INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT
FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITY OF MARIBOR

GEM

Global Entrepreneurship Monitor 2002

THE SLOVENIAN REPORT

The Winding Road to Entrepreneurial Society

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Polona Tominc
Miroslav Glas
Viljem Pšeničny

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Foreword

In 2002 Slovenia joined the worldwide research project on entrepreneurship, involving 37 countries, for the first time. The Global Entrepreneurship Monitor is not just another benchmarking study, it is a serious attempt to understand the complex set of relationships between entrepreneurship and economic growth. Taking part in the project was all the more exciting for the Slovenian team for the fact that we have lacked until now truly comparable information on where we stand relative to the rest of the world with regard to entrepreneurship.

The research confirmed the provisional findings of Slovenian researchers of entrepreneurship that Slovenia is not yet functioning as an entrepreneurial society. There is still no social consensus on the need for coordinated action by entrepreneurs and government and on the creation of conducive environment in which as many new firms as possible come into being while existing ones have amibitions to grow and develop. The fundamental challenge that GEM 2002 poses to Slovenia is clear: how to install a clear vision for Slovenia's long-term development as an entrepreneurial society and create a conducive environment so that as many people as possible become entrepreneurs?

The results of the research showed that Slovenia has a long way to go to realise its ambitions and establish itself in the European Union, which it joins in 2004, as a progressive, innovative and entrepreneurial society. An understanding of the role of entrepreneurship is crucial to achieving this aim.

This year's report includes two annexes aimed primarily at an international audience. The first reviews the development of entrepreneurship in Slovenia since it became a country in its own right, and the second gives an overview of the activity of existing firms in the previous year.

The GEM Slovenia 2002 Team (Miroslav Rebernik, Polona Tominc, Miroslav Glas, Karin Širec Rantaša, Viljem Pšeničny, Matej Rus and Dijana Močnik) would like to thank the sponsors who made it possible for the research to be carried out. Special thanks also to the experts who took part in the research, giving their valuable time and opinions.

Prof. Miroslav Rebernik
Project Coordinator, GEM Slovenia

Entrepreneurship and innovation, which significantly increase the rate at which existing products are superseded by new ones of higher quality and lower cost, are key drivers of change in the economic structure of the leading nations as well as crucial determinants of competitive advantage on a global scale. Economists, business leaders and even politicians are agreed that entrepreneurship is the factor that accounts for why some firms, regions or nations are able to maintain a competitive advantage while others fall behind in a relative or absolute sense. The emergence of new, technologically intensive firms and their rapid growth are also universally acknowledged to be a major factor in the dynamic growth and rapid expansion of markets. Entrepreneurship is the factor that links together ideas, skills, information and new technology with the goal of creating something new and valuable. Entrepreneurship is not just the process by which new firms come into existence but is an important factor in the growth of each firm. It is for this reason that governments, international organisations, the business profession and leading thinkers from a range of disciplines nowadays regularly emphasise the importance of researching entrepreneurship and policies to promote it.

The Global Entrepreneurship Monitor can safely be ranked as one of the most important research programmes on entrepreneurship in the world. The results it yields are a major source of information about entrepreneurial activity in the countries participating in the research programme, the effect of entrepreneurial activity on national growth, the reasons for the variation in entrepreneurial activity between countries and the possibilities for increasing the national level of entrepreneurial activity. The results of the Global Entrepreneurship Monitor research programme, which as of 2002 includes Slovenia, can potentially serve as an important input into the implementation of the development priorities of Slovenia's economic development strategy, such as increasing the competitiveness of the business and entrepreneurial sector. The results are highly relevant to the Ministry of Economy's policy on enterprise and competition, which is one of the government's policy areas for the pursuit of Slovenia's economic development priorities. The research recommendations will inform the design of measures by the Ministry to encourage the development of entrepreneurship and the exploitation of entrepreneurial opportunities, measures which are geared towards the creation of an environment that is supportive of enterprise and innovation, the promotion of entrepreneurship as part of social culture, entrepreneurial education at all levels, the further removal of administrative impediments to the establishment and operation of firms, and easier access to finance.

Prof. Tea Petrin
Minister of the Economy

Executive summary

The Global Entrepreneurship Monitor (GEM) is a large-scale research programme launched in 1997 by leading researchers in the field of entrepreneurship at the London Business School (United Kingdom) and Babson College (United States). In subsequent years a consortium of national teams in participating countries was created. This year's research, in which 37 countries took part, included Slovenia for the first time. The main aim of the GEM is to identify differences in the level of entrepreneurial activity in different countries and their relationship with national economic growth. It also explores why some countries have a higher level of entrepreneurial activity than others and what can be done to raise the level of national entrepreneurial activity.

The basic GEM model is based on the notion that the specific circumstances for the conduct of entrepreneurial activity in an individual country affect the size and scope of entrepreneurship, which in turn affects economic growth and development. The entrepreneurial process is heavily affected by the entrepreneurial opportunities available to people and their capacity to pursue new business ventures. All of this affects business churning in the private sector of the economy, where new ventures and firms are born, contributing in turn to economic growth. Unlike most international studies, which address the factors affecting the competitiveness of firms in existence, the GEM focuses on the entrepreneurial process at the stage of the inception of new firms and its link with economic growth.

The research employs four basic data collection mechanisms. Three of them provide the primary data collected specially for the GEM, which are then combined with data from secondary sources. Data are obtained from a survey of a sample of the adult population, special interviews with national experts on particular sets of entrepreneurial framework conditions, who also fill out a detailed questionnaire, and internationally acknowledged sources of comparable data (OECD, World Bank, ILO, Eurostat and United Nations).

The 37 countries taking part in GEM 2002 account for 62 per cent of the world's population and 92 per cent of global GDP. Twelve per cent of the population in these countries, or 286 million adults aged 18 to 64, are entrepreneurially active. If we apply this percentage on a world scale, it implies that 461 million people worldwide are either embarking on an entrepreneurial career or have had a firm for less than three-and-a-half years. The countries taking part in 2002 account for 62 per cent of the world's population and 92 per cent of global GDP. Out of all the countries covered by the research, European countries and developed Asian countries have around 19 per cent of the labour force and around six per cent of the entrepreneurially active population. Slovenia represents 0.5 pro mille of the labour force and 0.2 pro mille of the entrepreneurially active population. Another telling statistic is that three-fifths of entrepreneurially active people worldwide have started a business because they were presented with a business opportunity, while two-fifths have done so for lack of better choices for work.

In the context of the GEM, the entrepreneurially active population means individuals who are personally involved in the creation of new ventures (nascent entrepreneurs) or who are employed as owner managers of new firms that are less than 42 months old (new entrepreneurs). The measure of entrepreneurial activity – the total entrepreneurial activity (TEA) index – expresses the proportion of individuals in a country who are involved in entrepreneurial activity, be it as nascent or as new entrepreneurs, and is a fundamental indicator of entrepreneurial activity that allows comparison across all the countries participating in the GEM.

Out of the 37 countries taking part in the 2002 GEM research, Slovenia ranks 25th with the TEA index of 4.63. This means that 4.63% of the labour force in Slovenia are planning some form of entrepreneurial activity or have had a business for less than three years. The level of entrepreneurial activity varies widely among the 37 GEM countries. The number of nascent and new entrepreneurs within the labour force varies from 1.8% (one in 50) in Japan to 18.9% (one in five) in Thailand. In Slovenia one in 22 adults aged 18-64 is engaged in entrepreneurial activity, either having started up a business or owning and managing a young firm.

In 2002 there are estimated to have been around 58,000 nascent and new entrepreneurs in Slovenia. These are individuals who, on their own or with others, are seeking to set up a new firm or start a new business, including any kind of self-employment or sale of goods or services, or who are owner managers of a firm less than three-and-a-half years old. Some have become entrepreneurs because they were presented with a business opportunity, others because they had no better choices for work.

The number of entrepreneurs who have become entrepreneurs in response to a business opportunity is relatively low in Slovenia by comparison with the other GEM participating countries. On the basis of the opportunity-based TEA index Slovenia ranks 30th out of 37 countries with 3.26%. In other words one in 30 adults in Slovenia has become an entrepreneur in order to take advantage of a business opportunity.

The necessity-based TEA index for Slovenia is 1.37%, implying that one in 70 adults in Slovenia takes the entrepreneurial route by necessity because they lack better choices for work. This ranks Slovenia relatively highly on a world scale: 15th out of 37. The phenomenon of necessity entrepreneurship nevertheless raises a series of questions – from the skills and motivations of such entrepreneurs to progression beyond self-employment, the motivation for hiring co-workers, business growth intentions, export orientation etc.

The research also distinguishes between entrepreneurs in the earliest stages of the entrepreneurial process and those already up and running as new businesses. The first group are termed nascent entrepreneurs and include all those who, on their own or with others, are seeking to set up a new firm or start a new business and have not paid any salaries or wages for more than three months. These are the entrepreneurs who are by far the most vulnerable and most in need of conducive conditions. Out of 58,000 entrepreneurs, two-thirds were identified as nascent and one-third as newly operating firms less than three-and-a-half

years old. This ratio is decidedly unfavourable. Small firms matter and entrepreneurs who are only just starting out are highly vulnerable. The figure for the high number of necessity entrepreneurs and the relatively high mortality rate for firms should give serious impulse for discourse to all those who wield influence over the conditions in which Slovenian firms operate.

Some other findings are as follows:

- The typical Slovenian entrepreneur is male, aged 25-34, with at least a college education, in the top third income bracket and employed.
- In Slovenia, as in all other GEM participant countries, males in the 25-34 age bracket form the largest proportion of total entrepreneurial activity with 11.15%, while women of the same age make up 4.80%. The exceptions to the pattern are men who have taken the entrepreneurial route out of necessity, who are predominantly in the 35-44 year-old age bracket, and female opportunity-based entrepreneurs, who are predominantly aged between 45 and 54 (2.74%) and 18 and 24 (2.64%).
- Among adult Slovenes the largest groups to have chosen the entrepreneurial path are those with a post-secondary education (5.68%), followed by those with a secondary education (5.27%).
- Knowing other entrepreneurs is an important factor. Seven per cent of those who personally know someone who has set up a firm within the previous two years are entrepreneurs, compared with only two per cent or so of those who do not. Knowing other people who are engaged in entrepreneurial activity is important because they can serve as a model and a source of information, experience and advice. From the perspective of enhancing entrepreneurship in Slovenia it is therefore significant that 44 per cent of the adult population personally know someone who has set up a business within the previous two years. This places Slovenia high up in the rankings in 10th place among the 37 GEM participating countries.
- Self-confidence and awareness of business opportunities are also important. Those who believe that good new business opportunities will arise in the area where they live within the next six months are almost twice as likely to be entrepreneurs than those whose do not perceive the existence of such opportunities. Those who have confidence in their own knowledge, experience and skills are more than eight times as likely to be entrepreneurs as those who do not.
- Those who have become entrepreneurs in order to take advantage of a business opportunity predict a larger expansion of business and higher number of employees than those who did so for lack of better options.

National experts in each GEM country – 37 of them in Slovenia – answered a long list of questions and gave their assessment of the situation with regard to nine entrepreneurial framework conditions on a scale from 1 to 5. Their average assessment of Slovenia was highly critical. The experts gave their most positive assessment to education and training, in which Slovenia had the 9th highest assessment out of 34 countries, and internal market competitiveness, in which it had the 11th highest out of 34, but gave their most negative assessment to access to finance, transfer of research and development to industry, and government policy. Slovenia ranked second-to-last out of the 34 countries in which expert interviews were carried out with regard to the assessment of science and technology transfer and the availability of venture capital.

Based on in-depth interviews with experts, the concluding chapter contains many recommendations for measures that could help improving conditions for increased entrepreneurial activity in Slovenia. One basic fact that applies to equally Slovenia as it does to all countries is that radical changes in entrepreneurial potential cannot be brought about overnight. Real change for the better requires perseverance and long-term effort for more effective action in a range of areas of government and many sections of society that help or hinder the impulse towards autonomy and creativity. It is important that government policy towards entrepreneurship should be consistent and hence predictable from the point of view of individuals who choose to set up their own businesses. This also requires coordinated actions of both central government and local administration.

In 2002 Slovenia was not yet functioning as an entrepreneurial society. Awareness has yet to spread that successful development requires cooperation between government and entrepreneurs, since no-one can force an entrepreneur to expand, hire and develop. This can only come from the individual's motivation, which depends on the conditions created within society. The fundamental challenge confronting us is therefore that of putting in place a clear vision of Slovenia's long-term development as an entrepreneurial society and creating a conducive environment so that as many people as possible should successfully embark on entrepreneurial ventures.

1 The Global Entrepreneurship Monitor

1.1 Project history

This year's research, in which 37 countries took part, included Slovenia for the first time. The main aim of GEM is to identify differences in the level of entrepreneurial activity in different countries and their relationship with national economic growth. It also explores why some countries have a higher level of entrepreneurial activity than others and what can be done to raise the level of national entrepreneurial activity.

The Global Entrepreneurship Monitor (GEM) is a large-scale research programme launched in 1997 by leading researchers in the field of entrepreneurship at the London Business School (United Kingdom) and Babson College (United States). In subsequent years a consortium of national teams in participating countries was formed. The first round of research, published in 1999, involved 10 countries. Since then the coverage has widened – to 21 countries in 2000, 29 in 2001, and 37 in the latest year, 2002. These were Argentina, Australia, Belgium, Brazil, Canada, Chile, China, Croatia, Denmark, Finland, France, Germany, Hong Kong, Hungary, Iceland, India, Ireland, Israel, Italy, Japan, Korea, Mexico, the Netherlands, New Zealand, Norway, Poland, Russia, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, the United Kingdom and the United States.

Slovenia took part in the 2002 research for the first time, a development that is all the more exciting for the fact that we have lacked truly comparable information until now on where we stand relative to the rest of the world with regard to entrepreneurship. Indeed, there has been no previous research like the GEM on the subject of entrepreneurship in the world. The ten-member coordination team is linked to over 120 researchers from participating countries. Collection of the primary data, gathered from research of the adult population in the participating countries, is undertaken by research firms, which brings the involvement of an additional group of trained researchers into the overall research enterprise.

The methodology has been developed and augmented over the past five years and seeks to uncover the links between entrepreneurship and economic growth and development. The main aim of the GEM is to provide an annual assessment of entrepreneurial activity across countries. We study numerous factors that potentially affect differences in entrepreneurship rates and attempt to provide new insights into the extent and significance of the entrepreneurial process in order to understand better how entrepreneurship can be enhanced by the creation of an appropriate supportive environment.

1.2 The GEM theoretical model

Nowadays there is no longer any theoretical dispute that well-developed entrepreneurship has a critical effect on the success of national economies. Nor is it disputed that entrepreneurship is a scarce good, as not everyone is willing to take risks and not everyone is able to make the right business decisions. Slovenia must embrace entrepreneurship if it is to avoid going down in history as a country that was unable to adapt to the rules of the game in such a way as to allow those rules to encourage entrepreneurship and creativity, but stuck instead to the classic production model of primary industry. Education, know-how, technology and entrepreneurship are crucial factors leading to economic success and hold out the promise of placing Slovenia among that section of humanity, sadly a minority, that can expect to develop and prosper further over the next decade.

There is no shortage of definitions of entrepreneurship and entrepreneur in the economic and business literature, and the picture has become more complex since Say, when the interdependence of entrepreneurship, economic growth and the level of development of different countries ought to have been explained. In view of the large number of countries in which the GEM research is carried out, among which there exist wide economic, social, cultural and linguistic differences, it is important that researchers apply a single definition of entrepreneurship both in their dialogue with each other and when surveying the population and interviewing experts.

For the purposes of the research, entrepreneurship is defined broadly as *any attempt at new business or new venture creation, such as self-employment, a new business organisation, or the expansion of an existing business by an individual, a team of individuals, or an established business.* Since we are not concerned with the number of firms or legal entities but with the entrepreneurial process, it is important that the definition supplied should allow us to encompass entrepreneurial activity and identify entrepreneurial individuals.

