the empirical and theoretical studies concerning this subject. We consider (a) the factors that influence a certain institutional architecture; (b) the impact of institutions on several economic aspects, such as growth, trade, stock markets, inflation, unemployment, etc.

In the second part of the article, we analyze some of the main aspects that characterize the current financial systems in the transition economies. We discuss the most important issues related to the creation of a financial system similar to the ones in the developed economies. More precisely, we have studied some aspects about the functioning of the financial system in general and of the banking systems in particular, namely the role of the stock market in the economic development, the introduction of deposit insurance, the degree of bank intermediation, nonperforming loans, the use of collateralization in offering credits, and the soft budget constraints. We have also shown the position of the central bank within the financial system, particularly in connection with its independence and the monetary policy strategy based on inflation targeting. Concerning the global economy, in the last two decades we have witnessed a rapid consolidation of the financial system due to mergers and acquisitions, as well as to globalization and foreign investment in the financial system. Taking into account that this trend will occur in the transition countries, we consider the causes that led to consolidation and its multiple effects and the factors that influence foreign direct investment.

Public Institutions

Starting with the 1990s, after the fall of the communist regimes, the Central and East European countries had to establish new institutional regimes. The transition towards a democratic system was made in different ways and at different speeds from one country to another. It is important to understand which of the social or economical factors have determined the different behaviour of the nations in the process of adopting the new structures. Some authors consider that the economical factors predominate in the building of new regimes; others imply that the social factors, especially the social capital, decide the sustainment degree of the institutional reforms by the citizens.

NATURAL RESOURCES AND SOCIAL VALUES

The traditional economic reasoning and common sense suggests that a country's increasing resources promotes the economic growth. But this reasoning is contradicted by a substantial amount of empirical evidence that demonstrates that the abundance of resources breaks the economic growth.

Leite and Weidmann (2002) showed that resource abundance is a major factor which influences the role of institutional variables in the economic growth. They demonstrated an important indirect effect of resource wealth on economic performance: resources affect the level of corruption, which in turn determines growth. Isham et al. (2003) find a negative relation between resource abundance and economic growth when the control of the institutional quality is not appropriate. The analysis of Bulte, Damania, and Deacon (2005) indicates a significant association between development and resource intensity. They found that the resources have a robust negative impact on institutions, an idea that may lead to the conclusion that for countries rich on resources, but with poorer institutions, the policy improvements are less effective.

Based on empirical regional studies (in Italy), Putnam (1993) considers the social capital the most important aspect of the economical modernization. The social capital is a very general notion. In order to be able to quantify its development degree in a community we have to study its components. Putnam (1993) considers that the social capital of a society is described by: (a) involvement in the public field; (b) political equality based on cooperation not on dependency (addiction) regarding the relationships with the public authorities; (c) solidarity, trust and tolerance; (d) extensive participation in voluntary associations. Kunioka and Woller (1999) consider Central and Eastern Europe a favourable context for correlating the social capital with the democratically controlled procedures. The main motivation is the total extinction, during the communist period, of the institutions of civil society: private business, churches, press, voluntary associations. Using a logit model on a set of 8 countries (Belarus, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, and Ukraine) Kunioka and Woller (1999) try to determine which of the aspects of the social structure influence the citizens' preferences for a parliamentary or for an authoritarian government. They use exogenous variables regarding the social capital: institutional trust, ethnic groups and minorities as a threat, immigrants and

refugees as a threat, patience vs. quick results, order vs. freedom, town size; and also economic exogenous variables: current/future macro economy, current/ future household economic conditions, evaluations of the communist regime. The results show that the variables linked with the social capital are more representative than the economical ones. The control variables: education, age and gender have also significance. The author concludes that the probability that the citizens of the countries from the sample prefer a parliamentary regime over an authoritarian one is great, 'given higher levels of institutional trust, higher levels of political patience, and lower levels of intolerance for ethnic groups, minorities, immigrants and refugees. These findings are consistent with our hypotheses that each constitutes a statistically significant stock of social capital in support of parliamentary government' (Kunioka and Woller 1999, 593). Also, the parliamentary regime is preferred to the authoritarian one by the more educated, more aged and male persons.

DEMOCRACY AND ECONOMIC REFORM

In the countries from Central and Eastern Europe (CEE) the transition after the falling of the communist regime is characterized by the simultaneous evolution of the economic reform and of democracy. This behaviour was not similar to that of certain countries from the Southern America and Asia where the political liberalization followed the success of the economic transformations.

A government's ability to accomplish radical economic reforms is placed in difficulty by the development of the democratic regime (Roland 2000). In a democratic system the citizens can refuse some economical reforms, which would not happen in the case of a benevolent dictator (eg. China). Cheung (1998) considers that the introduction of democracy in an unstable stage of transition may lead to a decline of the national output.

Fidrmuc (2003) believes that in the CEE the 'democracy reinforces progress in economic liberalization, which in turn, improves growth' (p. 583). He investigates this connection using a sample of 25 transition countries. The results show that the impact of liberalization on growth is positive and strongly significant. The outside environment also has an effect on the development for the transition period. The variable 'government expenditure' is not statistically significant even if the sign is the expected (positive) one. For the initial GDP per capita Fidrmuc (2003) obtains a negative and significant coefficient. The economical growth of a country is more rapid when the initial GDP per capita is lower.

In some CEE countries the political transformations have gone before the economic reforms. But in some other countries a regress of the democracy was seen even though initially there have been taken measures in a good direction – especially in countries of the former Soviet Union. Even if the relationship between the creation of a democratic regime and the economic development is often discussed in the economic literature, this effect has hardly ever been clearly estimated. Dethier, Ghanem, and Zoli (1999) remark a positive correlation between the degree of democratization and the evolution in economic liberalization. Nonetheless, they do not consider the direct effect of democracy on growth. Fidrmuc (2003) estimates this direct effect. He concludes (p. 602) that 'democratization alone is not the key to growth; it is through its positive impact on economic liberalization that it improves growth performance. A centrally planned democracy would be even less conducive to growth than an autocratic market economy.'

PRIVATISATION

In the 1990's, the former communist countries considered the privatization of public enterprises an instrument for economic development by increasing its efficiency. The privatization process was very different from country to country and from one period to another.

Fisher and Sahay (2000) consider that the velocity and the level of privatization have essential economic repercussions for competition and development. Generally, it is considered that privatization depends on three groups of factors: economic conditions, government policies and exogenous factors (Goel and Budak 2006; Parker and Saal 2003; Djankov and Murrell 2002).

Goel and Budak (2006) examine the determinants of privatization in 25 transition countries and also the differences between large scale and small scale privatization between 1997 and 2001. They consider (p. 99) that the 'large-scale privatization involves privatization of major industries, including those involved in providing infrastructure services. Small-scale privatization deals with private ownership of small enterprises like shops and service units.' Goel and Budak (2006) use the following variables: index of large-scale/small-scale privatisation, a human development index, unemployment rate, inflation rate, general government expenditure, the index of foreign exchange and trade liberalization, general government balance, population, population density, land area (p. 103). The results show that a high level of economic success (GDP, education, longevity), influence positively the privatisation. Greater unem-

ployment and lower inflation stimulates small scale privatisation but the influence on large scale privatization is not statistically significant. Foreign exchange liberalization encourages both types of privatisation but bigger government deficits stimulate only the large-scale privatisation. The country size and the population have an important positive effect, especially in the last years of transition. Strangely, a greater population density appears to slow down the process.

CORRUPTION

Due to massive privatization in the 1990s there were disproportionate opportunities for corruption in the Central and East European countries, with a negative impact on society and the economy. Corruption in this European area has turned out to be more brutal as these countries amplify their openness and participation in international communities and organizations.

Based on empirical evidence (in Czech Republic), Lizal and Kocenda (2001) consider that a significant transform of approach to the institutional structure is required in order to prevent and battle against corruption effectively. They think that the best way to avoid corruption is not only to make all procedures completely transparent but also to create such a background that minimizes the incentives to go around the rules even in the absence of penalty.

Another aspect of corruption is the negative impact on foreign direct investment (FDI). Even if transition economies show high levels of corruption and high levels of FDI, Cuervo-Cazurra (2008) believes that it is not the level but rather the type of corruption that influences FDI in transition economies. There are two main types of corruption: (a) persistent corruption, or corruption that is generally present and acts as a limit to FDI because it increases the known costs of investing; (b) arbitrary corruption, or corruption that is unsure and does not have such a limiting influence because it becomes part of the ambiguity of operating in such economies. The second type is preferred by the foreign investors because they prefer to deal with an unknown evil.

Several empirical studies support the main hypothesis that competition and corruption are connected (Mauro 1995; Bliss and Di Tella 1997; Ades and Di Tella 1999; Treisman 2000). Emerson (2006) has built a model of the interaction between corrupt government officials and industrial firms to prove that corruption is adverse to competition. He suggests that the quantity of industrial competition is a function of the quantity of corruption (the level of the bribe). The level of competitive-

ness (or economic freedom) in a country is explained by the following variables: the degree of corruption, the gross national product, GNP per capita, the amount of foreign direct investment and the size of the country. A second regression explains the degree of corruption by the level of civil liberties, the amount of expenditures on education and the net enrollment ratios for primary and secondary schools. The estimations show that competition and corruption are negatively correlated. Higher education and democracy have a depressing effect on corruption in a country.

INFLUENCE OF INSTITUTIONS ON ECONOMIC DEVELOPMENT

In recent time, in the economic literature, there has been a revitalization of interest concerning the influence of institutions on economic development. Nelson and Sampat (2001) argue what are the factors which merge the diverse definitions of institutions and expand a concept of institutions in order to analyse the economic performance and growth. Knack and Keefer (1995) create a measure of property rights security and confirm a positive and statistically significant correlation between this measure, investment and growth. In another study Knack and Keefer (1997) conclude that better institutions stimulate the level of investment. A particularity for the transition countries is the existence of an institutional vacuum. Schmieding (1993) explains this emptiness by the destruction of the old institutions without an adequate replacement by new ones. Brunetti, Kisunko, and Weder (1997b) and Havrylyshyn and van Rooden (2000) were focused to transition countries in growth empirics with institutional measures. On a sample formed by 18 transition countries, Brunetti, Kisunko, and Weder (1997a) found a positive relationship between institutional credibility and growth.

Using a sample of 25 countries from Central and Eastern Europe (CEE) over the 1990–1998 period, Grogan and Moers (2001) explore the connection between institutions, foreign direct investment (FDI) and growth. They establish some new institutional measures and make extensive sensitivity tests. The endogenous variables are: GDP growth per person and net FDI inflow share. To explain the investment and growth the authors use two groups of exogenous variables: (a) concerning the institutions: rule of law, investment law, property rights, civil society; (b) control variables: GNP per person, share of value added in industry, gross secondary/tertiary school enrolment rate, export share, import share, liberalization index, private sector share, government consumption share and inflation rate. The results of the estimations for the transition countries

show a strong mutual connection between the quality of institutions and foreign direct investments (FDI). The institutional quality is more probable to be a source of growth, because the correlation is less mutually relevant. The significant statistical results obtained by Grogan and Moers (2001) show that an adequate institutional frame is more important than some 'classical' economic variables when explaining the growth and investment. Amongst the control variables, only the inflation rate and the liberalization index are robust and influence the growth rate in the expected direction. Multicollinearity problems complicate the estimation of the relative importance of macroeconomic stabilization and liberalization on institutions.

Another point of interest regarding the institutional frame of the transition countries is represented by its effect on the economic development throughout trade. Some studies explore the regression of GDP per capita on measures of institutional quality and market dimension by using the historical and geographical component of institutions and trade. In long term, these regressions can quantify the effects of trade and institutions on growth. The effect of property rights and rule of law on the investment and innovation predilection was explained by Frankel and Romer (1999). This predilection and implicitly the economic growth are also affected by the market size, which can be evaluated either by population or by access to foreign trade.

The partial effects of the institutions on trade and growth have been studied by Dollar and Kraay (2003), using cross-country regressions. They measure the institutional quality using an index of rule of law and protection of property rights created by Kaufmann, Kraay, and Zoido-Lobation (2002), covering 168 countries. The market size was quantified by the logarithm of population and the logarithm of trade as a fraction of GDP. The results obtained by Dollar and Kraay (2003) from the sample of the countries show that in the long run high-quality institutions and a higher trade share (% in GDP) determine a rapid economic growth. Because the quality of institutions and the participation in international trade are coming from historical and geographical factors, it is difficult to differentiate the effect of each one of them. The sample of countries used does not offer a sufficient variation for appreciating the relative importance of trade and institutional quality. In the short run the influence of trade on growth has a significant role, but the influence of the institutions is not confirmed. Table 1 provides several studies regarding subjects related to public institutions, mainly for the CEE countries.