Ever since Schumpeter drew attention to the creative destruction wrought by an entrepreneur within the economic system, we have been attempting to understand how in fact this works, how the entrepreneurial process occurs and above all why it is that entrepreneurial activity develops in some environments but not in others. Even though theories of economic growth generally acknowledge the role of individual initiative by entrepreneurially-minded individuals, we know relatively little about the forms this initiative takes.

The basic GEM model with which we are seeking to understand the entrepreneurial process is based on the notion that the specific circumstances for the conduct of entrepreneurial activity in an individual country affect the size and scope of entrepreneurship, which in turn affects economic growth and development. These dependencies are not one-way – the existing level of economic development also affects entrepreneurship and business conditions.

Through the GEM research project we are seeking to understand:

- differences in the level of entrepreneurial activity across countries
- whether and how these differences are related to national economic growth
- why some countries have a higher rate of entrepreneurial activity than others
- what can be done to increase the national level of entrepreneurial activity.

The basic dependent variable to be explained in the GEM conceptual model[1] is national economic growth. It is assumed that economic processes occur in the context of a relatively stable social, cultural and political environment. Two basic mechanisms of growth are in operation. The first basic source of economic growth, shown in *Figure 1*, are the main established firms, which primarily play a role in international trade. If general national conditions are stable, these firms can be internationally competitive and can assist the growth of micro, small and medium-sized enterprises.

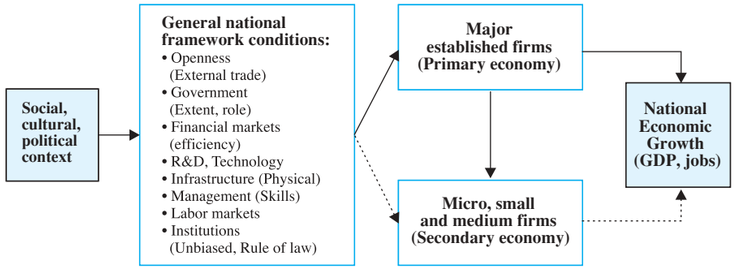


Figure 1: Major established firms and national economic growth

The second basic source of economic growth, shown in *Figure 2*, is the entrepreneurial process taking place in new and growing enterprises. In this case, influenced by the social, cultural and political context, another complex of factors is in operation, termed the entrepreneurial framework conditions, which while linked to the general national framework conditions are nevertheless distinct. The flow of the entrepreneurial process is affected in important ways by business opportunities available to people and their capacity to undertake new ventures. All of these things affect the business churning, in which new ventures and enterprises are born, contributing to economic growth.

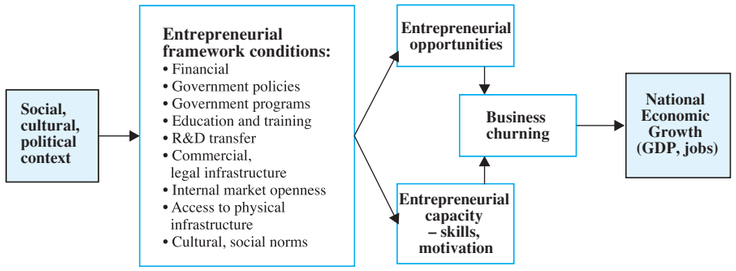


Figure 2: The entrepreneurial process and national economic growth

Both processes contribute to economic growth. *Figure 3* shows the entire model, in which both mechanisms of economic growth are represented. Unlike most international studies,[2] which concentrate on factors affecting the competitiveness of established firms already in existence, the GEM concentrates on the lower part of the figure, in other words on the entrepreneurial process and its relationship with economic growth. The general environment in any country affects existing firms and sectors and nascent and new firms. The emergence of new firms is also affected by entrepreneurial framework conditions, which cover:

- the availability of different kinds of financial support (the banking system, venture capital, informal investment, business angels),
- the design and conduct of government policy, which may be more or less benign towards entrepreneurship,
- the implementation of government programmes that create the conditions for the development of entrepreneurship,
- the availability and quality of education and training for entrepreneurship,
- the existence and effectiveness of mechanisms for the transfer of research achievements and technology to industry,
- the quality and accessibility of business and professional infrastructure required by young and growing firms,
- openness and competitiveness of the internal market, i.e. the size of entry barriers or the ease or difficulty with which new firms can become established in the marketplace,
- access to physical infrastructure necessary for business,
- cultural and social norms that encourage or discourage entrepreneurial activity.

These conditions affect the existence and awareness of business opportunities and the entrepreneurial capacity of the adult population. Awareness of business opportunities and the skills and motivation of the adult population to take advantage of them constitute more or less fertile ground for the birth and growth of firms.

The GEM is thus not concerned with existing firms that are more than three-and-a-half years old. What it is concerned with is the relative entrepreneurial orientation of the adult population and the rate of emergence of new and growing firms, and the differences that arise across countries. These result from:

- differences across countries in the nine entrepreneurial framework conditions,
- the relative readiness of the adult population to seek and create business opportunities, and
- their motivation and capacity (knowledge and skills) to take advantage of these opportunities.

The model thus assumes that entrepreneurship is a driver of economic growth. In the context of social, cultural, political and economic circumstances in a country, the general national framework conditions and the entrepreneurial framework conditions affect entrepreneurial activity, which results in economic growth. The linkages between entrepreneurial processes and growth can only be revealed in a global context given data from a large number of countries with which to calculate correlations. If data were only available for Slovenia it would only be possible to calculate correlations given long time series. Since this is the first year in which Slovenia has been involved in the project and time series are not available, the Slovenian GEM for 2002 concentrates on studying the current situation in Slovenia by comparison with the GEM participant countries and on assessing the various entrepreneurial framework conditions and their effect on entrepreneurial activity.

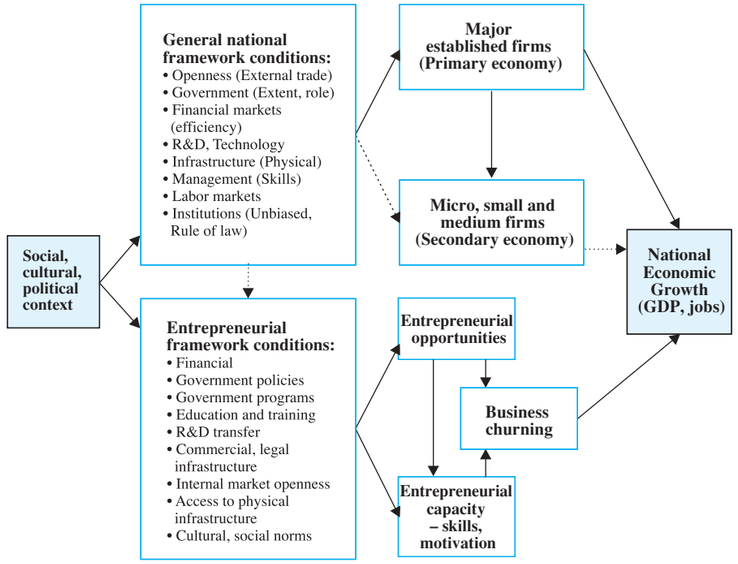


Figure 3: The GEM conceptual model

1.3 Data sources

GEM research employs four basic data collection mechanisms. Three of them provide the primary data collected specially for the GEM, which are then combined with data from secondary sources. The data are obtained from:

- a survey of a sample of the adult population,
- personal interviews with national experts on particular sets of entrepreneurial framework conditions,
- a detailed questionnaire completed by national experts and
- established international sources of standardised data.

Survey of the adult population: In each country a reputable specialist organisation conducts a telephone survey of the adult population, based on a sample of at least 2,000 adults.[3] In Slovenia the survey was carried out by Gral-Iteo on an appropriately weighted sample of 2,030 people. The interviews help us to ascertain the level of entrepreneurial activity among the adult population, and their duration depends on the extent to which the respondent is entrepreneurially active. The first part of the questionnaire explores the establishment and management of the firm and informal investment in new firms. Individuals who are found to be entrepreneurially active are then asked additional questions in greater depth. The second part of the questionnaire explores respondents' attitudes towards entrepreneurship.

Personal expert interviews: In Slovenia, for each entrepreneurial framework condition at least four individuals were selected, who were considered to be in a position to shed light on entrepreneurship in Slovenia on the basis of their entrepreneurial activity to date, their professionalism, knowledge and reputation. In the personal interviews, which lasted on average more than an hour each, they gave us their views on:

- the fundamental weaknesses inhibiting the development of entrepreneurship in Slovenia,
- the fundamental advantages that Slovenia possesses and that it could take advantage of in enhancing entrepreneurship and
- what should be done to encourage as many people as possible to take up entrepreneurial activity.

All 37 interviews were recorded and transcribed, then summarised and coded together with personal notes, in order to permit comparison with the statements of experts in other GEM countries.[4]

Standardised expert questionnaire: Each expert completed an extensive standardised questionnaire. This contained seventy questions concerning the assessment of the situation with regard to the entrepreneurial framework conditions and ten that were identical to questions posed in the survey of the adult population. The national teams coded the responses obtained and submitted them to the GEM coordination team, which created a common database. The questionnaire, which was translated into the languages of the participant countries, permits numerous fruitful comparisons across countries.

National economic and demographic data: Any comparisons of national characteristics (e.g. GDP growth) across countries must be based on reliable and harmonised international sources. These sources included the databases held by the United Nations, Eurostat, the World Bank, the ILO, the International Monetary Fund and the OECD. Processing such a large quantity of data requires very careful organisation, which is provided by the GEM coordination team.

1.4 Measures of entrepreneurial activity

The GEM employs six measures in assessing the entrepreneurial activity of the adult population, namely:

1. the proportion of the adult population (aged 18-64) actively engaged in setting up a new business **(nascent entrepreneurs)**,
2. the proportion of the adult population employed as owner-managers of new businesses that are no older than 42 months **(new entrepreneurs)**,
3. the proportion of the adult population having personally invested in new and nascent businesses **(micro business angels)**,
4. an index of total entrepreneurial activity consisting of the sum of nascent and new entrepreneurs as a proportion of the adult population **(Total Entrepreneurial Activity)**,
5. an index of opportunity-based entrepreneurial activity **(TEA-Opportunity)**, representing the proportion of the adult population who engaged in setting up a new business because an opportunity presented itself,
6. an index of necessity-based entrepreneurial activity **(TEA-Necessity)**, representing the proportion of the adult population who engaged in setting up a new business out of necessity, because they had no better choices for work.

In the context of the GEM, the entrepreneurially active population means individuals who are personally involved in the creation of new ventures (nascent entrepreneurs) or who are employed as owner managers of new firms that are less than 42

months old (new entrepreneurs). The measure of entrepreneurial activity – the TEA index – expresses the proportion of individuals in a country who are involved in entrepreneurial activity, be it as nascent or as new entrepreneurs, and is a fundamental indicator of entrepreneurial activity that allows comparison across all the countries participating in the GEM.

In the context of the GEM, the entrepreneurially active population thus means, *first*, individuals who are personally involved in the creation of new ventures or, *secondly*, individuals who are employed as owner-managers of new firms that are less than 42 months old or, *thirdly*, individuals who have personally invested in new ventures. The TEA index comprises only nascent and new entrepreneurs. Individuals who fulfil both roles are counted only once. Micro business angels are not included in the calculation of the TEA index.

For the purpose of identifying the entrepreneurially active population, the GEM has developed a series of questions aimed at ascertaining whether an individual is entrepreneurially active:

1. For an individual to qualify as a **nascent entrepreneur**, he or she must have answered yes to question **a** or **b** of the following:
   a. Are you currently trying, alone or with others, to set up a new firm or start up a new business, including any kind of self-employment or sale of products or services – a task that is outside your normal employment?
   b. Are you currently trying, alone or with others, to set up a new firm or start up a new business for your employer – a task that falls within your normal employment?

   A positive answer led to a further three questions aimed at establishing whether the activity in question was genuinely a nascent venture:
   c. Have you in the last 12 months helped in any way to start up a new business or set up a new firm, for example by searching for suitable equipment or premises, assembling an initial team of people, working on a business plan, starting to save money or doing anything else to help start up a new business or set up a firm?
   d. Will you personally own the whole business or part of the business, or will you not own any of it?
   e. Has the new business paid any wages, salaries or remuneration, including your own wages, covering a period of more than three months?

   To be identified as a nascent entrepreneur, the respondent had to answer "yes" to question **c**, "the whole firm" or "part of the firm" to question **d** and "no" to question **e**. A respondent answering "yes" to question **e** could potentially be identified as a new entrepreneur.
2. To be identified as a **new entrepreneur**, the respondent had to confirm that he or she was the sole or joint owner of a firm that he or she helped to run or that he or she was self-employed and that the business was set up no earlier than 1999 (it was no more than 42 months old in June 2002).
3. To be identified as a **micro business angel**, the respondent had to have personally invested in a new business set up by someone else within the last three years, not counting purchases of shares or bonds or investments in mutual funds.
4. The index of **total entrepreneurial activity (TEA)** is defined as the sum of nascent and new entrepreneurs. Those identified as both – who were 5% of the total in 2002 – are counted only once.
5. The index of opportunity-based entrepreneurial activity **(TEA-Opportunity)** is defined as the number of individuals fulfilling the following criteria:
   - qualifying as a nascent or new entrepreneur
   - stating that they started up the new venture because they were presented with an opportunity.
6. The index of necessity-based entrepreneurial activity **(TEA-Necessity)** is defined as the number of individuals fulfilling the following criteria:
   - qualifying as a nascent or new entrepreneur,
   - stating that they started up the new venture because they had no better choices for work.

The TEA index reflects the number of individuals in each country who are involved in entrepreneurial activity as either nascent or new entrepreneurs, and is a fundamental indicator of the level of entrepreneurial activity that allows comparison across all the GEM participant countries.

1.5 GEM Slovenia 2002

This is the first year in which Slovenia has taken part in the GEM. The research is led by the Institute of Entrepreneurship and Small Business Management at the Faculty of Economics and Business of the University of Maribor, assisted by the Centre for Entrepreneurship Development at the Faculty of Economics of the University of Ljubljana and the GEA College of Entrepreneurship in Piran. The GEM provides us with a tool to help position entrepreneurship in Slovenia within an international context. Although enterprise and entrepreneurship are often cited as being important for national development, the right international comparisons are not always available. The GEM is helping us to arrive at a more reliable picture of the state of entrepreneurship, so that economic policy measures and mechanisms for encouraging entrepreneurship in Slovenia can be focused on areas where they are likely to have the largest long-term impact. The results of the GEM Slovenia 2002 research show that there is much to be done.

The GEM is not a contest but a research programme that helps us find out more about entrepreneurship. Nor is it yet another benchmarking comparison of Slovenia with the rest of the world. Rather, it is a global research endeavour of which Slovenia is part. We therefore see the greatest value of the GEM in the fact that it applies a single methodology and harmonised data to such a large sample of countries. By comparing entrepreneurial activity in the participating countries with appropriate rigour, we can identify certain common features despite the enormous cultural and social differences. Participating in the GEM delivers another long-term benefit: Slovenia thereby reveals the state of its entrepreneurial activity to the rest of the world. Research teams from all over the world who take part in the GEM have identical data at their disposal and the analysis of Slovenian entrepreneurship is no longer the exclusive domain of Slovenian researchers. We are part of this community with our own strengths and weaknesses, and in future years, as comparable time series become available, we along with other research teams will attempt to discover as much as possible about entrepreneurship, both as a global phenomenon and in its distinctively Slovenian aspects, for the good of Slovenian entrepreneurs and the Slovenian economy.

The Slovenian GEM for 2002 is supported by the Ministry of Economy, the Ministry of Education, Science and Sport, the Small Business Development Centre and the business newspaper Finance.

2 Slovenia among the 37 countries in the GEM

2.1 The global picture

The overall report on entrepreneurship in the 37 countries that took part in the research in 2002 revealed that 12% of people aged between 18 and 64 or 286 million individuals were entrepreneurially active. Projecting this figure onto a world scale implies that 461 million people worldwide are either nascent or new entrepreneurs. The countries that took part in 2002 represent 62% of the world population and 92% of global GDP.

There are, however, large differences in entrepreneurial activity across countries. Japan and Russia show the lowest levels of entrepreneurial activity, Thailand and India the highest. Slovenia falls into the bottom third, lying 25th out of 37 countries. In 2002 one in 22 adults in Slovenia was entrepreneurially active, compared with one in five in Thailand and one in 50 in Japan. In Europe the country with the highest rate of entrepreneurial activity is Iceland, where one in nine adults is entrepreneurially active, while the country with the lowest is Russia, with one in 40. Three-fifths of entrepreneurially active people worldwide take up entrepreneurship because they are presented with a business opportunity, while two-fifths do so because they have no better choices for work.

Among all the countries covered by the research, the countries of Europe and the developed countries of Asia have around 19% of the labour force and around 6% of the entrepreneurially active population. Slovenia makes up 0.5 pro mille of the labour force and only 0.2 pro mille of entrepreneurial activity.

2.2 The TEA index – the level of total entrepreneurial activity

The TEA index measures the proportion of the adult population between the ages of 18 and 64 who are either in the process of setting up a business or are owners managers of a young firm that has been paying wages for no more than 42 months. We are therefore concerned with the earliest stage of the entrepreneurial process. Entrepreneurs who have had a business for more than three-and-a-half years are therefore not included in the TEA index. In accordance with *Figure 3*, these already established businesses (the upper leg of the causal link between entrepreneurship and economic growth), although very important to the success of the economic system, are not the object of the research.

Of the 37 countries that took part in the GEM in 2002, Slovenia ranked 25th with an index of 4.63. If all countries are given equal weight regardless of their size, the average TEA index is 8%. On the other hand, if the countries are weighted according to the size of their labour force as a fraction of that of all GEM countries, the average TEA index is 12%. The difference is due to the effect of the labour force of 1.4 billion in China and India, which account for half of the population included in the sample and in which the index of total entrepreneurial activity is relatively high, being 12.3% in China and as much as 17.9% in India.

Table 1 ranks countries in terms of their TEA index. They have a total population of 3.8 billion, of whom 2.4 billion are in the labour force. Around 286 million people are engaged in the entrepreneurial process. Slovenia accounts for 0.5 pro mille of the labour force and 0.2 pro mille of entrepreneurial activity.

	TEA index	Total population	Total labour force	Count of TEA participants
Thailand	18.90	62,354,000	40,435,000	7,642,000
India	17.88	1,046,000,000	591,466,000	105,872,000
Chile	15.68	15,498,000	9,388,000	1,473,000
Korea	14.52	48,324,000	32,117,000	4,656,000
Argentina	14.15	37,812,000	21,987,000	3,122,000
New Zealand	14.01	3,908,000	2,432,000	340,000
Brazil	13.53	176,029,000	106,442,000	14,369,000
Mexico	12.40	103,400,000	58,331,000	7,233,000
China	12.34	1,284,000,000	814,470,000	100,179,000
Iceland	11.32	279,000	172,000	19,000
United States	10.51	280,000,000	173,911,000	18,260,000
Ireland	9.14	3,883,000	2,289,000	208,000
Canada	8.82	31,902,000	20,565,000	1,809,000
Norway	8.69	4,525,000	2,781,000	241,000
Australia	8.68	19,546,000	12,273,000	1,067,000
Switzerland	7.13	7,301,000	4,696,000	333,000
Israel	7.06	6,029,000	3,485,000	247,000
Hungary	6.64	10,075,000	6,557,000	432,000
South Africa	6.54	43,647,000	24,886,000	1,617,000
Denmark	6.53	5,368,000	3,397,000	220,000
Singapore	5.91	4,452,000	3,191,000	188,000
Italy	5.90	57,715,000	37,102,000	2,189,000
United Kingdom	5.37	59,778,000	36,927,000	1,994,000
Germany	5.16	83,251,000	53,458,000	2,779,000
Slovenia	4.63	1,932,000	1,278,000	58,000
Netherlands	4.62	16,067,000	10,348,000	476,000
Spain	4.59	40,077,000	25,886,000	1,190,000
Finland	4.56	5,183,000	3,274,000	150,000
Poland	4.44	38,625,000	24,899,000	1,095,000
Taiwan	4.27	22,548,000	14,708,000	632,000
Sweden	4.00	8,876,000	5,433,000	215,000
Croatia	3.62	4,390,000	2,739,000	98,000
Hong Kong	3.44	7,303,000	4,955,000	168,000
France	3.20	59,765,000	36,682,000	1,173,000
Belgium	2.99	10,274,000	6,376,000	191,000
Russia	2.52	144,978,000	94,330,000	2,358,000
Japan	1.81	126,974,000	81,290,000	1,463,000
Sum		3,882,068,000	2,374,956,000	285,756,000
Average (country based)	8.0			
Average (population weights)	12.0			

Table 1: Number of TEA inhabitants across GEM countries

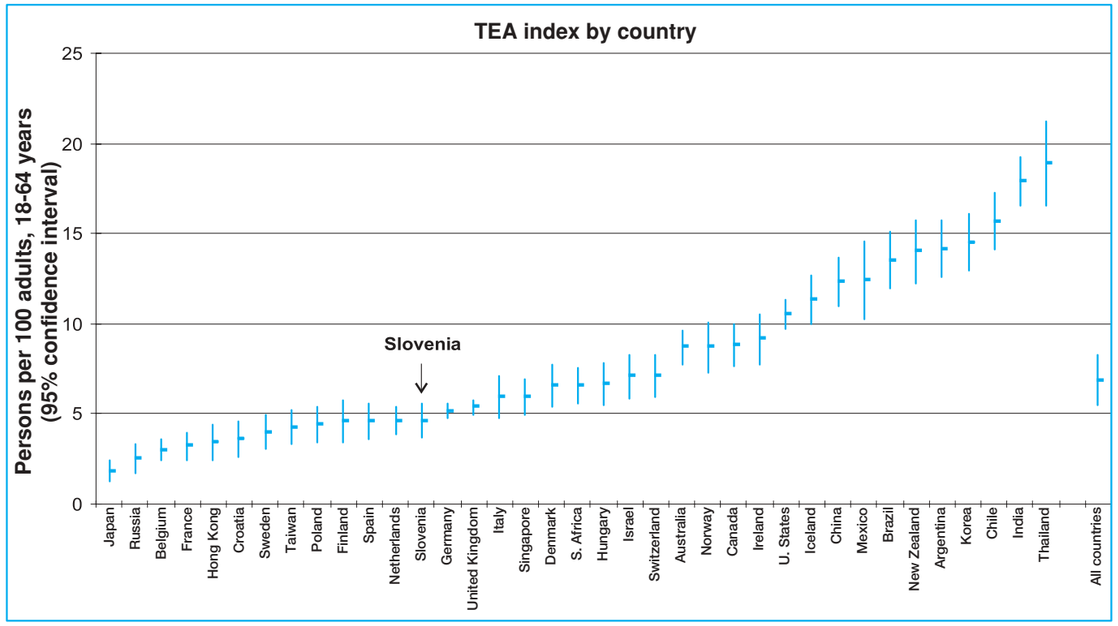


Figure 4: Level of total entrepreneurial activity – TEA index

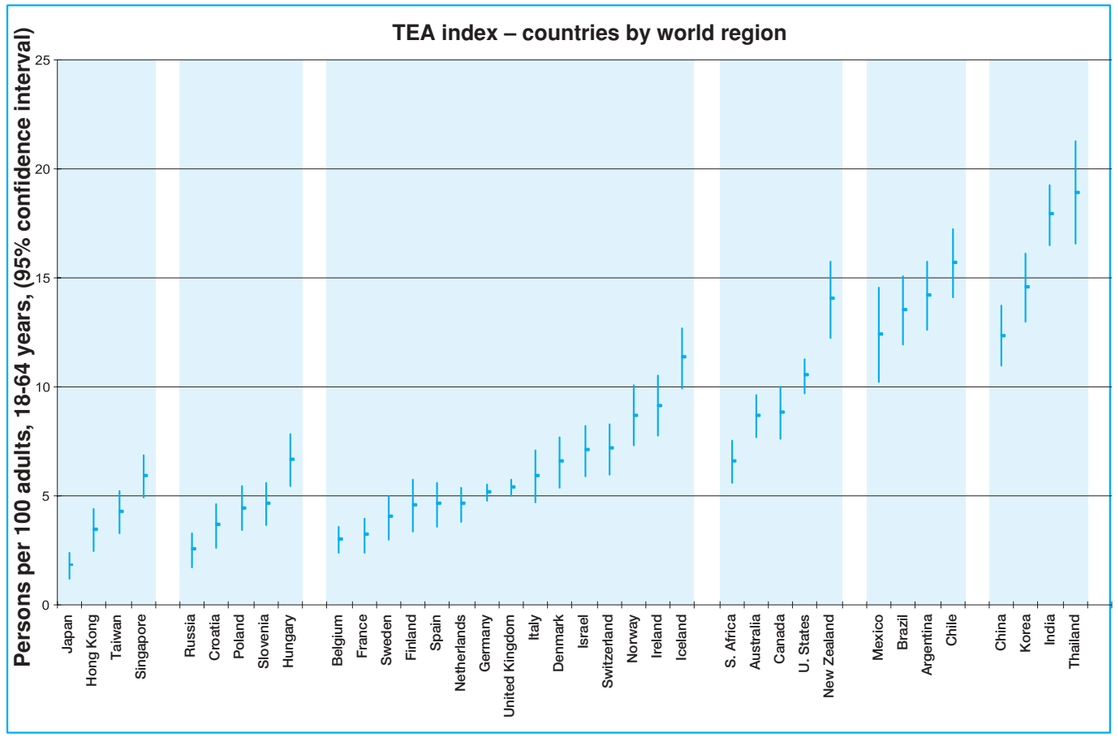


Figure 5: Total entrepreneurial activity by world region

The level of entrepreneurial activity varies widely across the 37 GEM countries. The number of nascent and new entrepreneurs as a fraction of the labour force varies from 1.8% (one in 50) in Japan to 18.9% (one in five) in Thailand. In Slovenia one in 22 adults aged between 18 and 64 is involved in entrepreneurial activity, either having started a venture or owning and managing a young business. The vertical lines in the figure represent 95% confidence intervals, or in other words the size of statistical error. The length of the lines reflects the reliability of the estimates; shorter lines indicate a more reliable estimate. The reliability of the estimates is lower for Thailand and Mexico, where the sample size was 1000 people, and higher for Germany and the United Kingdom, where it was over 15,000. Where the lines overlap between two countries, the difference between them cannot be considered statistically significant. This means for example that Slovenia has a similar level of entrepreneurial activity as Finland, the Netherlands and Poland, and even Spain, Germany and Italy.

Figure 4 ranks countries irrespective of their geographical and cultural characteristics, but nevertheless shows that countries within a particular cultural sphere tend to cluster around a similar level of entrepreneurship. The research therefore categorises countries into six groups, shown in *Figure 5*.

The *Figure 5* shows that entrepreneurial activity is relatively low in the developed countries of southeast Asia and Eastern Europe (the former socialist states), and indeed in many countries of the European Union. Entrepreneurial activity is very vigorous in some countries that were formerly part of the British Empire, which have a very liberal attitude towards doing business, and in many Latin American and Asian countries, where many people turn to starting their own business out of necessity due to economic crisis and the low level of development. Asia is particularly interesting in that extreme differences in the level of entrepreneurial activity occur within a similar cultural sphere and often even among neighbouring countries. This issue will be the focus of careful analysis in future GEM research.

2.3 Opportunity-based and necessity-based entrepreneurship

Table 2 shows, for each participating country, the index of total entrepreneurial activity, the index of opportunity-based entrepreneurial activity and the index of necessity-based entrepreneurial activity.

Comparison of opportunity-based and necessity-based entrepreneurship reveals wide differences across countries in terms of the proportion of people taking up entrepreneurship for one reason versus the other.

We estimate that there were around 58,000 nascent and new entrepreneurs in Slovenia in 2002. These are individuals who are attempting, either alone or together with others, to set up a new firm or start up a new business, including any kind of self-employment or sale of products or services, and individuals who are owner managers of a firm that is less than three-and-a-half years old. Some have done so because they were presented with a business opportunity, others because they had no better choices for work.

The number of entrepreneurs who have turned to entrepreneurship in order to pursue a business opportunity is relatively low in Slovenia compared with the other GEM countries. The opportunity-based TEA index ranks Slovenia 30th out of 37 countries with 3.26%. In other words every one in 30 inhabitants of Slovenia embarks on entrepreneurship because he or she perceives a business opportunity that he or she wishes to take advantage of.

	TEA index	Rank	TEA-necessity	Rank	TEA-opportunity	Rank
Thailand	18.90	1	3.35	7	15.31	1
India	17.88	2	5.04	5	12.41	2
Chile	15.68	3	6.74	4	8.53	7
Korea	14.52	4	4.12	6	8.55	6
Argentina	14.15	5	7.13	2	6.77	12
New Zealand	14.01	6	2.25	10	11.57	3
Brazil	13.53	7	7.50	1	5.78	16
Mexico	12.40	8	2.70	8	8.28	8
China	12.34	9	6.97	3	5.61	17
Iceland	11.32	10	0.92	22	8.62	5
U. States	10.51	11	1.15	18	9.11	4
Ireland	9.14	12	1.38	14	7.77	9
Canada	8.82	13	1.10	20	7.36	11
Norway	8.69	14	0.37	34	7.42	10
Australia	8.68	15	1.53	12	6.69	13
Switzerland	7.13	16	0.86	23	6.03	14
Israel	7.06	17	1.40	13	5.22	18
Hungary	6.64	18	2.11	11	4.00	22
South Africa	6.54	19	2.38	9	3.30	29
Denmark	6.53	20	0.43	33	5.89	15
Singapore	5.91	21	0.86	24	4.94	19
Italy	5.90	22	0.53	30	3.34	26
United Kingdom	5.37	23	0.69	27	4.38	20
Germany	5.16	24	1.15	19	3.92	23
Slovenia	4.63	25	1.37	15	3.26	30
Netherlands	4.62	26	0.50	32	4.03	21
Spain	4.59	27	1.02	21	3.42	25
Finland	4.56	28	0.33	35	3.88	24
Poland	4.44	29	1.27	16	2.84	31
Taiwan	4.27	30	0.71	26	3.33	27
Sweden	4.00	31	0.67	28	3.33	28
Croatia	3.62	32	0.85	25	2.18	34
Hong Kong	3.44	33	1.19	17	2.25	33
France	3.20	34	0.09	37	2.84	32
Belgium	2.99	35	0.27	36	1.99	35
Russia	2.52	36	0.56	29	1.90	36
Japan	1.81	37	0.51	31	1.24	37
GEM average	6.88		1.70		5.40	

Table 2: Opportunity-based and necessity-based entrepreneurship

Figure 6 shows that the ranking of countries in terms of their level of opportunity-based entrepreneurial activity is rather similar to that of the overall TEA index shown in *Figure 4*.

Figure 7 shows the global picture for necessity-based entrepreneurship. Wide variations exist across countries. The largest proportion of people, one in 15, are forced into entrepreneurship in Brazil and Argentina, while necessity-based entrepreneurship is lowest in France and Spain. Six countries have a necessity-based TEA index of half of one per cent or less, which means that fewer than one adult in two hundred has turned to entrepreneurship by necessity and not because he or she was presented with a promising business opportunity.

The necessity-based TEA index in Slovenia is 1.37%, implying that one in 70 of the adult population takes the entrepreneurial route out of necessity, having no better choices for work.