TABLE 1 Overview on topics related to public institutions

Problem topics/authors	Related problem issues
Natural resources and social values	
Leite and Weidmann (2002)	• Connection between resource abundance – institutional variables – economic growth
Isham et al. (2003)	• Negative relation between resource abundance and economic growth
Bulte, Damania, and Deacon (2005)	• The resources – a robust negative impact on institutions
Putnam (1993)	• The social capital is the most important aspect of the economical modernization
Kunioka and Woller (1999)	• The social structure influences the citizens' preferences for a parliamentary or authoritarian government
Democracy and economic reform	
Roland (2000)	• Negative correlation between radical economic reforms vs. the development of the democratic regime
Cheung (1998)	• The introduction of democracy in an unstable stage of transition involves decline of the national output
Fidrmuc (2003)	• Democracy reinforces progress in economic liberalization, which in turn improves growth
Dethier, Ghanem, and Zoli (1999)	• Positive correlation between democratization and the evolution of economic liberalization

Continued on the next page

Financial Institutions

SIGNIFICANT ISSUES REGARDING THE FINANCIAL SYSTEMS IN TRANSITION

When transition countries began the process of political and economic liberalization at the beginning of the 1990s, they had to conceive their national financial systems. Several studies, such as those by King and Levine (1993a; 1993b), and Pagano (1993), show the existence of a strong positive relation between the characteristics of the financial system and economic growth. That is why the development of the financial system has become a top priority issue of the reforms that have taken place in transition economies.

The process of economic development depends on how the financial system is constructed. Generally, there are two main alternatives for the creation of the financial system: the market-oriented financial system and the bank-oriented system. Most transition economies from Central

TABLE 1 *Continued from the previous page*

Privatisation	
Fisher and Sahay (2000)	• Velocity and level of privatization: economic repercussions for competition and development
Goel and Budak (2006)	• The differences between large scale and small scale privatization between 1997 and 2001
Parker and Saal (2003)	• The factors of the level of privatization: economic conditions, government policies, exogenous factors
Djankov and Murrell (2002)	• A quantitative approach to enterprise restructuring in transition
Corruption	
Lizal and Kocenda (2001)	• A survey of the corruption problems in the Czech Republic
Cuervo-Cazurra (2008)	• Correlation between the type of corruption and FDI in transition economies
Emerson (2006)	• Models the quantity of industrial competition as a function of the quantity of corruption
Mauro (1995), Ades and Di Tella (1999), Treisman (2000)	• Empirical studies which support the main hypothesis that competition and corruption are connected
Influence of institutions on economic development	
Nelson and Sampat (2001)	• Expand the concept of institutions in order to analyse the economic performance and growth
Knack and Keefer (1995)	• Positive correlation between the measure of property security rights, investment and growth
Knack and Keefer (1997)	• Better institutions stimulate the level of investment
Brunetti, Kisunko, and Weder (1997a)	• Positive connection between institutional credibility and growth (sample of 18 transition countries)
Grogan and Moers (2001)	• Relation between institutions, foreign direct investment and growth (sample of 25 CEE countries)
Frankel and Romer (1999)	• The effect of property rights and rule of law on the investment and innovation predilection
Dollar and Kraay (2003)	• Long run high-quality institutions and higher trade share determine rapid economic growth
Kaufmann, Kraay, and Zoido-Lobation (2002)	• Measure the institutional quality using an index of rule of law and protection of property rights

and Eastern Europe opted for a bank-based system. Regarding the development of the financial system in transition countries, some specific issues must be taken into account, such as the role of stock markets in

the financial system, the importance of deposit insurance in securing financial system stability and the position of the central bank within the financial system (Hermes and Lensink 2000).

Stock Markets

A significant factor in the development of the financial system in transition economies is the regulation of stock markets, which can increase its efficiency. Some empirical studies (Levine and Zervos 1998a), proved that a strong financial system, with well performing stock markets, has a positive effect on economic development. The role of stock markets in promoting economic growth consists in the allocation of funds to investment projects that offer the maximum profit. Since stock markets supply liquidity insurance, they may help out more profitable long-term investments (Hermes and Lensink 2000).

The liberalization of capital control is significantly related to the stock markets issue in transition economies. Many transition countries maintained control over capital movements for a long time. Levine and Zervos (1998b) argue that the liberalization of capital flows may contribute to the expansion of stock markets, facilitating more liquid, more volatile and bigger stock markets. Their study indicates a positive relationship between liquid and bigger stock markets and durable economic development. The transition economies from Central and Eastern Europe have proceeded to a gradual liberalization of capital flows, and as of today they have managed to abolish capital control. As a consequence, the stock markets in these countries have expanded considerably and become more efficient.

Deposit Insurance

The role of the deposit insurance system consists in securing the protection of deposit holders against the risk of losing their financial savings and the protection of banks against the negative effect of runs on their liabilities. When depositors have some doubts regarding the safety of their bank, they may withdraw their deposits. The failure of a bank can be interpreted by the public as a signal of the weak financial situation of other banks and this may cause liquidity problems even for solvent banks. Deposit insurance aims to diminish the risk of strong banks being affected by the bad reputation of weak banks. When contagious bank runs becomes serious, it results in incredibly unsound financial markets and financial crises. The confidence of the public in banks can increase

through this mechanism because the entire or limited value of the deposit held at banks is guaranteed in the situation where the bank could not respect its payment obligations. Thus, deposit insurance may make a positive contribution to the safety of the financial system (Hermes and Lensink 2000).

The deposit insurance was not introduced in transition economies in Central and Eastern Europe from the beginning of the reform process. Given the fact that in the first years of transition some banks recorded financial crises and became insolvent, a lot of deposit holders lost their savings partially or entirely. Therefore, the public lost its confidence in the bank system in particular and in the financial system, in general. It became therefore necessary to implement the deposit insurance mechanism, although this was not an easy process. At the initial stage of the deposit insurance functioning, the guarantee value of deposits remained at a low level. At present, the extent of depositors' protection in these transition countries is similar to that of the countries of the EU.

Central Bank

Essentially, the main task of the central bank is to implement monetary policy. Moshirian and Szego (2003) consider that price stability represents the vital issue for an effective monetary policy. Price stability can be achieved by central banks through two different strategies: monetary targeting and inflation targeting. Recently, some transition countries from Central and Eastern Europe have adopted inflation targeting, namely the Czech Republic (1997), Hungary (2001), Poland (1998), Romania (2005) and Bulgaria (2006). Several studies have found that inflation targeting has a positive impact on the performance of inflation and output by reducing the anticipated level of inflation. Other studies argue that there is no clear proof to sustain the benefits of inflation targeting, despite the fact that their results do not offer arguments against inflation targeting either (Yifan 2003). Still, in all these countries, the inflation rate decreased after the implementation of this new strategy.

Central bank independence is another very important issue for transition countries, since an independent central bank can reduce inflationary pressures. Granting real independence to central banks in transition countries represents a complex process and requires the existence of a consistent legal and political infrastructure (Hermes and Lensink 2000). Concerning the meaning of central bank independence, we can distinguish different components. Grilli, Masciandaro, and Tabellini (1991) make a basic distinction between political independence (central bank's

ability to pursue price stability free from government's influence), and economic independence (central bank's ability to determine its policies towards the achievement of its objectives). Debelle and Fischer (1994) highlight the distinction between goal independence (central bank's ability to determine freely the goal of monetary policy), and instrument independence (central bank's freedom of choice and adjustment of instruments to achieve the goals set). Cukierman, Miller, and Neyapti (1992) distinguish between legal independence (various stipulations in the law of central bank), and actual independence (annual turnover rate of central bank's governor).

Another essential aspect is the role of central bank independence in reducing inflation. Some empirical research has provided evidence for the negative relation between central bank independence and inflation in developed countries. Other studies could not find evidence for such a relationship in the case of developing countries. Yet, there are some studies that reveal a negative correlation between central bank independence and inflation both in developing countries (Jacome and Vaszquez 2005) and in transition countries (Cukierman, Miller, and Neyapti 2000; Maliszewski 2000).

CREDIT MARKET

In the process of the development of the market economy, transition countries have chosen to create a bank-based financial system. Their bank system has been confronted with several problems, among which we notice a substantial utilization of collateralization in granting credits and a low degree of bank intermediation, measured as the share of domestic enterprise credit to GDP.

The bank intermediation recorded a low degree because of two important factors: banking sector concentration (Rother 1999) and deficient legal system (McNulty and Harper 2001). In the case of a flawed legal environment in transition economies, banks utilize collateral not only to resolve the issue of moral hazard but also to take out rents based on their market share. Collateralization may solve the problem of moral hazard since it diminishes the payoff in the situation of collapse and, consequently, determines the company to make effort (Bester 1994).

Empirical studies reveal that the likelihood of obtaining credit rises depending on the quantity of collateral offered by the company that requires a loan. The perfection of institutional environment may have as effect the decrease of collateral requisite, and, thus, the increase of bank intermediation. A perfection of the legal environment implies that more

credits are mortgaged than collateralized. Thus, the banks have less possibility to take out rents as the liquidation values of houses and flats are higher than those of other types of assets and vary much less. Therefore, the general requisite of collateral is reducing (Hainz 2003).

Even if almost all contract credits are collateralized, in transition countries banks have a large part of nonperforming loan in their portfolio, because of some problems, such as the difficulty of the collateralized assets evaluation, the possible disappearance of movable assets, and the imperfect functioning of secondary markets in the situation where the liquidation of collateral is necessary. Hainz (2003) finds some solutions to solve these problems. First, the accumulation of information provided by the balance sheet can simplify the assessment of collateralized assets. Furthermore, all people involved in the collateralization process need to be well qualified and the property rights to be clearly set. Second, the existence of collateral registers should supply information concerning the collateral assets and set priority of claims. Third, the formalities for seizing the collateral should be simpler and the laws related to collateral should be set clearly.

The high bank concentration in transition countries determines a lower bank intermediation, not because of a lower demand for credit due to the high interest rate, but rather because of the credit rationing (Rother (1999)). Banks apply credit rationing to avoid the adverse selection arising from asymmetric information concerning the company's assets attributable to the incomplete information provided by the companies' balance sheets. Therefore, the companies may hide assets by announcing less collateralized assets than they own in order to keep more rent. Thus, a low degree of a bank competition has two effects: (1) a large quantity of collateral required by banks, which leads to a considerable loss in the case of liquidation; (2) an increase in credit rationing, which has imposed in transition economies a constraint on successful corporate restructuring. This constraint can be reduced by the stimulation of competition between banks and the improvement of the institutional and legal environment (Hainz 2003).

CONSOLIDATION AND INTERNATIONAL INVESTMENT IN FINANCIAL SERVICES

In the last two decades, at the global level, some important progress has been made in the development of the financial system, e. g. the consolidation of the financial system due to the mergers and acquisitions, the

expansion of foreign investments in the financial system, and the globalization of the financial system. Despite the fact that these phenomena are just recent manifestations in the transition countries, they will affect the future development of the financial system in these economies.

Mergers and Acquisitions in the Financial System

Recently, there is a worldwide tendency for the consolidation of the financial system. In the developed countries, mergers and acquisitions have developed at a sustained pace, which may constitute an answer to the financial crises in other countries, including the transition countries.

Berger, Demsetz, and Strahan (1999) think that consolidation has as a major incentive the maximization of shareholder value through mergers and acquisitions mainly by increasing the participating company's market power in establishing prices or by becoming more efficient. In some cases, the institutions implied in mergers and acquisitions may be interested in heightening their possibility to benefit from the government's financial safety network (deposit insurance, discount window access, payments system guarantees).

The stakeholders other than shareholders, particularly managers and governments, may also be motivated in the consolidation. First, managers can be concerned about their own financial advantages in consolidation decisions since executive compensation is proportional to the size of the financial organization. Nevertheless, Hadlock, Houston, and Ryngaert (1999) indicate that management with large ownership stakes could obstruct exterior acquisitions, especially when managers of the banks quit following an acquisition. Secondly, the position of a government in consolidated decisions consists in its possibility to restrict the type of mergers and acquisitions allowed (by imposing different limits and by approving or rejecting decisions for individual mergers and acquisitions) or to support mergers and acquisitions (especially in times of financial crisis, when it may offer financial support in the consolidation of financial institutions threatened by bankruptcy (Berger, Demsetz, and Strahan 1999).

The pace of consolidation is influenced by the changes in economic environments that modify the constraints, which the financial institutions must deal with. A study by Berger, Demsetz, and Strahan (1999) provides five relevant issues, which explain the current pace of mergers and acquisitions:

1. Technological progress can facilitate the appearance of innovative

instruments of financial engineering, new delivery modalities for depositor services or development in payments technology, which small financial institutions can benefit from at a low cost.

2. Improvements in financial conditions may increase the activity of mergers and acquisitions in the banking sector through low interest rate and high stock price environment.
3. Excess capacity or financial distress in the industry or market can be solved with the support of consolidation more efficiently than by bankruptcy or other means.
4. International consolidation of markets can generate demands for currency, credit, deposit and other services by international financial services providers, and therefore may favour the creation of cross-border mergers and acquisitions.
5. Deregulation of geographical or product restrictions can lead to a rise in the number of mergers and acquisitions after the countries permit interstate branching in most states.