This places Slovenia relatively high in the rankings on a world scale, 15th out of 37 countries. In 22 countries the decision of

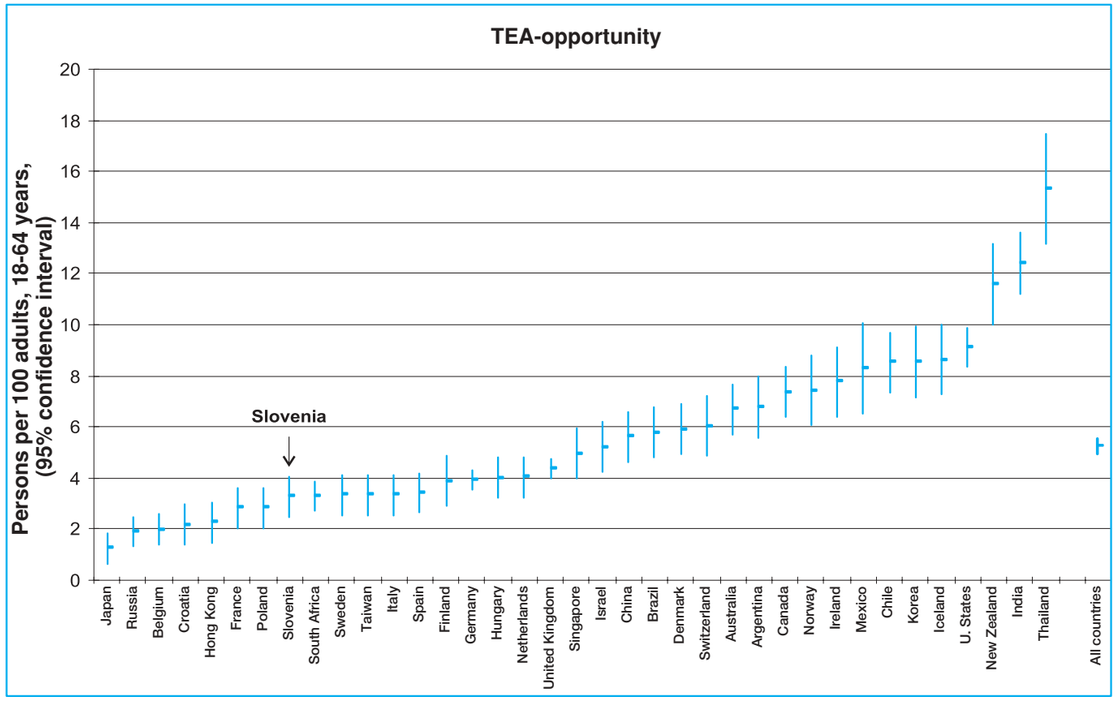


Figure 6: Opportunity-based entrepreneurial activity

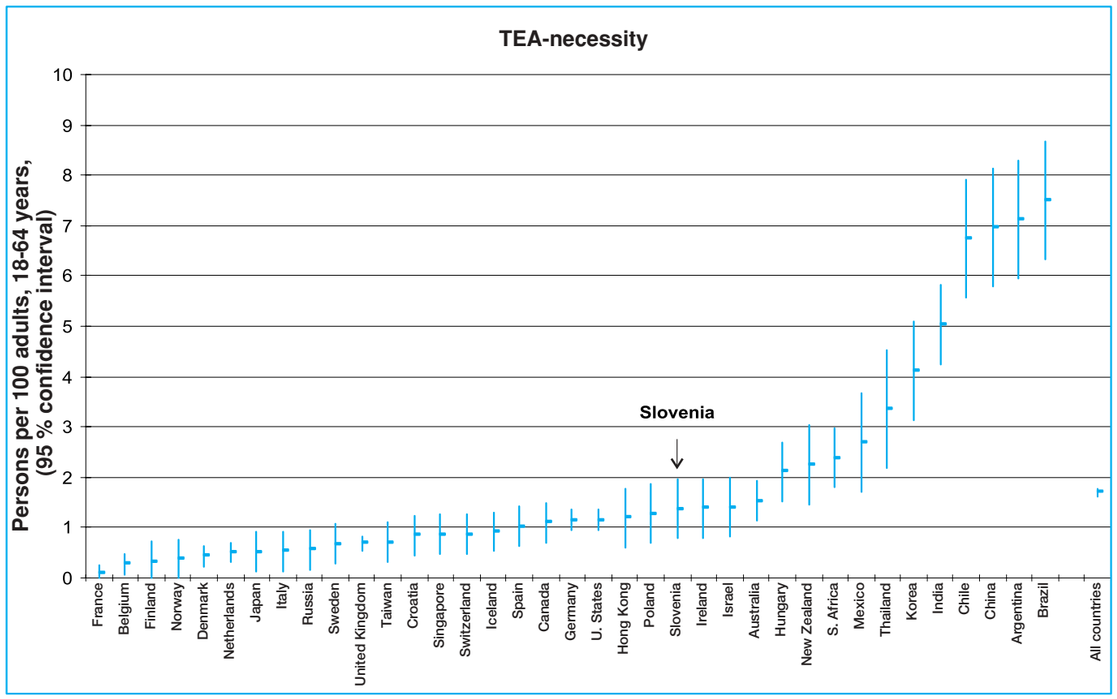


Figure 7: Necessity-based entrepreneurial activity

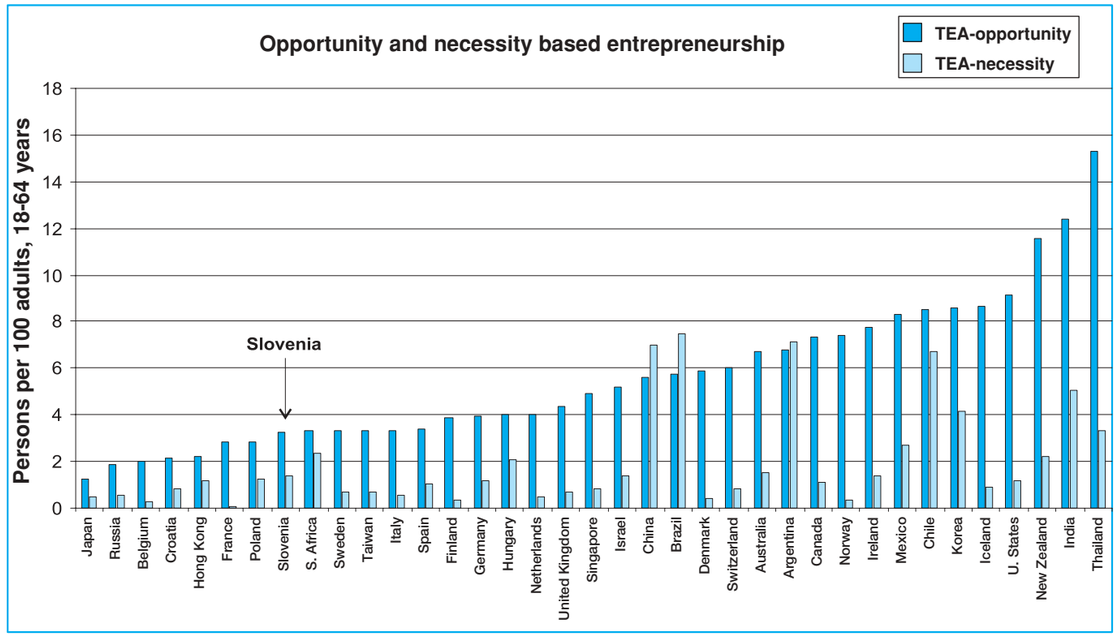


Figure 8: Opportunity-based and necessity-based entrepreneurship

entrepreneurs to take this route was less likely to be motivated by necessity than in Slovenia. Compared with the other GEM countries there are therefore an above-average number of entrepreneurs in Slovenia who have chosen an entrepreneurial career because they had no other choice. The phenomenon of entrepreneurial activity by necessity throws up a range of issues – from the qualifications and aspirations of such entrepreneurs to progression beyond self-employment, the motivation for hiring co-workers, business growth intentions, foreign competition etc.

2.4 Nascent and new entrepreneurs

The research distinguishes between entrepreneurs in the earliest phases of the entrepreneurial process and those already trading

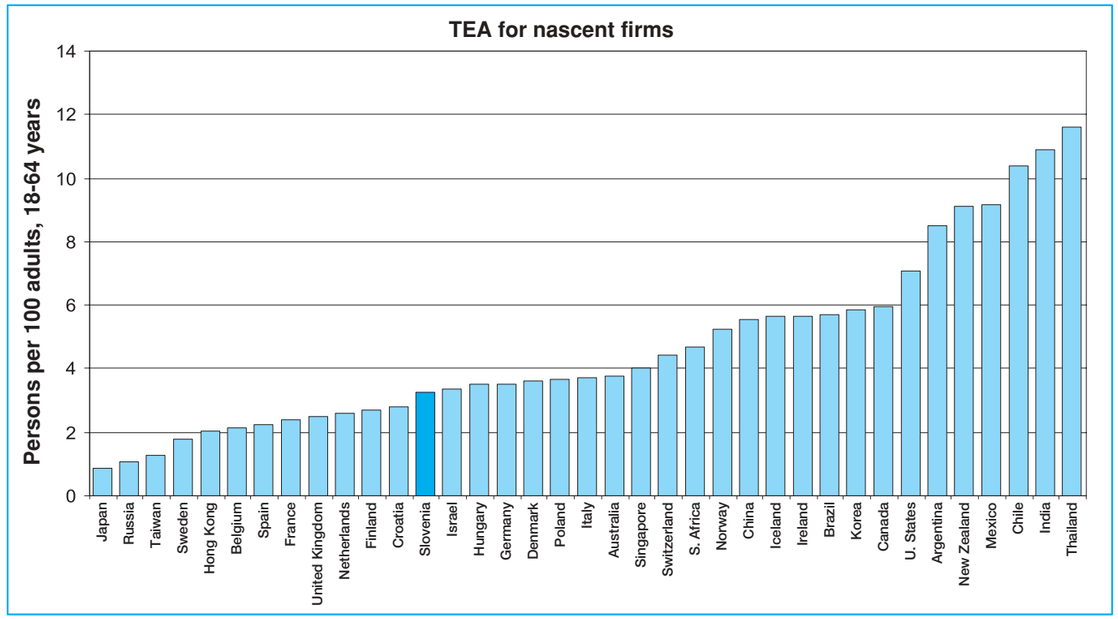


Figure 9: TEA for nascent firms

as new firms. The first group are termed **nascent entrepreneurs** and include all those who, on their own or with others, are seeking to set up a new firm or start a new business and have not paid any salaries or wages for more than three months. These are the entrepreneurs who are by far the most vulnerable and most in need of conducive conditions. The average TEA index for nascent entrepreneurs in the GEM countries is 4.7%, with Thailand having the highest (11.6%) and Japan the lowest (0.87%). The TEA index for nascent firms in Slovenia is 3.27%, placing it 25th.

For an individual to be identified as a **new entrepreneur**, he or she had to confirm that he or she was currently the sole or joint owner of a firm that he or she helped to run or that he or she was self-employed and that the business was set up no earlier than 1999 (it was no more than 42 months old in June 2002). The average TEA index for new firms in the GEM countries was 3.7%. Korea had the highest index (9.3%) and Poland the lowest (0.8%). The index for Slovenia was 1.53%, placing it 31st.

The entrepreneurial process is not costless and involves an investment of money and time on the part of the entrepreneur. The opportunity costs of investment in the entrepreneurial process can be large. The success rate of this process, i.e. how many nascent firms will survive and grow, is therefore important. The ratio of new to nascent enterprises tells us about the survival rate of new ventures. In countries with a high rate of nascent firms and a low rate of new firms, it is clear that the mortality rate for new ventures is high.

Table 3 gives the ratio of new to nascent enterprises and of necessity-based to opportunity-based entrepreneurs. The necessity quotient,[5] expressed as the ratio of necessity to opportunity,

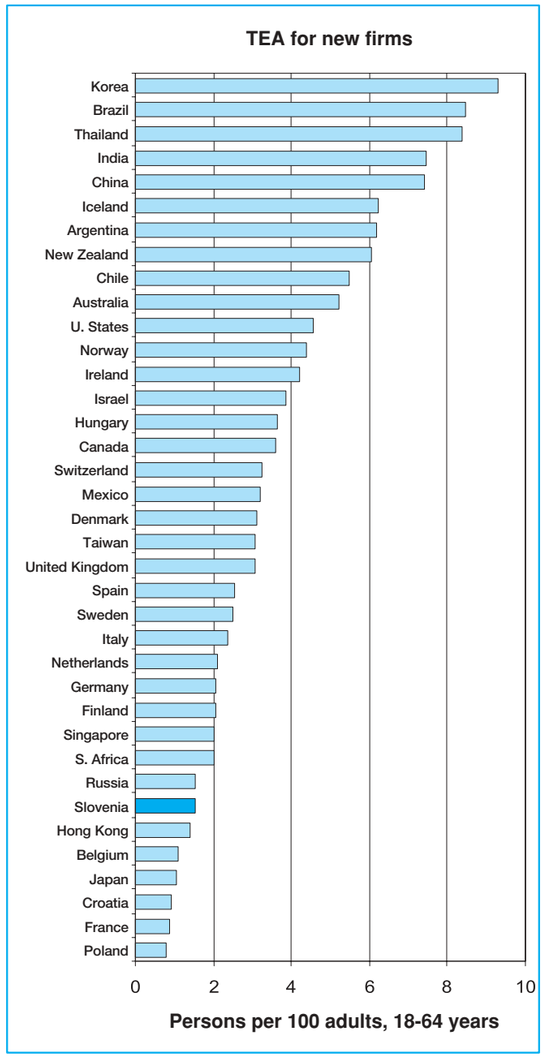


Figure 10: TEA for new firms

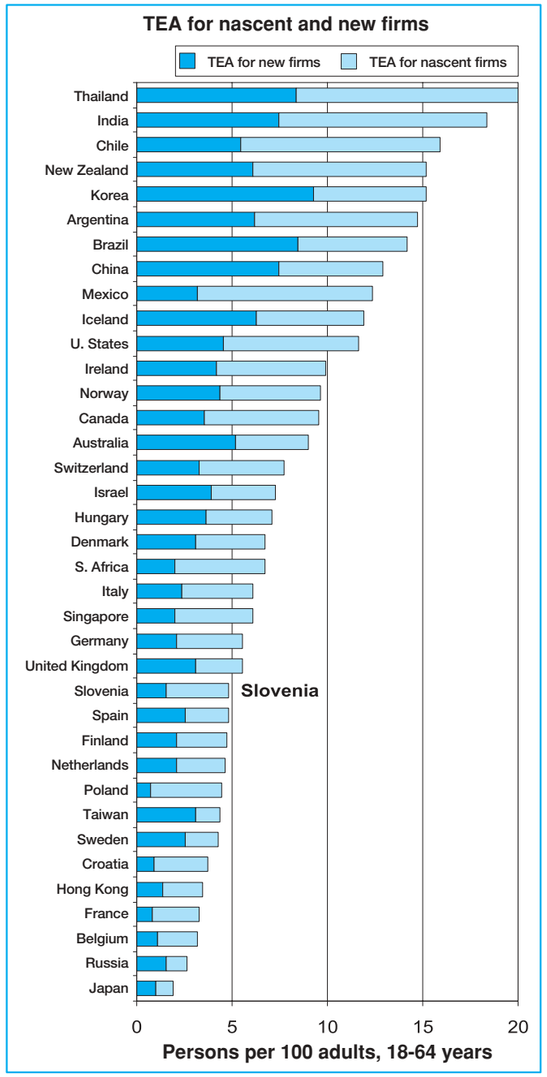


Figure 11: TEA for nascent and new firms

is 0.42 for Slovenia, meaning that for every ten entrepreneurs in Slovenia who have opted for entrepreneurship on the basis of a business opportunity, four have done so out of necessity. Spain, France, Norway, Denmark and Finland have a ratio less than 0.1. Argentina, China and Brazil, with a necessity quotient greater than one, are at the bottom. The opportunity quotient is the inverse of the necessity quotient. In Slovenia it is equal to 2.38, meaning that for every ten entrepreneurs in Slovenia who have opted for entrepreneurship out of necessity, 24 have done so on the basis of a business opportunity.

The survival quotient[6] expresses the "yield" of the entrepreneurial process. It is lowest in Poland (0.21) and Croatia (0.33) and highest in Taiwan (2.40) and Korea (1.59). Slovenia is in 32nd place. The mortality quotient represents the inverse of the survival quotient and stands at 2.14 for Slovenia, meaning that for every 2.14 nascent firms in Slovenia only one survives.

Country	Necessity quotient	Opportunity quotient	Survival quotient	Mortality quotient
Thailand	0.22	4.57	0.72	1.39
India	0.41	2.46	0.68	1.46
Chile	0.79	1.27	0.53	1.89
Korea	0.48	2.07	1.59	0.63
Argentina	1.05	0.95	0.73	1.37
New Zealand	0.19	5.14	0.66	1.51
Brazil	1.3	0.77	1.49	0.67
Mexico	0.33	3.07	0.35	2.85
China	1.24	0.8	1.34	0.75
Iceland	0.11	9.38	1.1	0.91
U. States	0.13	7.94	0.64	1.55
Ireland	0.18	5.62	0.74	1.35
Canada	0.15	6.69	0.6	1.66
Norway	0.05	20.26	0.84	1.19
Australia	0.23	4.37	1.39	0.72
Switzerland	0.14	6.97	0.73	1.36
Israel	0.27	3.73	1.16	0.86
Hungary	0.53	1.89	1.04	0.96
S. Africa	0.72	1.39	0.43	2.35
Denmark	0.07	13.84	0.86	1.16
Singapore	0.17	5.75	0.5	1.99
Italy	0.16	6.32	0.63	1.59
United Kingdom	0.16	6.32	1.23	0.82
Germany	0.29	3.42	0.59	1.7
Slovenia	0.42	2.38	0.47	2.14
Netherlands	0.12	8.02	0.81	1.23
Spain	0.3	3.36	1.13	0.88
Finland	0.08	11.82	0.77	1.3
Poland	0.45	2.24	0.21	4.76
Taiwan	0.21	4.72	2.4	0.42
Sweden	0.2	5.01	1.39	0.72
Croatia	0.39	2.58	0.33	2.99
Hong Kong	0.53	1.89	0.68	1.46
France	0.03	30.21	0.36	2.79
Belgium	0.14	7.23	0.51	1.97
Russia	0.3	3.36	1.42	0.71
Japan	0.42	2.41	1.19	0.84

Table 3: Quotients of entrepreneurial activity

2.5 Men and women in entrepreneurship

The entrepreneurial process in the GEM countries is dominated by men. *Figure 12* shows the proportion of entrepreneurs in the male and female adult population, which varies considerably across countries. While the proportion of entrepreneurs among men and women is almost equal in Thailand, in Japan there is a fivefold difference in favour of men. In Slovenia the ratio of male to female entrepreneurs is 2.2 : 1, compared with an average for all the GEM countries of 1.8 : 1. There is not one country among the GEM participants in which women are as likely as men or more likely than them to be involved in entrepreneurial activity.

In the GEM countries the most entrepreneurially active male group are those aged between 25 and 34, who make up almost one-fifth (*Table 4*). This age group also predominates among

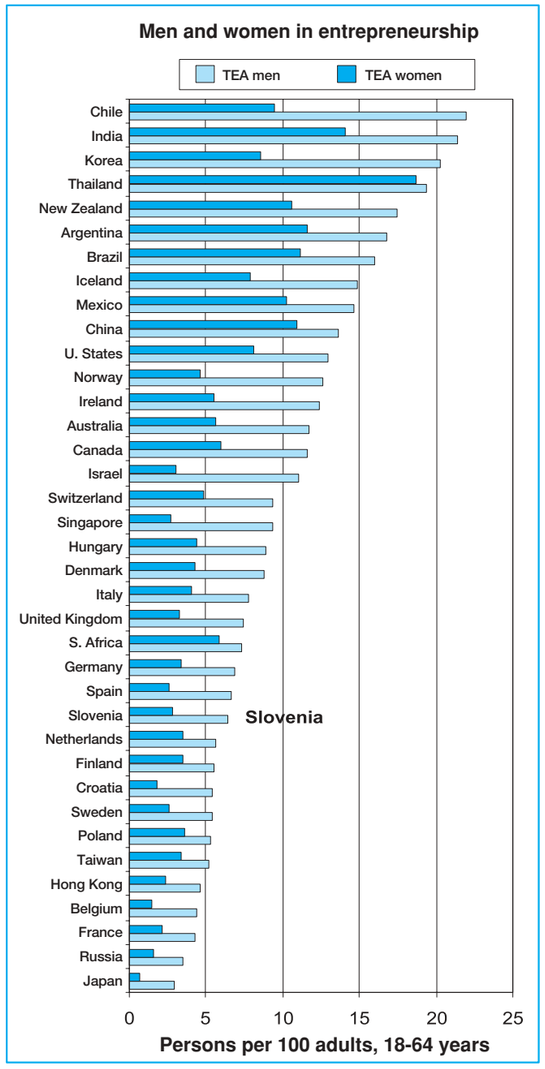


Figure 12: Men and women in entrepreneurship

women, with 12.8% of entrepreneurially active women being in this age group, which dominates both the overall TEA index and all subcategories – necessity-based and opportunity-based entrepreneurship, nascent and new entrepreneurs.

GEM	Age	Men	Women
TEA			
	18-24 years	13.2	7.7
	25-34 years	19.7	12.8
	35-44 years	14.6	10.2
	45-54 years	11.2	6.2
	55-64 years	6.8	5
TEA-opportunity			
	18-24 years	10.8	5.6
	25-34 years	13.3	7.6
	35-44 years	9.8	5.2
	45-54 years	7.1	3.2
	55-64 years	3.7	2.5
TEA-necessity			
	18-24 years	1.8	1.9
	25-34 years	6	5
	35-44 years	4.3	4.8
	45-54 years	4.1	3
	55-64 years	2.8	2.4
TEA for nascent firms			
	18-24 years	8.1	4.1
	25-34 years	10.6	7.3
	35-44 years	7.9	6
	45-54 years	6.2	3.7
	55-64 years	3.8	3
TEA for new firms			
	18-24 years	6.1	3.7
	25-34 years	10.3	6.1
	35-44 years	7	4.7
	45-54 years	5.3	2.8
	55-64 years	3.3	2.2

Table 4: TEA index by age and gender

2.6 How vital are firms?

We were interested to discover how vital new and nascent firms in the GEM countries were. Entrepreneurs were asked:

- how many jobs they intended to create in the next five years,
- what volume of exports they planned,
- how new their products and services were and
- in what sector they operated.

The great majority (93%) of entrepreneurs in the GEM countries have ventures that simply copy existing products and services. Over two-thirds of entrepreneurs intend to employ fewer than 20 people over the next five years, while one-fifth will never employ anyone. Only 4% of entrepreneurs expect to export more than 50% of their products. Export orientation is especially important for small countries. While firms in large countries can succeed even without exporting, those in small countries cannot flourish in the long term unless they export. Compared with the GEM average Slovenian entrepreneurs are more export-oriented, with 18% of them expecting to export more than 50% of their output.

	All	Opportunity	Necessity	Other
No. Cases*	9,129	5,541	3,356	232
		61%	36%	3%
Number of jobs in 5 years				
No jobs	20%	44%	53%	3%
1-5	39%	59%	39%	2%
6-19	12%	77%	21%	2%
20 or more	28%	68%	29%	3%
Sum	100%			
Export sales in 5 years				
No export sales	78%	60%	37%	3%
1-25%	16%	74%	23%	3%
26-50%	2%	73%	24%	3%
51-100%	4%	88%	10%	2%
Sum	100%			
Market niche creation				
No	73%	60%	37%	3%
Little	20%	63%	34%	3%
Some	6%	71%	25%	4%
Maximum	1%	80%	15%	5%
Sum	100%			
Activity				
Agriculture, forestry, fishing	4%	4%	6%	2%
Mining, construction	3%	4%	2%	2%
Manufacturing	11%	11%	10%	28%
Transportation, communication, utilities	4%	4%	3%	2%
Whole., motor vehicle, sales and service	10%	12%	8%	6%
Retail, hotel, restaurants	50%	45%	58%	41%
Financial, insurance, real estate	2%	3%	1%	1%
Business services	8%	9%	4%	7%
Health, education, social services	4%	4%	4%	5%
Consumer service	4%	4%	4%	6%
Sum	100%	100%	100%	100%

** Weighted to represent global population of entrepreneurially active. All differences between opportunity and necessity statistically significant at p < 0.0000.*

Table 5: Expectations of TEA entrepreneurs

2.7 Venture capital and business angels

For Slovenia, as for most European countries, the share of external equity finance in the entrepreneurial sector is relatively low, although there exist large differences between micro and small firms on one hand and medium-sized and large firms on the other. Especially in the trades sector, which makes up a sizeable fraction of micro firms, equity financing has traditionally dominated in Slovenia, partly because of the nature of the sector, in which the business is operated by an autonomous entrepreneur. Venture capital as a form of finance for small and growing businesses has sprung up in Slovenia only in the last decade. Public awareness of venture finance by business angels is currently low and it has only recently emerged as a recognisable form of finance, although it would be a mistake to think that there had been no informal financing of the start-up and growth of small businesses by families, friends and other individuals (partners) in the last decade.

Korea and Israel are far above the GEM average in terms of the ratio of venture capital to GDP in 2001. In Europe Sweden has the highest ratio, while the ratio in the United States shrank by more than half in 2001 from more than 1% of GDP in 2000. The GEM 2002 research showed Slovenia to be near the bottom of the world ranking in 2001 in terms of the number of venture capital investments, both relatively in terms of the number of firms and in terms of the ratio to GDP, which stands at only 0.018%, beating only China and lying behind all the countries

in transition, i.e. those joining the EU. On the other hand the venture capital funds invested relatively large sums in certain enterprises, estimated to be as much as USD 1.75 million per firm.

Slovenia fares much better in the ranking of countries by venture capital investment per firm, lying in 13th position with USD 1.75 million, behind Sweden and Israel and ahead of Denmark, Germany, Switzerland, Ireland and most other European countries.

Comparing these figures with the highest-ranked countries on the GEM ladder implies that developing the venture capital market is a major development opportunity for Slovenia, all the more so given that the GEM survey of the adult population showed that there is a significant appetite on the part of the population to invest in business enterprise. For an individual to be identified as a **micro business angel** he or she had within the last three years to have invested personal funds in a new firm set up by someone else, not counting purchases of shares or bonds or investments in mutual funds. Slovenia (along with Hungary)

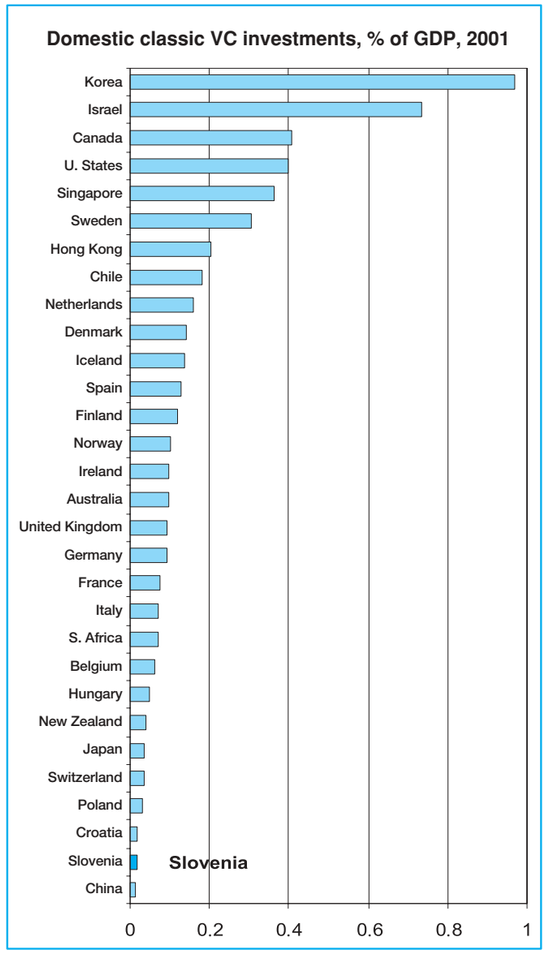


Figure 13: Domestic venture capital

ranked 23rd on the GEM scale with 2.2%, currently just behind Ireland, Sweden, Finland and Spain and ahead of Argentina, Australia, the Netherlands, the United Kingdom, Israel and Italy. More was invested by men (59%) with at least a college education (43%) and aged between 35 and 45 (45%). This breakdown was created by researchers on the basis of the survey responses to the question how much (if any) they themselves had invested in setting up a new firm or starting up a new business and what the relationship of these investors was with the initiator of the venture.

Analysis of access to all sources of external finance shows that Slovenia is below the GEM average in virtually all respects, whether in terms of access to venture capital and business angels, access to sources of debt finance, the role of informal investors in the emergence and growth of firms, initial subscriptions and subsequent issues of shares to finance growth, or the

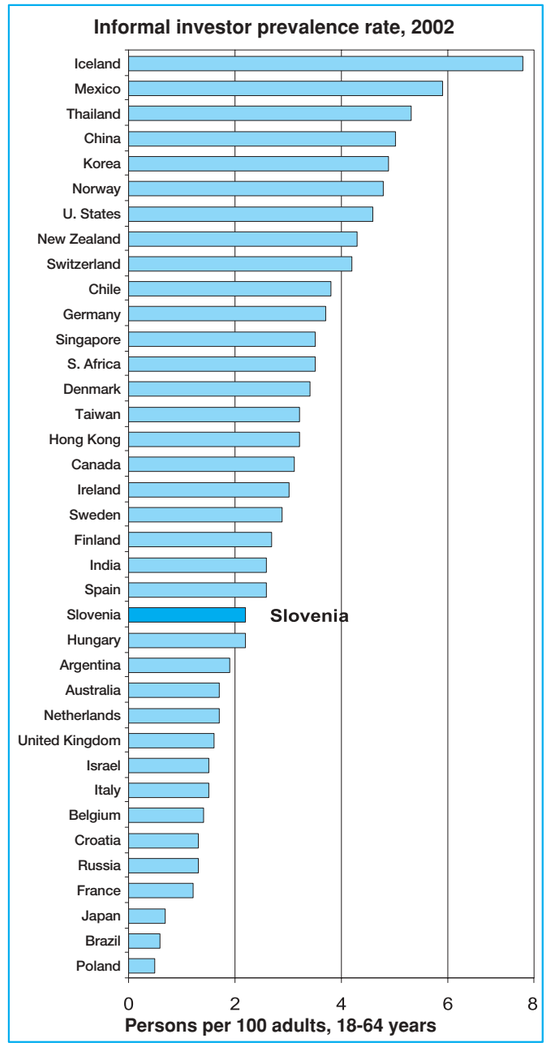


Figure 14: Informal investor prevalence rate

role of venture capital funds in financing the creation and expansion of firms. More detailed analysis of venture capital investments shows that in Slovenia there was an above-average level of investments in business start-ups and expansions compared with the GEM countries, although relatively the largest amount of such investment compared with the GEM sample was in the launching of firms (which is not generally thought of as characteristic of venture capital). There was practically no venture capital investment in management buyouts in Slovenia, unlike for example Hungary, where there was a disproportionately large number of such buyouts. In Slovenia venture capital funds invested as much as 37% of their funds in information technology (compared with a GEM average of 20%).

3 How entrepreneurial is Slovenia?

3.1 Introduction

The study of entrepreneurship using the single GEM methodology placed Slovenia in the bottom third of the GEM countries, 25th out of 37, with a TEA index of 4.63%. In 2002 one in 22 adults in Slovenia was entrepreneurially active, compared with one in five in Thailand and one in 50 in Japan. In Europe the country with the highest rate of entrepreneurial activity is Iceland, where one in nine adults is entrepreneurially active, while the country with the lowest rate is Russia, with one in 40. Among all the countries covered by the research, the countries of Europe and the developed countries of Asia have around 19% of the labour force and around 6% of the entrepreneurially active population. Slovenia makes up 0.5 pro mille of the labour force and only 0.2 pro mille of entrepreneurial activity.