Consolidation has several effects on multiple planes. As direct effects of consolidation we notice the increase in market power or the improvement of institution efficiency implied in mergers and acquisitions. As a potential indirect effect of mergers and acquisitions we mention the decrease in the accessibility of financial services to small clients, as the powerful institutions created by consolidation are able to offer wholesale financial services or they might close some of their branch offices.

Berger, Demsetz, and Strahan (1999) consider that mergers and acquisitions may determine as potential systemic consequences an increase in the payment system efficiency, due to the decrease in the quantity of payment information and instruments, which must be processed and transferred among the financial services providers, since the payments are internal and do not need inter-bank transfers. Moreover, the financial service industry could accelerate the implementation of electronic payments technologies. Countries with a more consolidated banking sector utilize the electronic payment system to a larger extent, given the greater easiness in agreeing on payment standards and common technology and the utilization of centralized account information (Humphrey, Pulley, and Vesala 1996).

Consolidation may also affect the safety and soundness of the financial system owing to the decrease of costs demanded by a heightened systemic risk (through risks diversification and the supervision of a smaller

number of financial institutions) or by an improved financial safety network. Finally, external effects of mergers and acquisitions are likely to appear, given the reaction of other rival institutions that may be tempted to develop their activities in the sectors abandoned by the consolidating institutions (Berger, Demsetz, and Strahan 1999).

Similar benefits and costs could be forthcoming from mergers and acquisitions that will occur in transition economies, especially those from Central and Eastern Europe. The enlargement of the European Union and, in future, of the Monetary Union with the transition countries can stimulate more cross-border mergers and acquisitions to appear, given the expansion of trade, the reduction of currency exchange costs supported by the financial institutions which activate in multiple states, and the reduction of costs paid by customers for the services of foreign-owned institutions.

Foreign Investments in the Financial System

Another global tendency manifested even in transition countries is represented by international investment in financial services in general and in the banking sector in particular. The worldwide movements towards financial deregulation, the progress in information technology and telecommunications, and the capital market globalization have stimulated foreign direct investment (FDI) in the banking system. Moshirian (2001) divides foreign investors in overseas banking, including transition countries, into at least three important groups:

1. Banks that set their branches, agencies, and subsidiaries in a foreign country.
2. Banks that do not open any physical office in a foreign country but are shareholders of foreign banks.
3. Non-bank corporations, institutions, and individuals who invest in foreign banks.

Some studies (Lizondo 1990; Moshirian 2001) show that FDI in banking is influenced by several factors, such as:

1. *Bank's foreign assets.* Empirical results of Moshirian (2001) indicate a positive relationship between the bank's foreign assets and foreign direct investment in banking. It is supposed that FDI in banking grows with the expansion of the international lending activities of banks.

2. FDI *in non-finance industry.* Gray and Gray (1981) suggest that FDI in banking is positively related to FDI in other industries. So, there is complementarity between FDI in banking and FDI in other manufacturing sectors.
3. *Bilateral trade.* Agarwal (1980) reveals a positive relationship between FDI in banking and bilateral trade. This means that FDI in banking increases with the expansion of bilateral trade.
4. *The size of the market in the host country.* O'Sullivan (1985) claims that the size of the host country's market represents one of the major factors of FDI. This implies that the number of potential new customers increases with the enlargement of the foreign banking market.
5. *Relative economic growth.* Sabi (1988) finds a positive relationship between economic growth and FDI in banking. The strong economic development in a host country is contributing to the expansion of FDI in banking in that country.
6. *Cost of capital differential.* Moshirian (2001) demonstrates that the cost of capital differential for banks between investors' countries and host countries is negatively correlated with the FDI in banking abroad. A bank with an effective and competitive cost of capital structure may be more successful when it enters into the foreign banking markets.
7. *Exchange rates.* Froot and Stein (1991) show a negative correlation between the value of host countries' currency and FDI in banking in these countries. The host countries' currency depreciation relative to foreign investors' currencies is likely to amplify the FDI since it becomes cheaper for foreign investors to invest in host countries.
8. *Tax regime.* Moshirian (2001) argues that the tax regime applied in a country may or may not attract foreign investors. To attract more FDI in banking, the host countries' governments can take initiative for deregulating the domestic financial market.

Taking into consideration the more facile access of foreign investors to the transition countries' market and its big potential, the relative economic growth, the low cost of capital, the fast expansion of the domestic banking market and the deregulation of the financial market recorded recently in transition economies, we can expect that foreign investors may increase their investments in the financial system in these countries, especially in banking.

Globalization in the Financial System

The government-led system design after the second war was replaced by a much more powerful system – the market-led system – due to the growth in the movement of private capital in the developed countries and to the emerging markets, the gradual deregulation of the financial markets, the increased importance of the private sector and multinational corporations in development of the economy. The innovations in the financial instruments and the deregulation of the financial system that have occurred in the latest decades have stimulated the process of globalization and the integration of the financial markets. The globalization of financial markets has resulted in the expansion of multinational banks abroad, which compete with the source countries' banks and therefore promote the process of financial markets integration (Moshirian and Szego 2003). Even in the transition countries we can notice the expansion of multinational banks that have managed to gain an important position in these countries' markets.

Since the bank system cannot be fully globalized, given the fact that national banks could basically offer some services to host companies all the time, an important question that arises with respect to globalization in the financial system is to what extent the banking sector will be globalized. An empirical study (Berger, Demsetz, and Strahan 1999) on this issue makes a distinction between two dimensions of globalization – bank nationality and bank reach. This study shows that the affiliates of multinational companies prefer host nations' banks for cash management services more frequently than home nation or third country banks. It also indicates that bank nationality and bank reach are considerably correlated and both differ to a large extent depending on the legal and financial development of the respective country. The conclusion is that globalization of the banking system may be limited in the future since a lot of companies would rather resort to local or regional banks for some of their services.

Conclusions

The topic of institutions in transition countries has become a significant research domain within economics. Over the last two decades, numerous academic studies have been dedicated to this theme particularly for Central and Eastern Europe.

The conversion towards a democratic system and an efficient economy was made in different ways and with different speeds from one country to

another. Several studies have revealed that the social and economic factors jointly have determined the behaviour of the nations in this process. There is negative relation between resource abundance and economic growth especially when the control of the institutional quality is not appropriate. The policy improvements are less effective within the countries with poorer institutions but rich on resources. Some authors consider the social capital the most significant aspect of the economic reconstruction. The results based on empirical studies show that the variables linked with the social capital are more representative than the economic ones.

In the countries from Central and Eastern Europe the transition is characterized by the synchronized evolution of democracy and the economic reform. Using a sample of transition countries it was proved that there is a robust positive relationship between democracy, economic liberalization and growth. The velocity and the level of privatization have essential economic consequences for competition and economic development. In the economic literature, there has been in the last decade a renaissance of interest regarding the influence of institutions on growth. From a sample of countries it was shown that in the long run, high-class institutions and a higher trade share decide a rapid economic growth. The transition countries represent an attractive market for foreign direct investments. In order to take advantage of this situation the governments must create a better institutional framework by trying to reduce the corruption, because of its negative impact to FDIs and economic growth.

The bank-oriented system adopted by the transition economies must be completed by the liberalization of the stock markets, due to their positive influence on durable economic development. The ex-communist European countries had gradually liberalized the capital flows and now the capital control was eliminated. The liberalization led to significantly larger, more efficient and liquid stock markets.

The deposit insurance was not introduced in transition economies from the beginning of the reform process. At present, the extent of depositors' protection in these countries is similar to that of the old members of the European Union.

In transition countries, there is a high degree of bank concentration, which determines a lower degree of bank intermediation. A low degree of bank competition has two effects: a large quantity of collateral required by banks and an increase in credit rationing which imposes a constraint on successful corporate restructuring. This constraint can be reduced by

the encouragement of competition on the banking market and the upgrading of the institutional environment.

The supporting of mergers and acquisitions may represent for the governments the answer to the financial crisis, bringing benefits such as: consolidation of financial institutions threatened by bankruptcy, increase in the efficiency of the payment system and expansion of trade.

The international investment in financial services in general and in the banking sector in particular is a global tendency manifested even in transition countries. We can expect that foreign investors may increase their investments in the financial system, especially in banking, in countries from Central and Eastern Europe.

Future researches may be focused on the theoretical modelling and estimation of the relations between: (a) the costs implied by better institutions, lower levels of corruption, better social values, on one side, and (b) the amount of foreign direct investments, the rhythm of the economic growth, on the other side.

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The Personal Network of the Owner-Manager of a Small Family Firm: The Crucial Role of the Spouse

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The paper investigates the personal network of an entrepreneur that owns a small family venture. The aim of the present paper is to examine the role of the spouse in the family firm's networking. The research results show that the entrepreneur's wife has a significant influence on the family firm's network performing. She is present in all cliques that are formed in the entrepreneur's network, which allows her to obtain information from different sources, and to influence the decision making process in the network. She is also well connected with other network members, and is crucial in the resource-information acquisition process for the entrepreneur's firm. Furthermore, her central position in the network's structure gives her the power to reach other network members more quickly. She can reach other persons at shorter path distances than the entrepreneur or other members, and is therefore an important information provider for the entrepreneur's network. The key contribution of this paper is the finding that the spouse can be as important as or even more important than the entrepreneur in the resource and information provision for the firm.

Key Words: entrepreneur, personal network, family firm, resource acquisition, information acquisition
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Introduction

The entrepreneur's personal success and the success of their firms are often attributed to personal relationships or social networks. Burt (1992; 1997) referred to social networks as a form of social capital comparable

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to human capital. While human capital can be considered as the range of valuable skills and knowledge a person has accumulated over time, Meyerson (2000, 289) defined social capital as 'the array of valuable relationships someone has accumulated over time' that gives a person access to the valuable resources embedded in their personal relationships (Lin 1982). The role of networks in the activities of individuals and organizations has its foundation in the idea of embeddedness (Granovetter 1992). Social networks have the ability to facilitate or constrain the activities of persons who are embedded in the network. Network perspective can be important for entrepreneurs (individual level) and their firms (organizational level) (Antoncic 1999; Hoang and Antoncic 2003; Ruzzier and Antoncic 2007). Personal networks consist of persons with whom an entrepreneur has direct relations (Dubini and Aldrich 1991), and are considered to be more than the sum of individual connections that form the network (Aldrich and Zimmer 1986). Different sub-networks can represent the overall social network based on the content of ties (Brass 1992).

The paper investigates the issue of personal networking of an entrepreneur who owns a small family venture. The aim of the paper, and its key research contribution, is to examine the role of the spouse in the family firm's networking. Principal goals of the paper are to present structural characteristics of the entrepreneur's personal network, separately analyze the characteristics of the entrepreneur's personal subnetworks (resource acquisition network, information acquisition network, network of friends), and examine the role of the spouse in the family firm's networking.

In the following sections theoretical foundations are presented, research methods are described, findings are discussed and conclusions are drawn.

Theory

The entrepreneur, when seeking to achieve his personal and career goals, is in constant interaction with the environment. Therefore, the entrepreneur can not be treated as a rational decision maker isolated from others. Daily the entrepreneur has contacts with his or her family members, friends, employees, business partners, advisers, etc. These persons form the entrepreneur's personal network, which is considered to be one of the most important sources for the entrepreneur's firm. Through his or her personal network the entrepreneur has the access to many valuable resources (material, financial, human), information, advice and

emotional support. Particularly the entrepreneur's relatives are considered to be the most trustworthy network members.

A research into the business elite in Antwerp during the first half of the nineteenth century brings some evidences about the great influence of family members in entrepreneurship. The relatives played a key role in business life, and therefore were often present in the entrepreneur's personal network. The main reasons could be their skills, preparedness to work, and willingness to invest their capital. By having family members in the personal network the risk of doing business is reduced, and also the transaction costs are reduced. Further, family members are trustworthy, and they usually share the same culture and ethic at work (Rose 1995). Prior (1986) emphasizes that by marrying local girls the migrants became embedded in local business networks, which facilitated both their assimilation and the development of their careers. Hall (1992) affirms that through his wife the entrepreneur can expand his personal and business contacts, and therefore has access to a greater amount of information. Quite obviously, having family members in the personal network brings some advantages to the entrepreneur and his or her firm. The research question asking if there are some differences in performance among firms that include a greater number of family members and those that do not has attracted the attention of many researchers.

With regard to the above, in the past decade there have been conducted many studies about family business, some of them on copreneurship (Barnett and Barnett 1988; Smith 2000; Tompson and Tompson 2000; De Bruin and Lewis 2004; Millman and Martin 2007) and on the performance differences between family firms and non-family firms (Reid et al. 1999; Reid and Adams 2001; Brunninge and Nordqvist 2004; Ibrahim et al. 2004; Kotey 2005; Perez de Lema and Durendez 2007).