We estimate that there were around 58,000 nascent and new entrepreneurs in Slovenia in 2002. Some have become entrepreneurs because they were presented with a business opportunity, others because they had no better choices for work. The number of entrepreneurs who have turned to entrepreneurship in order to pursue a business opportunity is relatively low in Slovenia compared with the other GEM countries. The opportunity-based TEA index ranks Slovenia 30th out of 37 countries with 3.26%. In other words one in every 30 inhabitants of Slovenia becomes an entrepreneur because he or she perceives a business opportunity and wishes to take advantage of it.

Compared with the other GEM countries an above-average number of entrepreneurs in Slovenia have chosen an entrepreneurial career because they had no other choice. The necessity-based TEA index in Slovenia is 1.37%, implying that one in 70 of the adult population takes the entrepreneurial route out of necessity, having no better choices for work. This places Slovenia relatively high in the international ranking, 15th out of 37 countries.

The entrepreneurs who are by far the most vulnerable and most in need of conducive conditions are nascent entrepreneurs. The average TEA index for nascent entrepreneurs in the GEM countries is 4.7%, while the index for Slovenia is 3.27%, placing it 25th. Less encouraging is the average TEA index for new firms, which was 3.7% in the GEM countries as a whole and 1.53% in Slovenia, placing it 31st.

Two-thirds of the 58,000 entrepreneurs in Slovenia in 2002 are at the nascent stage of the entrepreneurial process. The fact that Slovenia has two-thirds nascent entrepreneurs and one-third newly-operating businesses less than three-and-a-half years old indicates that the entrepreneurial climate in Slovenia remains inimical. Half of the entrepreneurs who are today investing their ideas, time, money and high expectations in their entrepreneurial dreams will not survive.

Small firms matter, and entrepreneurs who are only just starting out are highly vulnerable. The figure for the high number of entrepreneurs by necessity and the relatively high mortality rate for firms should give serious pause for thought to all those who wield influence over the conditions in which Slovenian firms operate. Without encouragement of the entrepreneurial process and the nurture of an entrepreneurial culture and mentality, there will be no fertile ground for the growth of firms and no grass roots for economic development.

Table 6 summarises selected measures of entrepreneurial activity, giving the average value for all GEM countries and the countries with the highest and lowest values. The figure for Slovenia and its rank among the 37 countries are also shown.

Measures of entrepreneurial activity	High score	Mean score	Low score	Slovenia	Rank of Slovenia (out of 37)
TEA	18.90% (Thailand)	6.88%	1.80% (Japan)	4.63%	25
TEA for nascent firms	11.63% (Thailand)	4.7%	0.87% (Japan)	3.28%	25
TEA for new firms	9.28% (Korea)	3.7%	0.77% (Poland)	1.53%	31
TEA-opportunity	15.30% (Thailand)	5.40%	1.20% (Japan)	3.26%	30
TEA-necessity	7.50% (Brazil)	1.70%	0.09% (France)	1.37%	15
Informal investor prevalence rate	7.5% (Iceland)	2.9%	0.6% (Poland)	2.2%	23

Table 6: Measures of entrepreneurial activity

In what follows, we will analyse the questionnaires completed by experts on entrepreneurship in Slovenia and the findings of in-depth interviews with them in order to assess the situation with regard to the nine entrepreneurial framework conditions and attempt to understand why Slovenia occupies a relatively modest position among the GEM countries, as a rather unentrepreneurial society.

3.2 Assessment of the conditions for entrepreneurship in Slovenia

3.2.1 Conditions for entrepreneurship

The GEM model links business dynamics with nine groups of entrepreneurial conditions that directly or indirectly affect the level of entrepreneurship in each individual country. These framework conditions for entrepreneurship directly shape conditions for the start-up and subsequent growth of new firms and provide the framework within which potential entrepreneurs can to a greater or lesser degree apply their skills in order to bring perceived business opportunities to fruition. The framework for entrepreneurial activity consists of: (1) availability of various sources of finance for new and growing businesses, (2) the design and implementation of government policies, (3) the

implementation of various government programmes to support new and growing businesses, (4) the incorporation of entrepreneurial knowledge into educational programmes and training programmes for entrepreneurs, (5) the mechanism for the transfer of research and technology to industry, (6) the commercial and professional services available to businesses, (7) simplicity of market entry, (8) access to physical infrastructure for business and (9) cultural and social norms and the wider social attitude towards entrepreneurship. The model is based on the supposition that countries in which these conditions are more favourable are more open to entrepreneurs, display more entrepreneurial initiative, and have a greater intensity and success rate of entrepreneurial activity.

The research evaluates the quality of the conditions for entrepreneurship on the basis of interviews with experts – people considered to be well acquainted with the above topics. At the same time use is made of findings of other research of the entrepreneurial environment in Slovenia and the rest of the world and data on various factors available from public statistical sources and World Bank and OECD data sets.

Table 7 gives an overview of the conditions for entrepreneurship, classified into 18 thematic items. National experts in 34 of the GEM countries – 37 of them in Slovenia – answered a long list of questions and gave their assessment of the situation with regard to the nine entrepreneurial framework conditions on a scale from 1 to 5. As can be seen from the table, their average assessment of Slovenia was highly critical. The experts gave their most positive assessment to education and training, in which Slovenia had the 9th highest assessment out of 34 countries, and internal market competitiveness, in which it had the 11th highest out of 34, but were most negative in their assessment of access to finance, transfer of research and development to industry, and government policy. Slovenia ranked second-to-last out of the 34 countries in which expert interviews were carried out with regard to the assessment of science and technology transfer and the availability of venture capital.

Because the GEM research was conducted in Slovenia for the first time in 2002, we have carried out a deeper analysis of the experts' responses. Naturally, comparisons with past years are not available for Slovenia.

3.2.2 Financial support

This topic relates to the availability of sources of finance, i.e. equity and debt, for new and growing firms as well as non-repayable assistance such as guarantee schemes, grants or subsidies and public aid, whether from formal, institutional or informal sources.

As has traditionally been the way in Central Europe, the most important form of finance in Slovenia are loans from commercial banks. However, entrepreneurs also have the possibility of borrowing from central and local government funds for financing SMEs, securing assistance from guarantee funds and obtaining various types of support from government ministries, especially for investment in new technology, job creation, linkages with other firms and business internationalisation. The volume of venture capital is modest, but so is the number of firms that are suitable for the investment of this type of capital on the basis of their growth and the willingness of the entrepreneur to share control of the business.

The experts were very critical of the financial environment for firms and the possibilities for access to finance. The lack of favourable sources of finance has been one of the biggest problems facing Slovenian business throughout the "entrepreneurial wave" since 1989, which places Slovenia among the countries of Eastern and Central Europe in which OECD research finds financial constraints on SMEs to be a far more serious problem than for firms in the developed nations of the OECD.[7] *Figure 15* gives the ranking of countries according to the expert assessments of the difficulties of access to finance, in which Slovenia lies 30th out of 34 countries. The experts assessed access to debt and equity finance and to personal resources of entrepreneurs and families, which are usually meagre. Even more critical is the assessment of financial support from venture capital funds and "business angels" in *Figure 16*, where the experts placed Slovenia as low as second to last, ahead only of Hungary.

Variable	High score	Mean score	Low score	Slovenia	Rank of Slovenia
A – Financial support 1	3.89 (U. States)	2.90	1.49 (Argentina)	2.39	30/34
A – Financial support 2	4.30 (U. States)	2.81	1.72 (Hungary)	1.78	33/34
B – Government policies 1	3.62 (Canada)	2.68	1.50 (Argentina)	2.16	30/34
B – Government policies 2	4.33 (H. Kong)	2.41	1.36 (Argentina)	1.81	28/34
C – Government programmes	3.43 (Ireland)	2.63	1.60 (Argentina)	2.25	28/34
D – Education and training 1	2.72 (Canada)	1.97	1.34 (Japan)	2.14	9/34
D – Education and training 2	3.89 (U. States)	2.83	2.00 (China)	3.04	9/34
E – R&D transfer	3.49 (Canada)	2.47	1.88 (Argentina)	1.95	33/34
F – Commercial, professional infrastructure	4.21 (Canada)	3.17	2.00 (Japan)	2.69	30/34
G – Internal market openness 1	4.09 (Taiwan)	2.84	1.83 (Chile)	2.97	11/34
G – Internal market openness 2	3.88 (Canada)	2.75	2.04 (Croatia)	2.42	27/34
H – Access to physical infrastructure	4.79 (Canada)	3.86	3.00 (Hungary)	3.50	27/34
I – Cultural and social norms	4.52 (U. States)	2.79	1.88 (Sweden)	2.22	28/33
K – Opportunity	3.97 (U. States)	3.29	2.50 (Argentina)	2.99	27/34
L – Capacity – skills	3.47 (H. Kong)	2.52	1.68 (Japan)	2.48	17/34
M – Capacity – motivation	4.44 (Taiwan)	3.31	2.63 (Norway)	2.83	29/32
N – Protection of intellectual property rights	4.03 (Australia)	3.12	2.00 (Argentina)	3.22	18/33
P – Support for female entrepreneurship	3.97 (H. Kong)	3.14	2.25 (Japan)	3.43	12/32

Table 7: Overview of entrepreneurial framework conditions

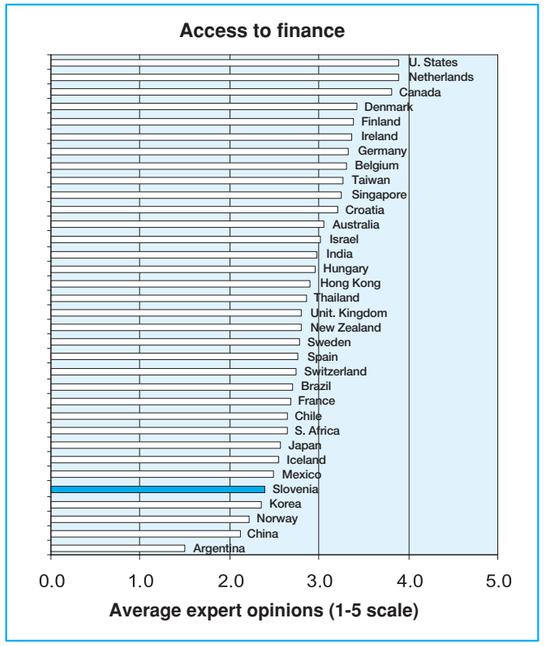


Figure 15: Access to finance

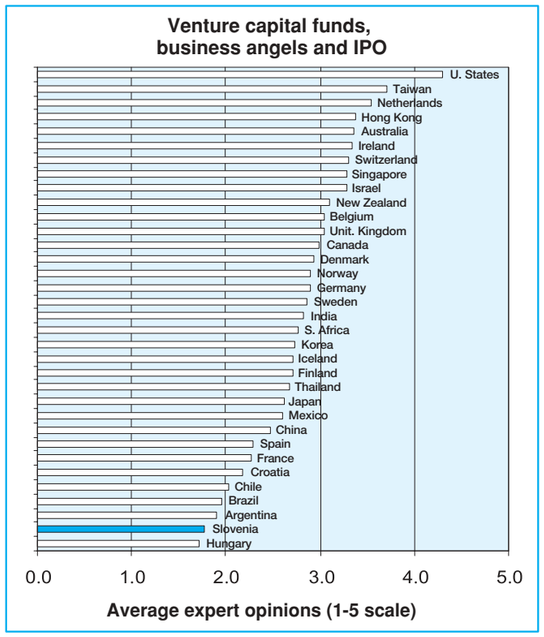


Figure 16: Venture capital, business angels and IPO

How could we explain such critical assessments of financing options? The ranking shows that equity finance, both from entrepreneurs themselves and from external investors, is most widespread in the United States, which has a long tradition of free enterprise and a large number of wealthy individuals who have themselves been entrepreneurs, and where the supply of venture capital exceeds that of all other countries. The other developed countries also fare well, having both many wealthy individuals and a well developed financial system. The country that performed worst in terms of access to finance was Argentina, probably because of the financial crisis and the decline in real estate values, closely followed by some other Latin American countries. Hungary and Slovenia did poorly in terms of equity capital due to the fact that large amounts of private entrepreneurial capital were not available under the previous socialist system. In terms of access to finance, objective and subjective reasons can be found for the divergent financial possibilities of new and nascent firms, which require sizeable amounts of funding, however exposed to large entrepreneurial risks.

Next we provide a detailed analysis of the area of finance, respecting the fact that it is one of the most critical areas for the further development of entrepreneurship in Slovenia.[8]

The first three questions in *Figure 17* relate to access to finance, on which the experts considered that the provision of equity and debt finance and subsidies in Slovenia is poor. Founders of new firms, as elsewhere in the world, depend largely on their own and their family's savings. Under the previous socialist system individuals and households did not accumulate large savings due to the restriction of inequalities in wages and assets, while the limited opportunities for entrepreneurship meant that most investment was in personal cars, housing and holiday homes, which cannot quickly be converted into liquid business funds.

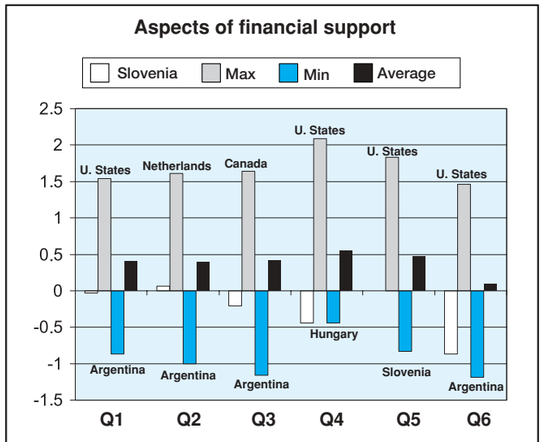
In the case of small businesses, commercial banks were largely used to dealing with traditional crafts whose financial activities were relatively conservative and whose business growth was low. The new entrepreneurial class behaves differently, taking more risks, and banks have failed to adapt. In dealing with banks entrepreneurs encounter problems with (a) the financial terms of borrowing, especially high interest rates, high costs of loan collateral and guarantees, short repayment terms and limited grace periods, (b) approval procedures, with banks requiring extensive documentation and taking a long time to process proposals, and (c) the attitude of banks towards small businesses, with banks preferring to deal with large firms, where loan amounts are greater; banking staff are not yet well trained for dealing directly with entrepreneurs. At the later stage of business, firms encounter problems with the lack of payment discipline on the part of customers, which is a major constraint as reinvested profits are the major source of finance for the expansion of businesses.

From interviews with experts:
... It's said our problem is that we are small, that there is too little capital, no critical mass. But I would venture to say that we just don't know how to identify the right factors. The right factors are not financial capital but human capital. We invest too little in people and too much in bricks and mortar. If you have good people, and a good project too, then finance is not hard to come by. But if you haven't got the human resources, it amounts to nothing ...

In the early 1990s the Slovenian government assumed that financial support for SMEs was necessary and introduced the

Small Business Development Act (1991), which provided for a national fund for small business finance that would use loans, interest rate subsidies on bank loans, guarantees and direct investments in entrepreneurial infrastructure as means of encouraging small business. At the municipal level many local funds or forms of finance from municipal budgets were created, but had little resources available for microcredit and interest rate subsidies. Many entrepreneurs are unaware of the various forms of financial support available to them by the state and take too little interest in them. Only a minority of entrepreneurs have actually taken advantage of this support: around 14% of surveyed entrepreneurs in 2002 (especially micro firms) had obtained financial support from the national Employment Service, while less than 8.5% of entrepreneurs had obtained other forms of local or national financial support. The assessment of entrepreneurs, which reinforces the critical opinion voiced by the experts, is thus that the problems with the state system of financial support consist in:

- inadequate legal basis for modern financial instruments,
- rapid change in forms of financial assistance for which effective instruments have not been developed, and about which entrepreneurs are insufficiently aware,
- the inadequacy of the available funds to meet desired objectives,
- the absence of central expert institutions for the development and extension of the system and training of financial advisers,
- the lack of coordination between financial support and other forms of support,
- the huge influence of political institutions and organisational changes on the operation of the system of financing.