Several differences in performance characteristics between family firms and non-family firms have been identified (Ibrahim et al. 2004; Kotey 2005). For example, family firms have the benefits of higher gross margins and benefits from the support of the informal system, which is not a characteristic of larger firms or non-family firms (Kotey 2005). Further, a considerable number of family firms is lifestyle-firms. The main purpose of a lifestyle firm are to support the family (Reid et al. 1999). Other characteristics of family firms are family ownership, the involvement of family members in the decision making process, informal management style, and a considerable number of family members employed in the firm (Kotey 2005). An important quality of family firms

is thus the network of family contacts, which represents a useful source of information (Hoy and Verser 1994 in Cromie and O'Sullivan 1999). The family involvement in a firm has therefore a strong influence on the firm's performance and organizational behavior (Cromie and O'Sullivan 1999). The latter is evident from the management style of family firm's owners, which beside the firm's objectives takes into consideration also the family needs and objectives. Management style is therefore more informal (Daily and Dollinger 1993 in Kotey 2005). As a result, family firms tend to have a dual identity, which is present in the strategic decision making process. Firstly, there is a tendency to serve the family needs, and secondly a tendency to serve the business goals (Ibrahim et al. 2004). On the other hand, family firms frequently adopt more conservative strategies, particularly in the early stage of their life cycle. Frequently, family firms tend to maintain tight control of the strategic decision-making process within the family unit. As a result, in order to maintain the control within the family members, the owners often restrict the firm's growth and employment. Another characteristic of family firm's managers is smaller devotion to strategic planning and human resource management. Selecting and compensating employees in family firms are more complicated than in non-family firms, mainly due to the overlap of business and family needs (Perez de Lema and Durendez 2007; Reid and Adams 2001).

There is some evidence that family members of family firms are more privileged at work in comparison to non family personnel. With regard to their constant exposure to the family business they have a greater understanding of the business, and therefore have some advantages in developing their career (Cromie and O'Sullivan 1999). Furthermore, there is a greater commitment to the family culture. There is also evidence of less rigorous criteria to evaluate the performance of family members as employees (Kets de Vries 1993 in Cromie and O'Sullivan 1999). On the other hand, family members involved in the family business are supposed to make some sacrifices. In particular, the involvement of both the entrepreneur and his spouse takes a lot of their time, which could be otherwise spent with their families. Therefore, there exists a conflict between business interests and family interests (Liang and Dunn 2002). Further, family members are exposed to some risks. For example, the uncertainty of future income, the fear of losing capital, and as a result the higher stress among the family members (Scarborough and Zimmerer 1999 in Liang and Dunn 2002).

Another research area that has attracted the interest of many researchers is the involvement of women in entrepreneurship. Their high involvement in the sphere of business, particularly at the end of the twentieth century, brought many studies (Brindley 2005; Moore, Grunberg, and Greenberg 2005; Loscocco and Smith-Hunter 2004; Winn 2004; Orhan and Scott 2001; Cromie and O'Sullivan 1999). Nowadays women family members in family firms are taking more management responsibilities than ever. According to their skills and experiences they successfully complement the owner manager's skills. There is evidence of benefits associated with working in a more female dominated environment and also with having a female supervisor; there is a higher level of social support at work, job autonomy, less depression and lower levels of work – to – family conflict (Moore, Grunberg, and Greenberg 2005). Further, women managers in family firms are more successful in coordinating their family and business life, and have some privileges in developing their career inside a family firm than outside. The reason may be the absence of gender discrimination in the family firm, which could be otherwise present on the labor market. Therefore, women who are managers in their own family firms have advantages compared to woman managers in non-family firms (Cromie and O'Sullivan 1999). There is also evidence that women engaged in home-based business ownership experience less work – to – family conflict than women who are not engaged in home-based business ownership (Loscocco and Smith-Hunter 2004).

With regard to the involvement of both husband and wife in entrepreneurship, different researchers have started to direct their attention to family business, in particular to copreneurs and copreneurship (Barnett and Barnett 1988; Smith 2000; Tompson and Tompson 2000; Fitzgerald and Muske 2002; De Bruin and Lewis 2004). In these research studies family business is defined as business owned or managed by one or more family members (De Bruin and Lewis 2004), while copreneurship as a kind of entrepreneurship in which couples share the ownership in a business, and try to manage both the business relationship and the personal relationship. The latter requires a lot of devotion and sacrifices from both of them. Without regard to this research, De Bruin and Lewis (2004) stress the fact that familial entrepreneurship is under-researched and therefore there does exist the need for future research.

With this study we wish to examine the role of the spouse in the entrepreneur's personal network. By analyzing the structural characteristics

of the entrepreneur's personal network we investigate, which is the role of the entrepreneur's spouse in the family business. The key research question of this paper is: What is the role of the entrepreneur's spouse in the entrepreneur's personal network? We examine this question by exploring a case of a family firm entrepreneur's network structure.

Methodology

RESEARCH SETTING

The entrepreneur's small family firm was established in the late 1980s, and operates in the telecommunication industry. There were 165 enterprises operating in the Slovenian telecommunication industry in 2005. The firm is a small firm with a little more than 10 persons employed in the firm. The average rate of growth of employees was about 12% in 2005; meanwhile, the average rate of growth of total revenues was about 25%. The firm's profit was estimated at about EUR 500,000 in 2005. The entrepreneur was asked in a questionnaire to evaluate on a scale from 0 (not satisfied) to 7 (very satisfied) his satisfaction with the firm's amount of sales, firm's profit and his satisfaction in general. Although the business performance is not above the average results of the industry, the entrepreneur affirms that he is satisfied with the performance and the growth of the firm (the entrepreneur estimated his satisfaction with the amount of sales as 7, the firm's profit as 5, and his satisfaction in general as 6). The performance of the firm is consistent with the objectives of the entrepreneur. Thus, the entrepreneur's firm can be classified as a lifestyle firm. A lifestyle firm is usually privately held and has some specific characteristics. One of the most important characteristics is its modest growth, which is partly a consequence of the limited money invested in research and development, and partly because of the objectives of the entrepreneur. The main purpose of a lifestyle firm is to support the owners. Therefore, the growth and the expansion of the firm are usually not the main strategic orientations adopted by the entrepreneur (Hisrich and Peters 1998). These characteristics can also be recognized as characteristics of the firm from this research.

DATA COLLECTION

The research is based on the interview data collected about the entrepreneur's ego centered resource (material, financial, and/or human resources) acquisition network, information acquisition network and network of friends. The data collection technique used was a questionnaire. The entrepreneur was asked to list to ten persons for each network

with whom he had direct personal relationships and who have been most important for the entrepreneur's firm. The entrepreneur and these persons were used as rows and columns for the composition of a relationship matrix for each of the sub-networks. The entrepreneur was then asked to evaluate on a scale from 0 (not important) to 10 (very important) each person's importance as a resource provider, an information provider and as a friend, as well as the perceived importance of each person for all other persons in the matrix. The entrepreneur was also asked to provide some additional information about himself (mostly demographic data), about the firm (age, size, industry, growth), and about each person in the network (frequency of interaction, friendship).

The entrepreneur named eleven persons as members of his personal network. In order to receive further information about the entrepreneur's personal network we elaborated the combinations of the three entrepreneur's personal sub-networks. Therefore, we could operate with seven different entrepreneur's personal networks (resources acquisition network, information acquisition network, network of friends, resources-information acquisition network, resources acquisition network and network of friends, information acquisition network and network of friends, resources-information acquisition network and network of friends).

METHODS OF DATA ANALYSIS

All seven networks were separately analyzed with methods of social network analysis. Firstly, we examined the entrepreneur's ego centered networks, which include the entrepreneur as the most central person, and secondly we analyzed the networks without the entrepreneur. Thus, we could find out who is the most important person within the entrepreneur's personal network.

The collected data were analyzed with the program Ucinet 6 for Windows (Borgatti et al. 2002). In order to present the research results in a more understandable way, the estimations were made with the binary type of data (and not with the data valued from 0 to 10). Ucinet 6 is a software for social network analysis. The latter can be defined as a set of methods for the examination of the structure of social relationships within a group. The purpose is to uncover the informal connection among social entities. Social network analysis is an important tool that helps one to understand connections between patterns of interaction and business performance (Ehrlich and Carboni 2006). These are

not individual entities and their attributes under investigation but the relationships among them.

The social network analysis requires a specific vocabulary, hence it is important to know the meaning of its concepts. The network represents a group of social entities and the linkages existing among them. Social entities in the network could be individuals, families, nations, organizations, departments of organizations, etc. From the point of view of social network analysis, social environment can be understood as patterns of relationships among interacting entities, while the structure of a network can be understood as a presence of regular patterns in these relationships. Social entities are linked to each other by relational ties, which can be affective, political, economic, religious, biological etc. The relation linkages among entities in a network have critical roles of channels, through which the flow of information, resources, support and advice can be transported (Wasserman and Faust 1994).

In this paper, only selected concepts of social network analysis were analyzed. The first one is network *density.* The density can be defined as the proportion of relations that are actually present in the network relative to the total number of possible relations. Estimating the density of the network represents the first step towards analyzing the social structure of the network under investigation. The density gives information on how cohesive and homogeneous is the network as a whole. The higher the density, the more connected are the actors of the network to each other (Martino and Spoto 2006). In order to measure the density, it is necessary to estimate the actual number of relations in the network and the theoretical maximum number of relations that could be present if each person were connected to all other persons in the network. Supposing, that there are G persons in the network, each person can be connected to $(G - 1)$ other persons. Thus, there can be $G(G - 1)$ possible pairs of persons. Therefore, the maximum number of relations that can be present in a network is equal to half of the total number of possible pairs of persons in the network: $G(G - 1)/2$. Supposing that the number of existing relations in the graph is L, then the formula to calculate the density is next (Wasserman and Faust 1994):

$$D = \frac{L}{\frac{G(G-1)}{2}} \tag{1}$$

When there is no connection among the members of the network,

which means that $L = 0$, the density is 0. On the contrary, when there are all possible relations present in the network ($L = G(G-1)/2$), the density is equal to 1. Thus, the interval of possible values of density is from 0 to 1.

The next concept of social network analysis used in this research is *reachability.* A person is reachable by another person when there is a set of connections through which a person can come from the 'source' person to the 'target' person (Hanneman 2006).

Another concept analyzed in the research is *centrality.* The centrality of a person within the network gives us the information on its structural importance. The purpose of analyzing the centrality is therefore to identify the most important person in the network. The assumption is that the most central person is the most powerful, and has the most strategic position inside the network. There are three different measures of point centrality that differ by the criteria used to measure point centrality: degree centrality, closeness centrality and betweenness centrality. The approach based on the point *degree* has the supposition that persons with higher degree, which means that they have more direct ties, are more powerful. The reason for their power is their autonomy inside the network, because they have more opportunities to gain information, more choices, and are not so dependant on other persons. The next approach, based on *closeness,* affirms that persons that can reach other persons at shorter path distances, and at the same time are also reachable by other persons at shorter path distances have more power. The third approach is based on *betweenness.* The latter concept means being between other persons, which gives to the person in between the status of being a broker. This person has the power to accelerate, slow down or even prevent the flow of information and resources. Although each of these three approaches has its own measure, they all have the same aim, which is to disclose how close are network members to the center of the action in the network (Izquierdo and Hanneman 2006).

Through the methods of social network analysis we also analyzed if there were any cliques in the personal network of the entrepreneur. A *clique* is defined as a sub-set of persons in which every possible pair of persons is directly connected by a relation. Each person is in reciprocal relation with all other persons in the clique (Scott 1991).

Findings

The research results will be discussed for each personal network of the entrepreneur separately. In order to find out the most central person

within the members of the entrepreneur's network, we will discuss the results also for networks in which the entrepreneur is not taken into consideration (networks without the entrepreneur).

The entrepreneur listed four persons in his resource acquisition network (see figure 1). These persons are resource providers for the entrepreneur's firm. As information and advice providers the entrepreneur listed six persons. Thus, the information acquisition network includes six different persons (see figure 2). The third personal network, which is the network of friends, comprehends three persons (see figure 3). There was an overlap in listing persons; Persons 1 and 2 were named two times. Firstly, the entrepreneur named them as resource providers for the firm, and secondly as information providers. Therefore, the entrepreneur listed altogether eleven different persons. Persons 1, 3 and 4 are entrepreneur's relatives. Person 1 is the entrepreneur's wife. The entrepreneur described Person 1 as formally connected to the firm, which means she could be both an employee and firm's owner. Person 3 is the entrepreneur's brother, while Person 4 is the entrepreneur's daughter. Both are important as resource providers for the firm, and are not formally connected to the firm. Persons 5, 6, 7 and 9 are employed in the firm, but are not in relation with the entrepreneur, while Persons 2, 8, 10 and 11 are nor formally connected to the firm, neither in relation with the entrepreneur. The research results indicate a strong connection between the entrepreneur and Persons 1, 6 and 7. Their importance as resource and information providers for the entrepreneur's firm is very high.

In the entrepreneur's resource acquisition network the entrepreneur and Person 1 are the main resource receivers (degree centrality; tables of results of these and other calculations are not shown due to the limited length of the paper). The entrepreneur is a resource provider for three persons, while Person 1 (entrepreneur's wife) is a resource provider for two other network members. When investigating the network without the entrepreneur, Person 1 is the main resource receiver (highest degree centrality). With regard to closeness and betweenness centrality the entrepreneur is the most central member of the network. The latter is a consequence of the entrepreneur's ego centered network methodology. There are three cliques formed in the network. Each clique includes the entrepreneur and Person 1. In the resource acquisition network in which the entrepreneur is not considered, no cliques are found. The density of the network is higher in the network which includes the entrepreneur than it is in the network without the

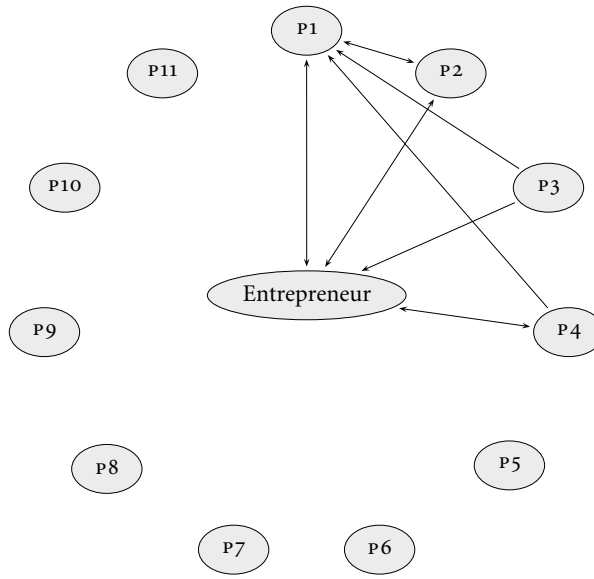

FIGURE 1 Resource acquisition network

entrepreneur. This finding is the same for all examined sub-networks, because of the methodology used in the study (entrepreneur's ego-centered network methodology). The entrepreneur, Persons 1, 2 and 4 are the most reachable persons in the network, while Persons 1 and 2 are the most reachable persons in the network without the entrepreneur.

The entrepreneur and Person 1 have the highest indegree centrality in the entrepreneur's information acquisition network (see figure 2). The latter indicates that the entrepreneur and Person 1 are the most important information receivers for the firm. Person 1 is also the most important information provider. In the information acquisition network, in which the entrepreneur is not considered, Person 1 has the highest degree centrality. Therefore, the most important information provider and receiver for the entrepreneur's firm is the entrepreneur's wife. While the entrepreneur has the highest closeness centrality, Person 9 is the second most central person regarding closeness centrality. Person 1 has the highest betweenness centrality in the entrepreneur's network. Therefore, she has the power to speed up or hinder the flow of information among the network members. Three cliques are found in the information acquisition network, in which Person 1 is always included, even when the en-

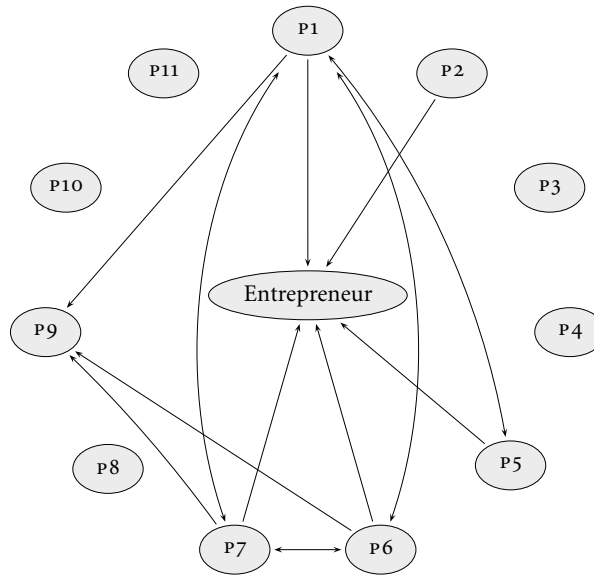

FIGURE 2 Information acquisition network

trepreneur is not. Thus, Person 1 has a strong influence on the decision making process within the network. Person 9 is the most reachable person in the information acquisition network without the entrepreneur.

The highest degree, closeness and betweenness centrality in the entrepreneur's network of friends is held by the entrepreneur (see figure 3). There are no relational ties among the members of the entrepreneur's network of friends, hence there are no cliques found in the network. Further, the density of the network in which the entrepreneur is excluded is 0. Therefore, no one from the network can be reached by any other person, except by the entrepreneur.

In the entrepreneur's resource and information acquisition network Person 1 has the highest degree centrality (see figure 4). This indicates that Person 1 is the most important resource and information provider and receiver for the entrepreneur's firm. Person 1 is even more important than the entrepreneur. Person 9 has the highest closeness centrality, while the highest betweenness centrality is reached by Person 1. The entrepreneur's wife is positioned between other network members, and therefore has the power to influence the flow of information and resources. She can accelerate, slow down or prevent the flow of information. There are 6 cliques in the network. Each clique includes Person 1,

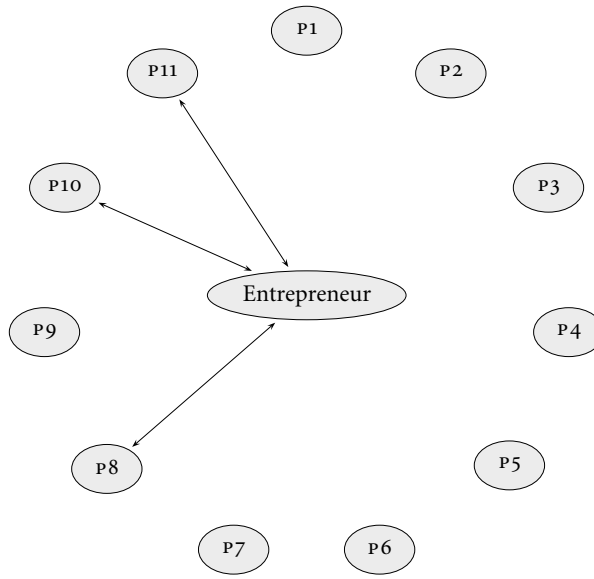

FIGURE 3 Network of friends

which gives her the power to influence other network members. Person 9 is the most reachable person in the network in which the entrepreneur is not included.

In the combination of the resource acquisition network and network of friends the entrepreneur has the highest degree centrality. When analyzing the network without the entrepreneur we found out that the highest degree, closeness and betweenness centrality is reached by Person 1. Three cliques are formed in the network with the entrepreneur. All three cliques include the entrepreneur and Person 1. In the network, in which the entrepreneur is not present, there are no cliques. Thus, the entrepreneur is the only connection among the network members. Persons 1 and 2 are the most reachable persons in the network in which the entrepreneur is not taken into consideration.

In the combination of the information acquisition network and network of friends the entrepreneur has the highest indegree centrality, while the person with the highest outdegree centrality is Person 1. The entrepreneur has also the highest betweenness and closeness centrality in the network. In the network, in which the entrepreneur is not taken into consideration, Person 1 has both the highest indegree and the highest outdegree centrality. Furthermore, Person 1 has the highest between-

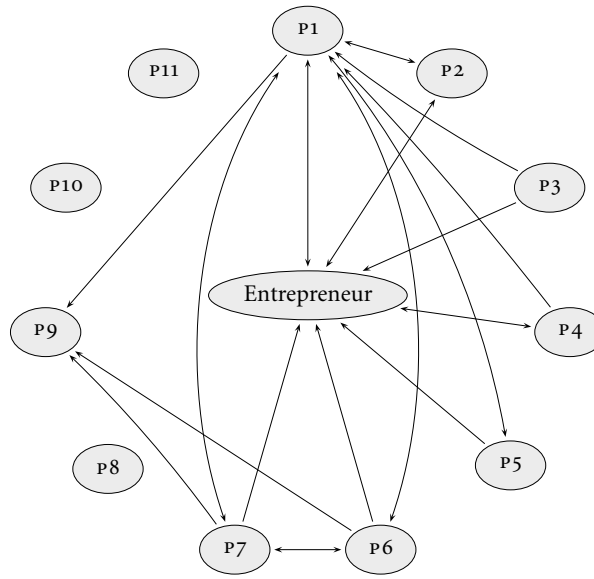

FIGURE 4 Resource and information acquisition network

ness and outcloseness centrality, while the highest incloseness centrality is reached by Person 9. There are three cliques present in the entrepreneur's network. Person 1 is included in every clique, even when the entrepreneur is not included. The latter indicates that Person 1 has direct or indirect contacts with many network members, independently of the presence of the entrepreneur. Beside the entrepreneur, Person 9 is the most reachable person in the entrepreneur's network.

The last analyzed entrepreneur's network is represented by the combination of all three entrepreneur's personal sub-networks, which are the resource acquisition network, information acquisition network, and network of friends (see figure 5). Regarding degree centrality, both the entrepreneur and Person 1 have the highest outdegree centrality in the network. The entrepreneur reaches also the highest indegree, closeness and betweenness centrality. When the estimations are made for the network, in which the entrepreneur is not considered, Person 1 (the wife) has the highest degree, betweenness and outcloseness centrality. While the highest incloseness centrality is reached by Person 9. There are six cliques found in the network. Person 1 is present in every clique, even when the entrepreneur is not included. The research results indicate that the entrepreneur is the most reachable person in the network, while Person 9

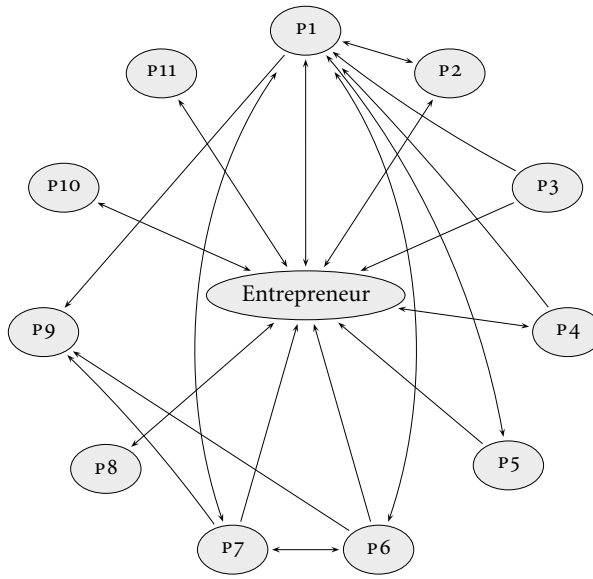

FIGURE 5 Resource-information acquisition network and network of friends

is the second most reachable person in the network. The findings are summarized in table 1.

Conclusion

The personal network of the entrepreneur who owns and manages a small family venture was examined in this paper, with a special emphasis on the role of the spouse in the family firm's networking. The findings indicate that the entrepreneur's wife has a significant influence on the family firm's network performance. She is present in all cliques that are formed in the entrepreneur's network, which allows her to get information from different sources and to influence the decision making process in the network. She is also well connected with other members of the network and is crucial in the resource and information acquisition process for the entrepreneur's firm. Furthermore, her central position in the structure of the network gives her the power to reach other network members more quickly. She can reach other persons at shorter path distances than the entrepreneur or any other network member, and is an important information provider for other members in the entrepreneur's personal network.

Overall, the findings point to the importance of the spouse in the fam-

TABLE 1 Summary of the findings about the entrepreneur's personal network

Personal sub-network	Key findings
Resource acquisition network	The entrepreneur's wife is the most central person in the entrepreneur's network. She has the highest degree, closeness and betweenness centrality within the network members, and is also one of the most reachable persons within the network. She is the most powerful member of the network, and has the most strategic position inside the network.
Information acquisition network	The entrepreneur's wife is the most important information receiver and provider, and has the power to accelerate, slow down or prevent the flow of information among the network members. She is present in all cliques that are formed within the network, which gives her the power to influence the decision making process.
Network of friends	The entrepreneur's personal network includes three different persons. The members within the network are not connected to each other. Their only point of connection is the entrepreneur; therefore the members are disconnected without the entrepreneur. Thus, there are no cliques inside the network.
Resource and information acquisition network	The entrepreneur's wife is the most important resource and information provider and receiver in the network. Thus, she is even more important in the process of information and resource acquisition than the entrepreneur. She is positioned between other network members, which gives her the power to influence the flow of resources and information.

Continued on the next page

ily firm's networking. The key contribution of this paper is the finding that the spouse can be as important as or even more important than the entrepreneur in the resource and information provision for the firm. However, such finding is usually not visible in formal enterprise structures. It can only be found through a thorough analysis of the structure of the entrepreneur's personal network.