Q1 In my country, there is sufficient equity funding available for new and growing firms.
Q2 In my country, there is sufficient debt funding available for new and growing firms.
Q3 In my country, there are sufficient government subsidies available for new and growing firms.
Q4 In my country, private individuals (other than founders) are an important source of financial support for new and growing firms.
Q5 In my country, venture capitalists are an important source of private support for new and growing firms.
Q6 In my country, initial public offerings (IPOs) are an important source of equity for new and growing firms.

Figure 17: Assessment of aspects of financial support

At the same time entrepreneurs consider that there is a lack of tax and other incentives for investors, especially for investments in research and development, premises, equipment and job creation. The government has cut back the general incentives that were in effect in the early 1990s for the initial years of operations of new firms and restricted them to more selective purposes, which is one reason experts consider government as failing to consistently support entrepreneurship. Entrepreneurs themselves do not usually claim their experience with commercial banks to be negative, although in the early 1990s it was new, small private banks who adapted to them best and there was considerable dealing with foreign banks, while recently the larger Slovenian banks with adequate lending capacity have become quite effective. Entrepreneurs naturally also want urgent improvement in the financial terms of bank borrowing, which was backed up by the experts' critical assessment of the banks.

Experts were even more critical in their assessment of support in the form of venture capital and business angels: they generally estimate the availability of this type of capital as poor. Slovenia is in last place among all the GEM countries on this question. Research shows that there are obstacles on both sides in Slovenia, in the supply of such capital and among entrepreneurs. Almost half of entrepreneurs have never even considered seeking an investor for their business or having themselves investing in other businesses, while the majority of the other half have only ever thought about it. Only a little over a quarter of entrepreneurs would not be disturbed by co-ownership with an external investor and the latter's involvement in business decision-making, while a similar proportion find such a role for investors unacceptable.

External equity capital is currently present in only a few firms in Slovenia. In mid-2002 five or six venture capital funds were in operation, of which only the majority foreign-owned Sklad Horizonte had made a large number of investments, and had also already made a successful investment exit with the sale of a stake to a large firm. Not one small firm had taken advantage of the possibility of an initial public offering on the Ljubljana Stock Exchange, and this is therefore not an option for the exit of venture capital. In 2002 with the entry of foreign capital and the proceeds from takeovers a more liquid stock market and greater potential funds for investment are emerging, although there is a lack of dynamic firms in which they could invest with the targeted level of returns. Entrepreneurs are aware that the barriers to equity investment are not just systemic (lack of tax incentives, complex procedures for changes in equity structure, legal constitution of funds almost eliminating the possibility of riskier investment), although to a large extent they themselves, since many use their businesses to finance their lifestyle, have not developed a modern managerial style and transparent business, and tend towards excessive control of the firm and fear the leakage of commercial secrets. Entrepreneurs are cautious because they believe that investors want too great a say in the running of the business relative to the size of their investment and that they seek a quick profit. The potential for good returns on the stock market or from investments in mutual funds is deferring direct "business angel" investments. Slovenia simply lacks wealthy, experienced entrepreneurs who could successfully act as business angels. Entrepreneurs also expect investors to provide help in positioning themselves on the market, ideas for new products or services, help in forging business contacts, advice and moral support, with experience, coolness etc.

Entrepreneurs seeking direct investments should of course create more dynamic, growth-oriented firms.

3.2.3 Government policy

This topic relates to the question of how government policies consisting of regulations (permits and concessions), the tax system and the implementation of public tenders affect the development of new and growing firms, helping or hindering it.

In countries where the development role of entrepreneurship is understood (appreciated), governments use policy measures to encourage the emergence of a large number of new firms and in particular the growth of the most successful of them. The experts evaluated two aspects of government policy, support for the development of SMEs on the one hand and the "friendliness" of national regulations towards new firms on the other. Governments have wide scope to affect entrepreneurial dynamics and are in a position to influence the general entrepreneurial environment or particular groups of firms that are at a certain stage of development. In the initial stage, firms especially need encouragement in the form of the simplest possible regulations, while tax incentives are important during the growth phase.

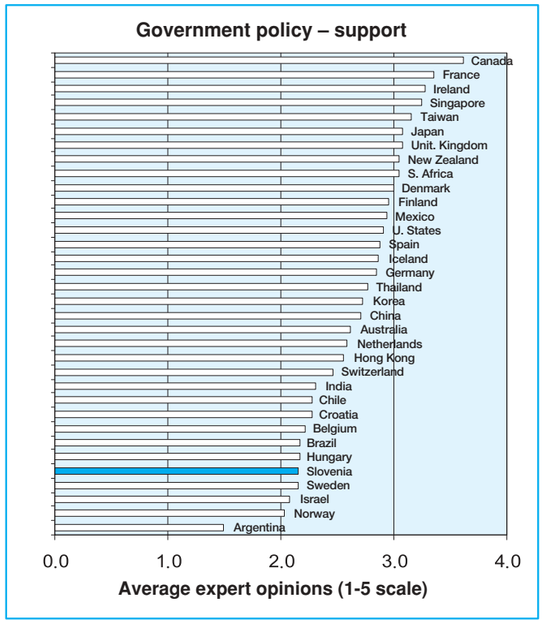


Figure 18: Government policy – support

The experts placed Slovenia 30th according to their assessment of support policies, ahead of a variety of countries of which the poorest performer was Argentina. They gave an unfavourable assessment of the first aspect of government policy, namely the fact that priority is not given to new firms in public procurement tenders. In the 1990s government policy was rather erratic and indecisive. Policy-makers declared themselves in favour of support for the emergence of new firms for the sake of their public relations, but failed to provide appropriate measures, as politicians focused on programmes to save larger, formerly socially owned enterprises. At the national level the volatility of policy was expressed in constant changes in the political organisation of responsibility for economic policy, with periods of an independent Ministry of Small Business alternating with its incorporation within the larger Ministry of Economy. SME development policy was inconsistent and made on the hoof, and the small business sector did not enjoy constant, predictable support. This was one reason why the initial entrepreneurial wave after 1995 was followed by a standstill in the emergence of new firms and a deterioration of the entrepreneurial climate. The experts do not consider support for new and growing firms to be a genuine priority at either the national or local level. At the local level the problem also lies in a shortage of professional staff in many smaller municipalities, which are therefore not able to draw up consistent policies and frame development strategies that could galvanise small business through support for small firms. Poor government support is linked to the fact that a small fraction of SMEs in Slovenia are technologically intensive, innovative and rapidly growing.

For the period 2002-2006 the government has drawn up three programmes designed to encourage entrepreneurship: (a) knowledge for development, which concerns the transfer of knowledge to businesses, (b) a programme for strengthening the competitive capabilities of firms through incentives for investment in R&D, business internationalisation, introduction of strategies for increasing productivity and linking firms and the development of clusters, and (c) a programme for encouraging entrepreneurship and developing a supportive environment, which is the only one of the three programmes explicitly devoted to stimulating the emergence and development of SMEs. Successful implementation of these programmes may improve the assessments of the experts in future.

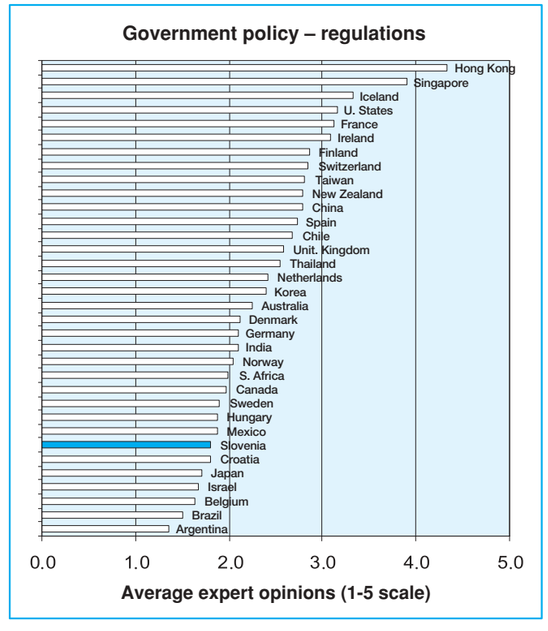
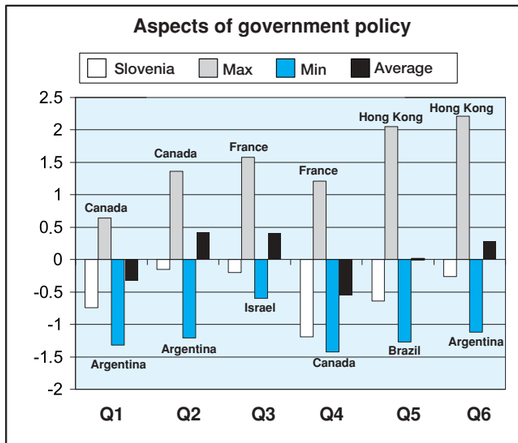


Figure 19: Government policy – regulations

From interviews with experts:
... Just as people at the entrepreneurial level need to have vision in order to mobilise their potential, the government too should have vision, economic rather than political, in order to mobilise all entrepreneurial potential. Slovenia does not yet have this vision ...

... Slovenia's advantage is the fact that a large proportion of Slovenes have in a way already decided that they are basically no longer interested in politics and have decided to devote themselves to business. People have just got on with doing business and building an entrepreneurial network regardless of what is going on at the national level, and don't expect much of the state ...

... Sometimes the misconception arises that the only good entrepreneur is one whose business grows. This is a disincentive to people who don't want growth but could become self-employed and provide jobs for themselves and members of their family and essentially play a very important social function, while at the same time relieving the burden on firms that have to operate with a suboptimal level of employment, because they simply have no effective means of dealing with the employment problem. Of course it's important for a firm to grow, as that way it creates more value, more employment. But small firms are very important too. Entrepreneurs are almost ashamed if their firm stays the same size for a few years running ...



Q1 In my country, government policies (e.g., public procurement) consistently favor new firms.
Q2 In my country, the support for new and growing firms is a high priority for policy at the national government level.
Q3 In my country, the support for new and growing firms is a high priority for policy at the local government level.
Q4 In my country, new firms can get most of the required permits and licenses in about a week.
Q5 In my country, the amount of taxes is NOT a burden for new and growing firms.
Q6 In my country, taxes and other government regulations are applied to new and growing firms in a predictable and consistent way.

Figure 20: Assessment of aspects of government policy

The experts gave a slightly more favourable assessment of the situation in Slovenia regarding government regulations. The assessment was very poor with regard to the possibility for new firms to quickly obtain necessary permits and concessions, in which Slovenia was close to the least favourably assessed country, Canada. The Slovenian government, following the EU model, is supporting the implementation of the Anti-bureaucracy Programme which aims to speed up these processes, but firms encounter lengthy procedures because of many obstacles at the local government level (the doubling-up of municipalities and administrative units), which behave very differently in regard to the encouragement of business (many experts criticise the inflexibility of inspections), and given the slowness of the registration courts. The "one-stop shop" project (referred to by the acronym VEM) is progressing only slowly, although local entrepreneurial centres are providing effective support to potential entrepreneurs in a number of locations. The "voucher" system for advice and support to new firms also shows good potential. The experts considered that the level of taxes is a burden on new and growing firms, although the main problem is the level of various health and social insurance contributions, which drive a large wedge between gross and net wages. In the assessment of the experts, SMEs encounter the fewest problems with the predictability and consistency of taxation and other regulations, although entrepreneurs often complain about the arbitrary behaviour of the tax authorities, while the role of tax advisers is not yet sufficiently well established.

3.2.4 Government programmes

This topic relates to the question of the availability and efficiency of programmes and incentives which directly support new and growing firms at the national, regional and municipal government level.

The true nature of government policy towards entrepreneurship can be grasped tangibly in the form of various government programmes designed to support nascent, new and growing firms. Means of government support can offer "hard" forms of assistance such as financial support and various methods for providing commercial premises on favourable terms (incubators, technology parks and business zones), and "soft" forms, especially information, training programmes and advice. These programmes can be put into effect through a support network comprising entrepreneurial centres at various levels and can attract a large number of business chamber branches, private consultants and other non-governmental organisations.

Experts gave the fifth aspect of government programmes an assessment that placed Slovenia in 28th place, with different aspects receiving widely differing assessments:

- Experts were most critical of the fact that firms cannot obtain various types of government assistance all at one location from a single agency that provides a rapid and transparent service. In their assessment, the network of entrepreneurial centres, despite having five regional, five local/regional and 35 local entrepreneurial centres at the end of 2001, still failed to provide adequate support, as these centres were not yet sufficiently integrated within the local environment.
- The composition of government programmes in terms of their content did not provide all relevant forms of assistance required by new and growing firms.

- The assessment of the contribution of science parks and business incubators, which was positive in the entire group of countries, was negative in Slovenia.
- The experts were neutral in their assessment of whether Slovenia has an adequate number of government programmes for new and growing firms, since it is difficult to arrive at transparent figures for them due to their diversity and the fact that they are carried out under the auspices of different institutions.
- The experts were positive in their assessment of the professional qualifications and success of personnel within government institutions, which suggests that the deficiencies in support for SMEs are mainly at the organisational, design and financial level rather than in the skills of personnel.

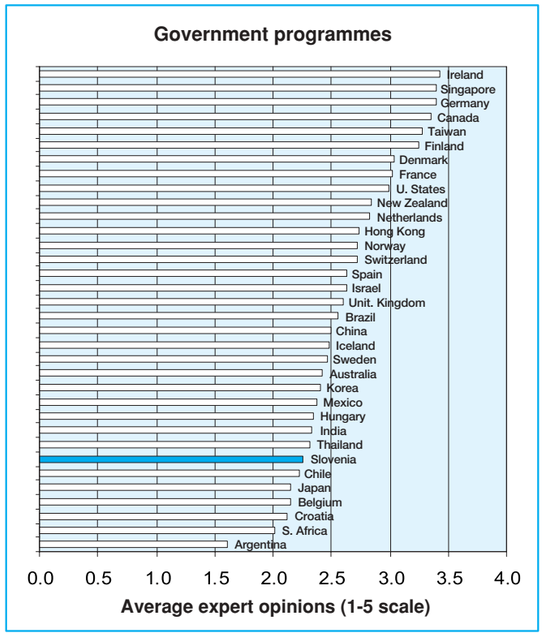


Figure 21: Government programmes

From interviews with experts:
... Huge amounts of work and effort have gone into the government programmes, they have been designed at the highest professional level from a theroetical point of view, yet they don't take account of all given and necessary resources. Their implementation is not monitored, which is a real problem. No one tries to find out why tasks go unrealised, still less who is responsible for misguided objectives, poor organisation ...

Slovenia lacks strong traditions of support for entrepreneurship, except for the Chamber of Crafts of Slovenia and the Employment Service. During the 1990s a number of instruments were tried that were known from more advanced countries. The problem of support for entrepreneurship lies in the fact that the development of the network of entrepreneurial centres has dragged, as the government has been unable to decide on a suitable plan for setting up and financing local and especially regional centres or development agencies. This has been aggravated by multiple changes in the organisation of municipalities and the fact that Slovenia does not have regional authorities, while regional development itself was badly neglected in efforts to address the macroeconomic problems of transition.

From interviews with experts:
... For me as a lawyer the biggest problem is over-regulation. The rules and regulations require all sorts of procedures that are too complicated and require huge amounts of time. Bureaucrats have too much discretion and don't know the rules well enough, so the procedures, which are already complicated, get even more so ... Bureaucracy is increasing at the expense of business ..., it uses its creativity in the spirit of administrative officialdom in order to think up more and more red tape ... The state would do better to take on less talented personnel, and leave the better ones to business ...