The research results suggest some implications for practice and future research directions of entrepreneurial networks. The investigation of the overall structure of the entrepreneur's personal network enables the disclosure of the informal network's structure, which is considered to be even more important for the entrepreneur's firm than the formal structure. Therefore the latter could have important implications for entrepreneurial practice. For example, if the entrepreneur identifies the most important network members for his or her firm, he or she

TABLE 1 *Continued from the previous page*

Resource acquisition network and network of friends	In the network, in which the entrepreneur is not present, the entrepreneur's wife has the highest degree, closeness and betweenness centrality. Therefore, she is the most central person in the entrepreneur's network. She is present in all cliques that are formed in the network.
Information acquisition network and network of friends	The entrepreneur is the main information and friendly support receiver in the network, while his wife is the main information and friendly support provider. The entrepreneur's wife is crucial in the process of giving information and advice to network members. She is also present in all cliques that are formed in the entrepreneur's personal network.
Resource-information acquisition network and network of friends	The entrepreneur's wife has the highest number of direct contacts. She is positioned between other members, which gives her the power to influence the flow of information. Furthermore, she can reach other persons at shorter path distances. Therefore she spends less time on communicating with others. She is also present in all cliques in the entrepreneur's network, which allows her to get information from different sources and to have an influence on the decision making process.

can devote more attention to maintaining and developing relations with these persons. Furthermore, the information about the structure of the entrepreneur's personal network is also helpful for persons outside the firm, because it reveals who is the most influential person inside the entrepreneur's network. Having the most strategic position within the network brings some benefits: e. g., to reach other network members at shorter path distances and to influence the decision making process within the network. Therefore, by identifying the most influential persons inside the network it is easier to arrange contracts or implement changes in the firm, like firm reorganizations, consulting projects etc. In sum, identifying the informal structure of the entrepreneur's personal network through a thorough social network analysis could be of great importance for the firm's performance.

Although the research results contribute to the theory of family firms' networking, some limitations of the research can be recognized. First, the investigation of the role of the spouse in the family firm's networking was carried out only on one case of family firm's network structure. Therefore, the methodology does not allow for further generalization. However, we are convinced that in many family firms, spouses have similarly important network roles. Second, the entrepreneur's personal network in

the study is the result of the entrepreneur's perception about the structure of the relationships within his personal network. Therefore, in future research the views of other members of the entrepreneur's personal network should be considered, which would enable a more accurate insight in to the entrepreneur's network. The future directions should be also toward samples that would allow for generalization. Further, little attention is paid to the empirical research of copreneurs (Fitzgerald and Muske 2002), hence an in-depth research of copreneurs' networking in family firms would significantly contribute to the theory and practice of copreneurship.

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HRM *Practices in Insurance Companies: A Study of Indian and Multinational Companies*

Subhash C. Kundu
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Competitive advantage of a company can be generated from human resources (HR) and company performance is influenced by a set of effective HRM practices. In this study, we intended to assess the HR practices in insurance companies. Primary data based on 218 respondents from four insurance companies (two multinational-7 branches and two Indian-7 branches) were analyzed to assess HR practices being practiced by insurance companies in India. Six factors from factor analysis were further analyzed. 'Training and benefits' was found highly in practice in the insurance companies. Further, 'performance appraisal,' 'selection and socialization of employees,' and 'HR planning and recruitment' were moderately practised in insurance companies. 'Workforce diversity and contemporary HR practices' and 'competitive compensation' were also practised to some extent. ANOVA results showed that Indian companies did not practise workforce diversity. Compensation practices were found more competitive or performance based in Multinational insurance companies than in Indian ones. The gender effect showed that only competitive compensation was perceived significantly differently by male and female employees/executives. Interactive effects were significant on workforce diversity and contemporary issues, training and benefits, and selection and socialization of employees.

Key Words: competitive compensation, multinational companies, performance appraisal, selection and socialization, training and benefits, workforce diversity
JEL *Classification:* M12, M54, O15

Introduction

Under present market forces and strict competition, the insurance companies are forced to be competitive. Contemporary companies must seek ways to become more efficient, productive, flexible and innovative, under constant pressure to improve results. The traditional ways of gaining

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competitive advantage have to be supplemented with organizational capability i. e. the firm's ability to manage people (Ulrich and Lake 1990). Organizational capability relates to hiring and retaining competent employees and developing competencies through effective human resource management practices (Ulrich and Lake 1991). Indeed, developing a talented workforce is essential to sustainable competitive advantage (Kundu and Vora 2004).

High performance work practices provide a number of important sources of enhanced organizational performance (Pfeffer and Veiga 1999). HR systems have important, practical impacts on the survival and financial performance of firms, and on the productivity and quality of work life of the people in them (Cascio 2006).

Objectives and Importance of the Study

Liberalization in the Indian insurance sector has opened the sector to private competition. A number of foreign insurance companies have set up representative offices in India and have also tied up with various asset management companies (Shanker 2006). All these developments have forced the insurance companies to be competitive. What makes a firm best is not just technology, bright ideas, masterly strategy or the use of tools, but also the fact that the best firms are better organized to meet the needs of their people, to attract better people who are more motivated to do a superior job (Waterman 1994). In this manner the management of human resources becomes very crucial. Thus, this study on HRM practices in insurance companies was taken up.

The main objective of the study was to assess the human resource management practices being implemented in insurance companies operating in India. To achieve the main objective, the following sub-objectives were set:

1. To assess practices regarding human resource planning and recruitment.
2. To identify selection and socialization practices in insurance companies.
3. To assess the practices regarding training in insurance companies.
4. To assess practices of performance appraisal in insurance companies.
5. To assess the compensation and benefits related practices in insurance companies.

6. To identify the workforce diversity and contemporary HR practices being implemented in insurance companies.
7. To assess and compare the HR practices being implemented in Indian and Multinational insurance companies.
8. To assess the differences of perception of male and female employees regarding HR practices being practiced in insurance companies.
9. To assess the interactive effects of type of insurance companies and gender on HR practices.

Literature Review

The literature review regarding various HR practices is presented in the following paragraphs.

Job analysis is the process of obtaining information about jobs i. e. information about the tasks to be done on the job, as well as personal characteristics (education, experience, specialized training) necessary to do the tasks (Cascio 1998). Job analysis in many ways is the first personnel activity that affects commitment and performance (Dessler 2003). Human resource planning analyzes and identifies the need for and availability of human resources for an organization to meet its objectives (Mathis and Jackson 2004).

Recruitment is a process of attracting a pool of high quality applicants so as to select the best among them (Kulik 2004). Top performing companies devote considerable resources and energy to creating high-quality selection systems (Pfeffer 1995). Placement involves assigning a specific rank and responsibility to an employee (Jyothi and Venkatesh 2006). Socialization, the process of orienting new employees to the organization, can make the difference between a new worker's feeling like an outsider and feeling like the member of the team (Gomez-Mejia, Balkin and Cardy 2003).

The current challenges caused by the globalisation pressures in the realm of economics behoves work communities to review their personnel training and management practices (Pitkanen 2007). Companies must develop a customer-oriented workforce to deliver service quality, which is met through training (Kundu 2000). Training must be viewed as an important investment for future success (Zeithmal and Bitner 2004). Companies need to provide comprehensive training to the agents in the ways to narrow the gap between clients and agents i. e. trust – building training (Law, Wong, and Theresa 2005). Long-term basis training has

a systematic influence on the improvement of management techniques (Zadel 2006).

Performance is defined as the record of outcomes produced on a specified job function or activity during a specified time period (Bernardin and Russell 1993). Effective managers need to incorporate performance review and feedback as part of their day-to-day communications with employees (Webb 2004). Appraisals are used widely for tying pay to performance (Schellhardt 1996; Cleveland, Murphy and Williams 1989). Present day firms are facing increased pressure to create human resources policies and programs that avert discrimination against individuals on non-work related aspects with respect to the various functions within human resource management, particularly selection and performance appraisal (Lillevik 2007).

Compensation is all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship (Milkovich and Newman 1999). An effective set of choices about compensation systems plays a major role in determining firm performance (Dreher and Dougherty 2005). A fringe benefit is an indirect reward given to an employee or group of employees as a part of organizational membership (Mathis and Jackson 2004), which affects performance and retention of employees. Benefits planning are a critical component of HR planning processes on account of enormous costs and the financial commitment made for the future (Bernardin and Russell 1993). A pay-for-competence program enhances productivity and product quality, and reduces absenteeism, turnover, and accident rates (Jyothi and Venkatesh 2006).

A Human Resource Information Systems (HRIS) is basically a data base system that offers important information about employees in a central and accessible location that, when needed, could be retrieved and used to facilitate human resources planning decisions (Wolfe 1998). Kovach and Cathcart (1999) noted that HRIS information could be used, first, for administrative purposes which reduce costs and time and, second, for the more analytical decision support.

A career comprises of series of work related activities that provide continuity, order, and meaning to a person's life (Schein 1996). Career management includes both organizational actions and individual efforts aimed at setting career goals, formulating and implementing strategies and monitoring the results (Greenhaus 1987).

Intensified global competition, dynamic change, and increasing un-

certainty have led organizations to become more innovative in order to survive and grow (Lassen 2007). Innovation is critical to sustaining and enhancing shares of mainstream markets and obtaining a desirable balance between entrepreneurial and strategic forces (Lassen 2007). So, firms have to adopt new/ innovative HR practices like workforce diversity, work-life balance, attitude surveys, and leading with proactive HR practices to remain competitive in the changing envioronment.

Diverse workforce (diversity) refers to the co-existence of people from various socio-cultural backgrounds within the company (Kundu 2004). A growing diverse workforce (Kundu 2003), increased competition for businesses (Jain and Verma 1996), growing number of mergers and acquisitions, and increased emphasis on globalization (Terrisse 2001) require an understanding and appreciation of a diverse set of cultures for having the 'best' people for an organization (Lillevik 2007). Dynamic companies look for people who are different from us because the diverse workforce may bring different talents, interests, and viewpoints (Simmons 1996). The companies can succeed at diversity with full support from the top management (Hayes 1999). The work communities as a whole should be helped to deal with increasing cultural diversity (Pitkanen 2007).

Work-life balance is a state where an individual manages real or potential conflict between different demands on his/her time and energy in a way that satisfies his/her needs for well-being and self-fulfillment (Clutterbuck 2004). Today's married employee is typically part of a dual-career couple finding less time to fulfill commitments to home, spouse, children, parents, and friends (Robbins 2004). Recent studies suggest that employees want jobs that give them flexibility in their work schedules, so that they can better manage work/life conflicts (Conlin 1999).

Attitude surveys can provide information on the preferences of employees, give warning on potential problem areas, diagnose the cause of particular problems, and compare levels of job satisfaction, commitment and morale in different parts of the organization (Armstrong 2005).

Thus, on the basis of literature review, we propose following hypotheses:

H1 *Insurance companies operating in India use human resource planning and recruitment practices.*

H1a *Indian and Multinational insurance companies do differ on human resource planning and recruitment.*

H1b *Male and female executives perceive differently the practices of human resource planning and recruitment.*

H2 *Insurance companies operating in India practise selection and socialization of human resources.*

H2a *Indian and Multinational insurance companies do differ on selection and socialization of human resources.*

H2b *Male and female executives perceive differently the practices of selection and socialization of human resources.*

H3 *Insurance companies operating in India use practices regarding training and benefits.*

H3a *Indian and Multinational insurance companies do differ on training and benefits.*

H3b *Male and female executives perceive differently the practices of training and benefits.*

H4 *Insurance companies operating in India use the practice of performance appraisal.*

H4a *Indian and multinational insurance companies do differ on performance appraisal.*

H4b *Male and female executives perceive differently the practice of performance appraisal.*

H5 *Insurance companies operating in India practise competitive compensation.*

H5a *Indian and multinational insurance companies do differ on competitive compensation.*

H5b *Male and female executives perceive differently the practice of competitive compensation.*

H6 *Insurance companies operating in India practise workforce diversity and contemporary* HR *practices (equal say of majority and minority employees, flexible work hours, attitude surveys, and new* HR *practices).*

H6a *Indian and multinational insurance companies do differ on workforce diversity and contemporary* HR *practices*

H6b *Male and female executives perceive differently the practices of workforce diversity and contemporary* HR *practices*

TABLE 1 Description of variables

Variable/description	
V1	The organization conducts job analysis regularly.
V2	The organization conducts human resource planning on a regular basis.
V3	The organization places special emphasis on service employees while doing HR planning.
V4	The organization has a well defined recruitment policy.
V5	The organization attracts service oriented employees towards organization.
V6	The organization selects individuals on the basis of service attitude and competence.
V7	The organization socializes its employees with service orientation.
V8	The organization has special training and development programs for service employees.
V9	The organization provides service orientation to leaders from top management.
V10	Performance appraisal is done regularly in the organization.
V11	Service performance is given due weight in the performance appraisal of employees.
V12	The organization has a system of pay for service performance (pay for performance).
V13	The organization pays competitive salaries to the employees.
V14	The benefits offered to employees are in line with other organizations.
V15	All groups whether majority or minorities have an equal say in the organization.
V16	The organization has flexible work hours for special groups like women or physically challenged employees.
V17	The organization has a proper HR information system.
V18	The organization provides sufficient opportunities for career advancement of service employees.
V19	The organization regularly conducts employee attitude surveys.
V20	The organization tries to lead with development and adoption of new HR practices.

Research Methodology

This study was based on primary data gathered with the help of a questionnaire comprising three sections. The first section contained 10 background questions, and the second section contained 20 statements (table 1) about the human resource management practices. The third section contained 45 statements related to employee service orientation.

However, in this paper, we covered only the second section along with

TABLE 2 Distribution of the sample

Gender	Background		
	Indian	Multinational	Total
Male	97	80	177
Female	26	15	41
Total	123	95	218

first part. The respondents were asked to rate statements on a five point rating scale where one indicated that respondents strongly disagree, two meant disagree, three indicated neutral, four indicated agreeing and five meant strongly agree with the statement.

The questionnaire was administered to 400 respondents of four insurance companies (two multinational-7 branches and two Indian-7 branches). Only 218 (54.5%) of the returned questionnaires were found suitable for final analysis and without discrepancies. Out of the sample of 218 respondents, 123 (including 26 females) respondents were from Indian and 95 (including 15 females) from multinational insurance companies. All respondent employees/ managers were of Indian origin. Table 2 explains the distribution of the sample.

The data gathered were analyzed with the help of statistical tools like actual counts, percentages, correlations, standard deviations, factor analysis, analysis of variance (ANOVA), and mean and grand mean scores. Actual counts, percentages, and means were used to assess the frequency and percentage extent of certain variables related to general and background information. Correlations were used to assess the relationships of human resource management practices used in insurance companies, and standard deviations were calculated to understand the variations in data collected through responses. Factor analysis was basically used to reduce the data collected on the five-point scale for further analysis. ANOVA was used to assess the significant differences regarding HR practices between Indian and multinational insurance companies and between the perception of male and female employees/executives. Means and grand means were helpful in explaining the extent and direction of prevalence of HR practices and related factors. Means were also used to see the differences between HR practices in Indian and Multinational insurance companies.

Reliability of the data collected was also calculated by applying the Cronbach Alpha. Alpha value of the scale of 20 variables was calculated

that was as high as 0.864. Factor wise alpha values were also calculated that were above required level i. e. between 0.743 and 0.612. All alpha values met the minimum criterion ($\alpha > 0.60$) (Nunnally 1978).

Results

The primary data were analyzed to assess HR practices being implemented by insurance companies. Table 3 explains the characteristics of the sample.

This sample included both male (81.2%) and female (18.8%) employees from Indian companies (56.4%) and multinational companies (43.6%), out of which 77.5% were married. Average age of the respondents was 35.302 years (SD=±8.667). All employees agreed that there were HR departments in the insurance companies. Average work experience of the employees was 13.272 years (SD=±9.346). The first joiner employees were 56.1% and about 43.8% had the experience of changing two or more companies. 56.4% employees reported that there were unions in the companies and on average 42.9% employees were members of unions.

Further, the data were subjected to correlation and factor analysis. Table 4 shows the correlations of 20 variables which were almost significantly correlated.

Factor analysis brought out 6 factors in all, explaining 65.410% of total variance (see table 5).

The extracted communalities ranged from 0.506 to 0.763. For clarity of the factor definitions, loadings more than 0.480 were considered.

These six factors were further subjected to statistical tools like inter-factor correlations, analysis of variance (ANOVA), means, and grand means. Table 6 explained the inter-factor correlations, overall means, standard deviations, and alpha values.

All factors were found highly correlated ($r \leq 0.01$). Standard deviations were found varying between ±0.830 and ±1.113. The factors mean scores were found between 3.005 and 3.599. One factor i. e. 'training and benefits' ($\bar{x} = 3.599$) was found highly in practice in the companies. The further three factors i. e. 'performance appraisal' ($\bar{x} = 3.472$), 'selection and socialization of employees' ($\bar{x} = 3.404$) and 'HR planning and recruitment' ($\bar{x} = 3.298$) were moderately practised in the companies. 'Workforce diversity and contemporary HR practices' ($\bar{x} = 3.005$) and 'competitive compensation' ($\bar{x} = 3.089$) were also practised in companies but not as high as other factors. These factors mean scores indicated

TABLE 3 Characteristics of the sample

Variables	Categories	Average	Number	%
1. Gender	Male		177	81.2
	Female		41	18.8
	Total		218	100
2. Marital status	Married		169	77.5
	Unmarried		49	22.5
	Total		218	100
3. Age (SD 8.667)		35.302		
4. Type of insurance company and number of employees	Indian (2)		123	56.4
	Multinational (2)		95	43.6
	Total		218	100
5. Number of branches of insurance companies	LIC		4	
	OIC		3	
	Tata AIG		4	
	AVIVA		3	
	Total		14	
6. HRM Dept	Yes		218	100
	No		0	0
	Total		218	100
7. Work experience (SD 9.346)		13.272		
8. Work experience in this organization (SD 9.598)		11.355		
9. Organizations changed	First joiner		116	56.1
	Up to two change		79	30.1
	More than two change		23	13.7
	Total		218	100
10. Employee union	Union exists		123	56.4
	Does not exist		95	43.6
	Total		218	100
11. Average percent of union membership (SD 37.866)		42.894		

the acceptance of H1, H2, H3, H4, H5, and H6. Table 7 shows the two-way ANOVA results based upon type effect, gender effect and two-way interactions.

According to the type of company effect, performance appraisal ($p \leq 0.002$), workforce diversity and contemporary issues ($p \leq 0.006$), train-

TABLE 4 Correlations, means and SDs for 20 HR variables

V	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V14	V15	V16	V17	V18	V19	V20
V1	—																			
V2	0.470**	—																		
V3	0.290**	0.035**	—																	
V4	0.221**	0.389**	0.326**	—																
V5	0.363**	0.344**	0.381**	0.503**	—															
V6	0.364**	0.380**	0.003	0.461**	0.382**	—														
V7	0.304**	0.111	0.164**	0.226**	0.381**	0.550**	—													
V8	0.236**	0.203**	0.219**	0.364**	0.370**	0.273**	0.144**	—												
V9	0.151**	0.188**	0.236**	0.146**	0.319**	0.221**	0.182**	0.351**	—											
V10	0.219**	0.255**	0.358**	0.417**	0.375**	0.262**	0.246**	0.388**	0.432**	—										
V11	0.327**	0.266**	0.112	0.404**	0.170**	0.439**	0.180**	0.262**	0.109	0.482**	—									
V12	0.147**	0.299**	0.197**	0.035	0.242**	0.200**	0.066	0.027	–0.017	0.088	0.083	—								
V13	0.353**	0.405**	0.207**	0.350**	0.379**	0.464**	0.322**	0.330**	0.054	0.171**	0.223**	0.441**	—							
V14	0.087	0.187**	0.059	0.330**	0.308**	0.298**	0.204**	0.368**	0.405**	0.335**	0.212**	0.066	0.362**	—						
V15	0.174**	0.309**	0.334**	0.289**	0.226**	0.195**	0.243**	0.247**	0.251**	0.366**	0.273**	0.149**	0.155**	0.234**	—					
V16	0.032	0.369**	0.120	0.113	0.056	0.070	–0.082	–0.023	0.082	–0.005	–0.058	0.348**	0.118	0.048	0.387**	—				
V17	0.359**	0.257**	0.184**	0.357**	0.234**	0.365**	0.253**	0.323**	0.065	0.395**	0.448**	0.104	0.477**	0.310**	0.334**	0.127	—			
V18	0.211**	0.389**	0.450**	0.198**	0.364**	0.283**	0.266**	0.221**	0.429**	0.334**	0.102	0.156**	0.196**	0.165**	0.387**	0.212**	0.175**	—		
V19	0.006	0.315**	0.221**	0.092	0.151**	0.138**	0.017	0.051	0.211**	0.127	0.052	0.299**	0.089	0.110	0.288**	0.464**	0.005	0.440**	—	
V20	0.217**	0.295**	0.174**	0.196**	0.282**	0.358**	0.301**	0.085	0.164**	0.272**	0.158**	0.250**	0.299**	0.124	0.233**	0.221**	0.246**	0.340**	0.440**	—
M	3.279	3.307	3.160	3.564	3.394	3.399	3.412	3.692	3.614	3.633	3.550	2.986	3.192	3.490	3.133	2.568	3.142	3.348	2.917	3.399
SD	1.295	1.160	1.217	1.186	1.115	1.120	0.981	1.065	1.050	1.129	1.135	1.300	1.323	1.149	1.489	1.269	1.211	1.159	1.230	1.107

NOTES Cronbach Alpha (20 variables) = 0.865, Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.775, Barlett's test of Sphericity Approx. $\chi^2 = 1648.724$, $df = 190$, significance = 0.000; * correlation is significant at the 0.05 levels, ** correlation is significant at the 0.01 levels, M – mean, SD – standard deviation; definitions of variables may be seen through table 1.

TABLE 5 Factor loadings of varimax rotated principal components

Factors	(1)	(2)	(3)
F1 Performance appraisal		5.819	29.096
Well defined recruitment policy	0.512		
Regular performance appraisal	0.524		
Due weight to service performance	0.818		
Proper HR information system	0.716		
F2 Workforce diversity and contemporary HR practices		2.119	10.595
Equal say of majority or minority employees	0.522		
Flexible work hours	0.749		
Conducting employee attitude surveys	0.807		
Lead with development and adoption of new HR practices	0.493		
F3 Training and Benefits		1.620	8.102
Training and development programs	0.649		
Providing service orientation to managers	0.691		
Benefits to employees	0.766		
F4 HR planning and recruitment		1.237	6.185
Regular job analysis	0.526		
Regular human resource planning	0.523		
Emphasis on service employees in HR planning	0.837		
Attracting service oriented employees	0.488		
Opportunities for career advancement	0.492		
F5 Selection and Socialization of employees		1.194	5.970
Selection on the basis of service attitude and competence	0.680		
Socialization of employees	0.809		
Lead with development and adoption of new HR practices	0.558		
F6 Competitive compensation		1.092	5.462
Pay for performance (service)	0.667		
Paying competitive salaries	0.750		

NOTES Column headings are as follows: (1) loadings, (2) eigen value, (3) % of variance.

ing and benefits ($p \leq 0.000$), and competitive compensation ($p \leq 0.005$) were found significantly different. So, H3a, H4a, H5a, and H6a, were accepted. Indian companies were found stronger on performance appraisal practice ($\bar{x} = 3.63$) than multinational companies ($\bar{x} = 3.26$). On workforce diversity and contemporary issues, multinational companies

TABLE 6 Inter factor correlations, means, standard deviations and alpha values

Factors	F1	F2	F3	F4	F5	F6
F1	—					
F2	0.314**	—				
F3	0.477**	0.252**	—			
F4	0.508**	0.464**	0.410**	—		
F5	0.478**	0.464**	0.320**	0.481**	—	
F6	0.305**	0.346**	0.216**	0.431**	0.411**	—
No. of variables	4	4	3	5	3	2
M	3.472	3.005	3.599	3.298	3.404	3.089
SD	0.874	0.906	0.831	0.837	0.830	1.113
α	0.740	0.666	0.642	0.743	0.666	0.612

NOTES ** Correlation is significant at the 0.01 levels; M – mean, SD – standard deviation.

TABLE 7 Summary results of ANOVA

Factors/variable	(1)	(2)	(3)
F1 Performance appraisal	10.223 (0.002)	0.001 (0.973)	1.513 (0.220)
F2 Workforce diversity and contemporary issues	7.725 (0.006)	0.078 (0.780)	6.801 (0.010)
F3 Training and benefits	17.626 (0.000)	0.883 (0.348)	4.545 (0.034)
F4 HR planning and recruitment	1.495 (0.223)	0.145 (0.704)	2.210 (0.139)
F5 Selection and socialization of employees	0.502 (0.480)	3.455 (0.064)	4.083 (0.045)
F6 Competitive compensation	8.151 (0.005)	4.866 (0.028)	1.422 (0.234)

NOTES Column headings are as follows: (1) type effect (*F*-value), (2) gender effect (*F*-value), (3) two-way interactions. Significance levels are indicated in parentheses.

were giving due value to workforce diversity and contemporary issues ($\bar{x}$ = 3.38) than the Indian companies ($\bar{x}$ = 2.72). Rather Indian companies did not practice workforce diversity. Training and benefits related practices were comparatively stronger in Indian companies ($\bar{x}$ = 3.78) than in the multinational companies ($\bar{x}$ = 3.37). Compensation practices were found more competitive or performance based in multinational

companies ($\bar{x}$ = 3.33) than in Indian companies ($\bar{x}$ = 2.90). Further, the mean score of Indian companies showed that compensation practices were broadly based on seniority basis rather than competitive basis. However, both types of companies gave equal importance to HR practices related to HR planning and recruitment and selection and socialization of employees. Therefore, H1a and H2a were rejected.

According to the gender effect, only competitive compensation ($p \leq$ 0.028) was found significantly different as between male and female employees/ executives. So, H5b was accepted. Male executives ($\bar{x}$ = 3.19) were more accepting the practice of competitive compensation than the female executives ($\bar{x}$ = 2.67). Further, male and female executives did not differ significantly on other HR practices i. e. performance appraisal, workforce diversity and contemporary issues, training and benefits, HR planning and recruitment, and selection and socialization of employees. These results caused the rejection of H1b, H2b, H3b, H4b, and H6b.

Interactive effects were significant on workforce diversity and contemporary issues ($p \leq$ 0.010), training and benefits ($p \leq$ 0.034), selection and socialization of employees ($p \leq$ 0.045). Cell means of table 8 showed that male executives ($\bar{x}$ = 2.63) did not favor workforce diversity and contemporary issues as compared to female executives ($\bar{x}$ = 3.06) in Indian companies, whereas male executives highly favored this practice in multinational companies ($\bar{x}$ = 3.46). In case of training and benefits, both males ($\bar{x}$ = 3.44) and females ($\bar{x}$ = 3.00) received less training and benefits in multinational companies as compared to Indian companies. In case of selection and socialization of employees, female executives ($\bar{x}$ = 3.82) perceived stronger than the males ($\bar{x}$ = 3.25) in Indian companies, whereas both perceived equally in case of multinational companies.

Discussion

Studies suggest that the insurance industry through risk transfer, financial intermediation, and employment can generate positive externalities and economic growth. HR plays a crucial role in service companies (Schneider and Bowen 1993).

In the present study, six derived factors have been further used. It was found that three factors i. e. 'performance appraisal,' 'selection and socialization of employees' and 'HR planning and recruitment' were moderately practiced in companies; 'performance appraisal' loaded significantly with HR practices such as well defined recruitment policy, reg-

TABLE 8 Summary of means and grand means for main scales (factors)

Factors/ Variables		(1)	(2)	GM
F1 Performance appraisal	M	3.60	3.29	3.46
	F	3.78	3.10	3.53
	GM	3.63	3.26	3.47
F2 Workforce diversity and contemporary issues	M	2.63	3.43	2.99
	F	3.06	3.08	3.07
	GM	2.72	3.38	3.00
F3 Training and benefits	M	3.74	3.44	3.60
	F	3.91	3.00	3.58
	GM	3.78	3.37	3.60
F4 HR planning and recruitment	M	3.28	3.32	3.30
	F	3.45	3.04	3.30
	GM	3.32	3.28	3.30
F5 Selection and socialization of employees	M	3.25	3.45	3.34
	F	3.82	3.42	3.67
	GM	3.37	3.44	3.40
F6 Competitive compensation	M	3.04	3.36	3.19
	F	2.38	3.17	2.67
	GM	2.90	3.33	3.09

NOTES Column headings are as follows: (1) Indian, (2) multinational. M – male, F – female, GM – grand mean.

ular performance appraisal, due weight to service performance, proper HR information system. This factor brought out the importance of due weight to service performance and proper HR information system in companies. The factor 'selection and socialization of employees' loaded significantly and positively with variables like selection on the basis of service attitude and competence and socialization of employees. Variables like regular job analysis, regular human resource planning, and emphasis on service employees in HR planning loaded highly on the factor 'HR planning and recruitment.' Indian companies were found stronger on performance appraisal practice than multinational companies. It was also found that both types of companies gave equal importance to HR practices related to HR planning and recruitment, and selection and socialization of employees. Performance management is a vehicle for the continuous improvement of business performance via a co-ordinate program of people management interventions (Walters 1995). The HRIS market has now grown significantly across the spectrum of organizational types (Ball 2001). An up-to-date and sophisticated global HRIS en-

TABLE 9 Summary of hypothesis and brief findings

(1)	(2)	(3)	(4)
H1	Yes	Practicing human resource planning and recruitment	Accepted
H1a	No	Indian and multinational insurance companies did not differ	Rejected
H1b	No	Male and female executives did not perceive differently	Rejected
H2	Yes	Practising selection and socialization	Accepted
H2a	No	Indian and multinational insurance companies did not differ	Rejected
H2b	No	Male and female executives did not perceive differently	Rejected
H3	Yes	Practising training and benefits	Accepted
H3a	Yes	Indian and multinational insurance companies differed.	Accepted
H3b	No	Male and female executives did not perceive differently	Rejected
H4	Yes	Practising performance appraisal	Accepted
H4a	Yes	Indian and multinational insurance companies differed	Accepted
H4b	No	Male and female executives did not perceive differently	Rejected
H5	Yes	Practising competitive compensation	Accepted
H5a	Yes	Indian and multinational insurance companies differed	Accepted
H5b	Yes	Male and female executives perceive differently	Accepted
H6	Yes	Practising workforce diversity and contemporary HR practices	Accepted
H6a	Yes	Indian and multinational insurance companies differed	Accepted
H6b	No	Male and female executives did not perceive differently	Rejected

NOTES Column headings are as follows: (1) hypothesis, (2) significant difference, (3) results, (4) hypothesis rejected/accepted.

ables identification, grooming of and equitable career opportunities for high potential global managers (Thite 2004). Staff selection is becoming the axis on which all other human resource issues turn (Langtry 2001). Atkinson (1984) described that selection process requires greater emphasis and thought because the quantity and quality of output required will be greater. Campbell and Baldwin (1993) suggest that in many industrialized countries there is a concern that skills shortages and mismatches are appearing in the labor market reducing the competitiveness of small and large firms. Top performing companies are better than their competitors at recruiting and retaining top talent (Chambers et al. 1998).

'Workforce diversity and contemporary HR practices' and 'competitive compensation' were also practised in companies but not as high as other factors (practices). Workforce diversity here includes variables like workforce diversity, flexible work practices, conducting employee atti-

tude surveys, adoption of new HR practices. Competitive compensation includes variables like pay for service performance and paying competitive salaries. On workforce diversity and contemporary issues, multinational companies were giving due value to workforce diversity and contemporary issues than were the Indian companies. Indeed, Indian companies were weak on the practice of workforce diversity. Compensation practices were found more competitive or performance based in multinational companies than in Indian companies. Further, Indian companies turned to a seniority basis of compensation rather than competitive basis. Flexi time has been associated with increased productivity and morale, job satisfaction, reduced absenteeism and turnover, truancy and use of overtime (Dalton and Mesch 1990; Guy 1993; Mellor 1986; Swart 1985; Narayanan and Nath 1982; Pierce and Newstrom 1983). Comparatively high compensation contingent on organizational performance is one of the key practices of companies that produce profit through people (Pfeffer and Veiga 1999). It plays a key role in recruitment, job performance, and job satisfaction (Jyothi and Venkatesh 2006). The pay policy decision can have a major impact on the quality of a company's workforce and, therefore, on company's performance (Dreher and Dougherty 2005). Performance-based pay schemes are implemented by the firms in order to induce greater efforts from their existing workforce (Gibbons 1998). Kundu (2003; 2004) gave favourable arguments for creating a diverse workforce. Further, in a service economy effective interactions and communications between people are essential to business success (Kundu 2003). By managing and valuing diversity, the organization can justify itself as a true representative of the society (Kundu 2001).

Further, it was found that 'training and benefits' was high in practice in the companies. HR practices like training and development, providing service orientation to managers, and benefits to employees were loaded with high significance level on this factor. 'Training and benefits' related practices were comparatively stronger in Indian companies than the multinational companies. Researches conclude that employer-provided training increases worker productivity (Holzer 1990; Bartel 1994; Pindus and Isbell 1997; Bloom and LaFleur 1999). Training benefits companies through enhanced product and service quality, reduced production waste, higher employee retention and better labor-management relations (Bloom and LaFleur 1999). Training and development are a morale booster, enhance knowledge, skill, attitude and experience, and reduce scraps, accidents and wastes (Kundu and Kumar 2006).

Employee benefits attract new employees, and retain them in the latter stages of their careers (White and Becker 1980). Research results suggest that the flexible benefit plan enhances motivation (Werther 1986; White and Becker 1980) empowers employees (Kauk 1996; Lawler 1990) and increases employee satisfaction (Barber et al. 1992; Tremblay, Sire, and Pelchat 1998).

In this study, significant differences of perceptions have been found among male and female employees/ executives only on competitive compensation. Male executives were accepting the practice of competitive compensation more than the female executives. Further, male and female executives did not differ significantly on other HR practices. The career experiences of women and men have been shown to differ to some degree (Betz and Fitzgerald 1987; Gutek and Larwood 1987; Larwood, Stromberg and Gutek 1985). For example women more often make career choices to accommodate their spouse's careers. Hence, women employees/ executives accept less pay than their male counterparts. In many cases they have the tendency to shift to part-time jobs and also depend on flexi time options on job. Further, a study on Indian organizations clearly indicated the prevalence of gender discrimination in organizations (Kundu 2003).

Interactive effects were significant on workforce diversity and contemporary issues, training and benefits, and selection and socialization of employees in the present study. Male executives did not favor workforce diversity and contemporary issues as compared to female executives in Indian companies, whereas in multinational companies these factors were highly favored by male executives. In case of training and benefits both males and females received less training and benefits in multinational companies as compared to Indian companies. In case of selection and socialization of employees, female executives perceived more strongly than the males in Indian companies, whereas both perceived equally in case of multinational companies.

To sum up, by considering the grand mean scores of Indian and Multinational companies on six HR factors, it was visible that Multinational companies were comparatively weaker on performance appraisal, training and benefits, HR planning and recruitment, and comparatively stronger on workforce diversity and contemporary issues, selection and socialization of employees and competitive compensation than Indian companies. Multinationals were weak on some factors due to non-adaptation of local HR practices. Bjorkman and Budhwar (2007) suggested that while the introduction of HRM practices from the foreign

parent organization was negatively associated with performance, local adaption of HRM practices was positively related with the performance of foreign firms operating in India (Bjorkman and Budhwar 2007).

Managerial Implications, Limitations, and Future Direction

There is no need to emphasise that it is the people, people and people that make an organization achieve competitive advantage. The people (human resources) in an organization, when looked after and provided with, will certainly pay back in terms of better results, better performance and enhanced productivity. So, this study has practical and policy implications for the organizations. Organizations can certainly make significant improvements to their performance by emphasizing excellent HR practices.

Globalization has become one of the buzzwords in business and academia (Joynt and Morton 2005). In a fast-paced, globally competitive economy, efforts to boost productivity and quality never end (Cascio 1998). The Indian companies need to learn from the practices adopted by the multinational companies especially with regard to workforce diversity practices, competitive compensation, and selection and socialization of employees. Gone are the days when experience was the basis for deciding seniority, which in turn was the basis for deciding compensation. Age and experience is no bar, gender is no bar, and above all culture is no bar when we talk of globalization. A correctly selected and well socialized employee can be expected to exhibit organizational citizenship behavior which leads to more commitment towards the organization, better retention, lower absenteeism and hence increased productivity.

Diversity of human resources has become a demographic reality. Indian organizations have to learn how to manage a diverse workforce to get maximum benefit and competitive advantage in the changed scenario (Kundu 2004). All employees, no matter whom, no matter at what level, want to be treated with respect. This is the most basic thing one must do in managing diversity (Cascio 2006). Managing it well is an essential part of HR strategy.

The results indicated that both multinational companies and Indian companies have to significantly improve their practices regarding performance appraisal, training and financial benefits, and HR planning and recruitment. Though the Indian companies scored better on these aspects, yet there has to be more emphasis on them. The organizations may feel complacent regarding these practices due to the labor surplus econ-

omy of India. Organizations must enrich the HR practices, such as performance appraisal in terms of service delivery, service oriented training programs, and service performance based financial and other benefits. Service organizations should plan to attract employees having a service attitude and orientation.

There has been a phenomenal growth in service industries (Bateson and Hoffman 1999). Services are human resource intensive businesses. To gain competitive advantage, service organizations ought to lay greater emphasis on human resource management practices, as has been indicated in the results of this study on insurance companies (service organizations). A strategy that focuses on the human side can be an effective way for competing in the current environment (Verma 2000).

A well-defined framework of human resource management practices benefits not only the organization but also the employee. HR policies of an organization benefit the employee by providing better opportunities for growth in terms of better compensation, benefits, training and development opportunities, and career management, in turn leading to job-satisfaction and self-fulfillment. Further, this study will be helpful for the organizations to develop intrapreneurship/ corporate entrepreneurship. Organizations can cultivate corporate entrepreneurship (entrepreneurship of the whole staff) to enhance corporate innovation and performance (Chen, Zhu and Anquan 2005). Lee and Peterson's (2000) research reveals that a culture with a strong entrepreneurial orientation is important to global competitiveness. This is contingent on the high performing HR practices being implemented in organizations.

Despite the different sources, different timing of data collection, and high alpha values of data, a potential limitation of this study was that the data were collected by using same construct (using self-completion questionnaires) with same method. The relationships among the variables and sub-scales could be influenced by common method variance. Podsakoff and Organ (1986) recommend that researchers should at least report results from a test of single-factor hypothesis as an explanation of inter-correlation of the variables. Harman's one-factor test on the HR practices construct showed that the first factor accounted for only 29.096% of the covariance among measures (Podsakoff et al. 2003; Podsakoff and Organ 1986), suggesting that common method variance is not a severe issue.

Another limitation was that the data were collected from Indian bases, which could have been collected from the wider area. The study could,

however, be extended cross culturally that in order to more generalized conclusions. Researches may be taken up to cover a wider area and more respondents with cross cultural extensions. The data were analyzed by using only two independent variables. Further, researchers can increase independent variables to analyze the data more effectively. Finally, the variables incorporated in the questionnaire were strictly related to HR practices and could not establish the relationship of HR practices with the performance. Future researchers may take up studies on human resources from these aspects.

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