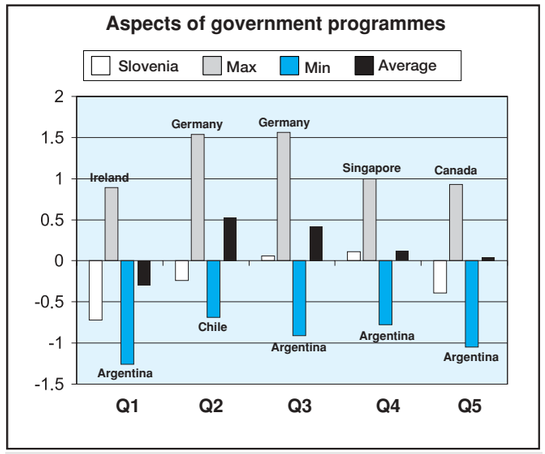
Programmes of the Small Business Development Centre

Organisational network links
- local and regional entrepreneurship centres
- section for SME consultants of Slovenia
- Euro Info centres network

Programmes for development of a supportive environment
- voucher system for advice and training
- participation in the Anti-bureaucracy Programme
- comprehensive support for the development of innovation
- new forms of SME finance (venture capital)

Other important programmes for the support of the development of entrepreneurship
- development of entrepreneurial culture: development of enterprise and creativity among young people, introduction of home and distance working, professional establishment of women, entrepreneurial renewal of the countryside and promotion of entrepreneurship
- foreign cooperation (in the transfer of knowledge and experience)
- development of information and research activities

The government has not set aside adequate funding for these programmes, while municipal governments have no major sources of finance of their own. The network has carried out a large number of programmes without adequate preparation and without allocating funds for their ongoing evaluation and further development and extension. Many programmes are insufficiently represented across Slovenia, and firms as a result are unaware of them and underutilise them, as was confirmed by research[9] in 2002. In implementing programmes the network is only gradually building partnerships at the local level with various supporting institutions, not making effective enough use of potential links, e.g. with the universities, which are for the most part outside the network, the Chamber of Commerce and Industry and Chamber of Crafts, private consultants and non-governmental organisations.



Q1 In my country, a wide range of government assistance for new and growing firms can be obtained through contact with a single agency.
Q2 In my country, science parks and business incubators provide effective support for new and growing firms.
Q3 In my country, there are an adequate number of government programmes for new and growing businesses.
Q4 In my country, the people working for government agencies are competent and effective in supporting new and growing firms.
Q5 In my country, almost anyone who needs help from a government programs for a new or growing business can find what they need.

Figure 22: Assessment of aspects of government programmes

3.2.5 Education and training

This topic relates to the question of how far training for start-up or running small, new or growing firms is incorporated into various formal educational programmes, from grammar schools to university, and in programmes for training entrepreneurs and employees in small and medium-sized enterprises.

The experts gave an excellent evaluation of Slovenia in the area of education and training for entrepreneurship, placing it 9th, ahead of most European countries. Only Canada and the United States are conspicuously ahead. The assessment was particularly strong with regard to entrepreneurship and management education, and somewhat less so with regard to the formal educational system.

The experts' assessment bore out the fact that a large number of organisations offering very high-quality programmes have sprung up in Slovenia:

- In 1990 GEA College, a joint institution set up by several institutional shareholders and entrepreneurial individuals, opened offering specialist entrepreneurial training. GEA College has developed a series of standard basic and upgraded programmes for entrepreneurs, rigorous entrepreneurial programmes for functional areas of SMEs and for SME consultants, developed a broad network of consultants drawn from experts and successful entrepreneurs and founded the first private higher education institution for entrepreneurship studies (the GEA College of Entrepreneurship in Portorož).
- Modern management training has been developed by the International Executive Development Centre, one of the best known centres of its kind in Central Europe, which also runs an MBA programme taught by world experts in the field of management.
- The Faculty of Economics and Business at the University of Maribor and the Faculty of Economics at the University of Ljubljana have developed undergraduate and graduate entrepreneurial education courses and centres for management training.
- Many specialized training centres have sprung up across Slovenia, primarily as a result of private initiative and in some cases with international links or involving the network of adult education centres etc.

Despite Slovenia's small size, competition among private initiatives has provided in a wide range of courses, relatively high quality, thanks in part to the positive involvement and financial support of the Employment Service, the Small Business Development Centre and the two Chambers.

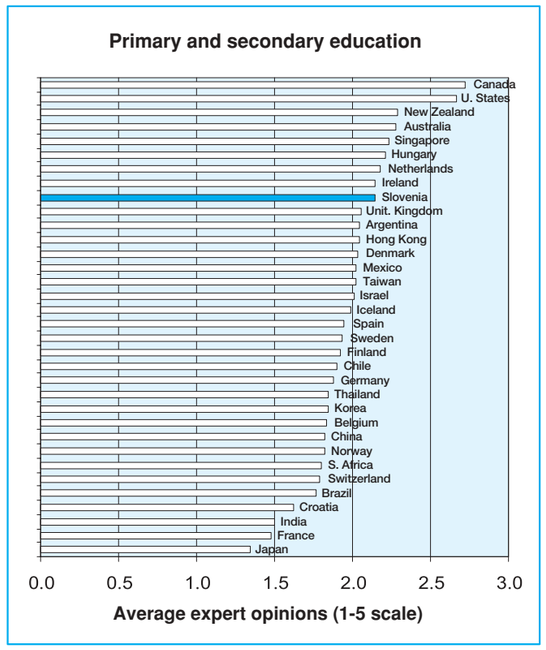


Figure 23:
Education and training in primary and secondary schools

The experts were more critical of the quality of education within the formal school system, although the assessment on all counts was higher than the average for all the countries in the sample. The most critical assessment was for primary and secondary schools in terms of raising awareness of entrepreneurship and setting up new businesses. Despite success in setting up entrepreneurs' circles in many grammar schools, establishing entrepreneurship as a course in some secondary schools and

setting up some successful international projects, such as the "Learning Firm", the general orientation at this level of education is not towards such content and does not answer the needs of entrepreneurial development. There is also still a large gap in the use of modern pedagogical concepts and teaching technology. In the assessment of the experts, the courses at these schools do not provide an adequate knowledge of the principles of the market economy, while the teaching methods do not sufficiently encourage creativity, independence and personal initiative. Schools are clinging too much to traditional forms of instruction and are not doing enough to introduce team-based project work and modern teaching methods.[10]

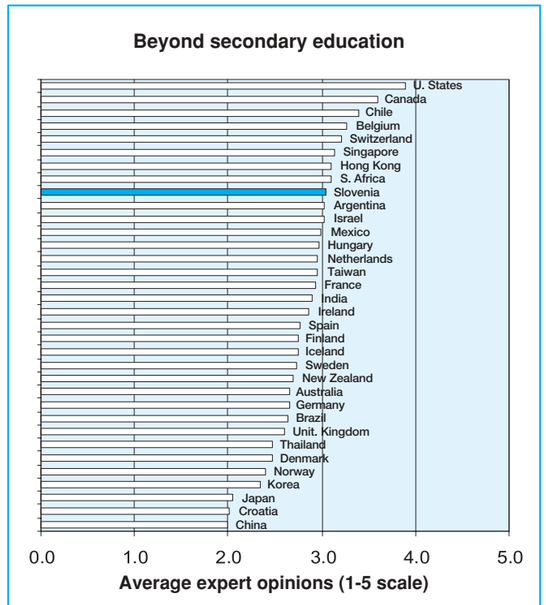
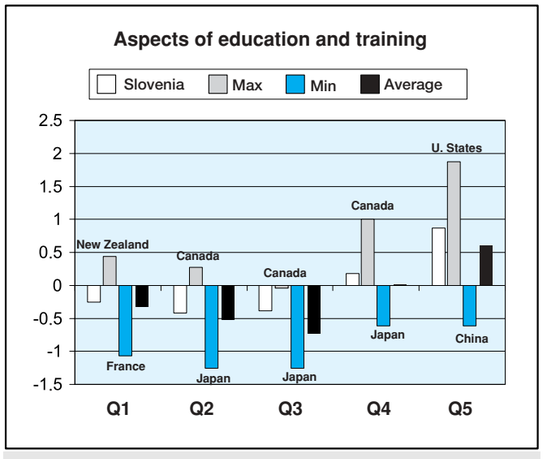


Figure 24: Education and training beyond secondary school

The high assessment of education reflects significant achievements, which are largely the result of individual initiative on the part of enthusiastic academics and entrepreneurs. Entrepreneurship still has to "break the ice" at universities, in technology and science departments. Often it is not the right career choice for students, and cooperation with SMEs and entrepreneurs is not widespread enough. The development of infrastructure through a programme of university incubators during 2001-2003, supported by the government, is supposed to boost the possibilities for a substantial shift in coming years.

From interviews with experts:
... The entire system of children's education fails to encourage creativity. Yet entrepreneurs have to be highly innovative, they have to be researchers and think with their heads about how to survive and what to do in order to survive and succeed. Our schools don't get them used to self-employment, enterprise etc. Entrepreneurial people are self-made ...

Achievements and limitations in the area of formal education		
Educational level	***Achievements***	***Limitations***
Basic (primary)	• Entrepreneurs' circles	• Funding difficulties • Too few schools included • Content of other subjects inappropriate
Secondary	• Entrepreneurship introduced as a subject in many courses (specialist schools for economics, vocational schools) • Business plan competitions	• Attendance at vocational schools too low • Too few links with other subjects • Need for further enhancement of teaching methods • Need for improvement of technical equipment • Need for better links with successful entrepreneurs
College and university (undergraduate)	• Compulsory subjects • Study tracks in economics and business faculties • Optional subject in some faculties	• Inadequate integration into technical and scientific education • Insufficient links with businesses • Inadequate entrepreneurial infrastructure at university • Inimical general climate
Graduate	• Specialist programme in entrepreneurship • Doctorates at foreign universities	• As for undergraduate level



Q1 In my country, teaching in primary and secondary education encourages creativity, self-sufficiency, and personal initiative.
Q2 In my country, teaching in primary and secondary education provides adequate instruction in market economic principles.
Q3 In my country, teaching in primary and secondary education provides adequate attention to entrepreneurship and new firm creation.
Q4 In my country, colleges and universities have enough courses and programs on entrepreneurship.
Q5 In my country, the level of business and management education is truly world-class.

Figure 25: Assessments of aspects of education and training

3.2.6 Research and development transfer

This topic concerns the question of the extent to which national research and development leads to new commercial opportunities and the extent to which these opportunities are available to new, small and growing firms.

The area of research and development (R&D) transfer to entrepreneurial practice received the worst assessment of all entrepreneurial framework conditions. Slovenia was ranked second-to-last in 33rd place, and did worse than the average for the 34 assessed GEM countries on every count. The worst assessment was for the transfer of university research accomplishments to nascent and new firms, in which Slovenia finished bottom. What are the reasons for this?

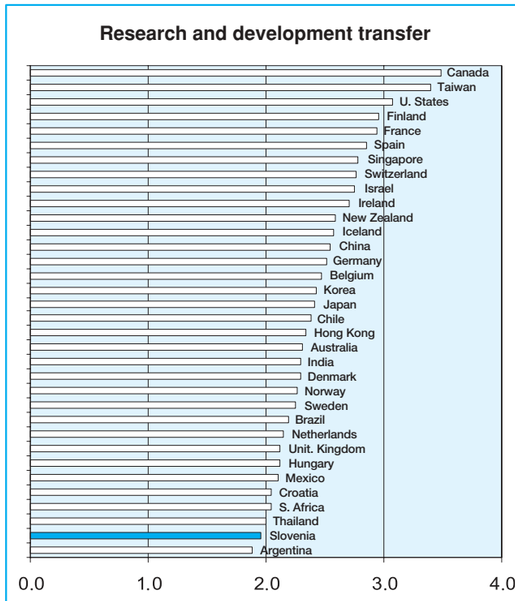


Figure 26: Research and development transfer

Europe's technological backwardness relative to the United States prompted the EU years ago to launch initiatives for more rapid transfer of research accomplishments into business practice. Today there are over 300 spin-out programmes in the EU which are directly linked to universities, be it through an incubator, a science park or technological transfer, as well as a further 500 profit-oriented incubators, innovation centres or local science and technology parks.[11] Slovenia has a number of initiatives in this area (technology parks in Ljubljana and Maribor, business incubator in Kranj, innovation network), although they are of low effectiveness. The two universities are not involved.

A vital factor for the success of technological and research transfer are links between universities (teachers and researchers) and local business, financial institutions and various bodies responsible for encouraging the business sector (Small Business Development Centre, the Chamber of Commerce and Industry, development agencies etc.). In Slovenia these links are fragmentary, exist at the level of individuals and are ineffective. Healthy cooperation between universities, businesses and various support institutions, which is the basis for success, is still absent. Slovenia's universities are not assuming responsibility for assisting small and medium-sized enterprises in their technological development and the commercial exploitation of innovations. In Slovenia as elsewhere one of the key problems in the linkage of universities and small firms is that small firms are not technologically well developed, have a short research horizon and frequently also lack the know-how for such collaboration. On the other hand academics are generally not especially interested in collaborating with smaller firms, as this generates little or no revenue.

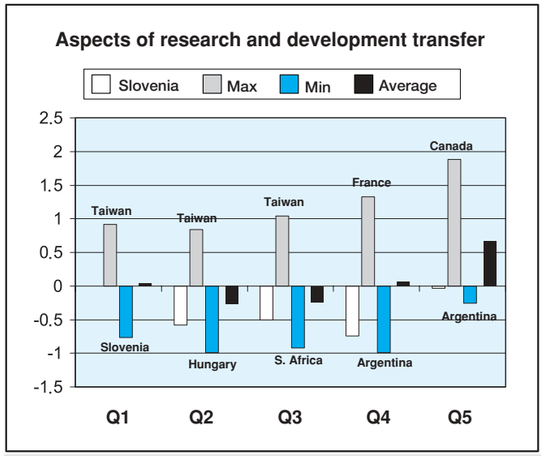
> ***From interviews with experts:***
> *... The state is being too slow to encourage research and development and its more rapid commercial exploitation ... A great many researchers measure success in terms of how many conferences they have spoken at, not how well their research sells ...*

The reasons why the flow of knowledge from the universities to business is not successful can be categorised into institutional, cultural and infrastructural.[12]

Institutional barriers mainly concern the fact that the way in which the Slovenian universities have functioned hitherto does not orient researchers and university staff towards commercialisation of research achievements. Universities are still primarily teaching rather than research institutions. The duties that university staff are required to fulfil in order to earn their salaries are first and foremost teaching-related. What matters for career progress are publications and citations rather than practical applicability of research accomplishments.

The study of entrepreneurship began relatively early in Slovenia compared with other European countries. As early as 1993 a study track in small business management was introduced at the Faculty of Economics and Business of the University of Maribor, providing an education in entrepreneurship at the undergraduate level in close cooperation with mentor firms. In the same year the Faculty of Economics at the University of Ljubljana inaugurated entrepreneurship studies at masters level. Yet so far the shift has still not been made from theory to practice, from the study of entrepreneurship to involvement in setting up a business, from talking about entrepreneurship to deliberate company building, despite the above-average success of the educational process and the high level of interest on the part of students at both faculties. Technical faculties have not included entrepreneurship into their programmes of study.

Cultural barriers mainly have to do with the dominant mentality in the universities, which is still firmly of a public administrative character. The transfer of innovations into entrepreneurial practice is always a complex process which as such must be undertaken comprehensively. The complexity is all the greater in a university environment since public and private interest are simultaneously involved. The majority of innovations that can be commercially exploited are made at technological faculties where business know-how is inadequate and where the authors of innovations generally lack knowledge and experience in the area of entrepreneurship. Successful transfer of innovation into entrepreneurial practice is therefore only possible if the university is capable of *internally* establishing creative teamwork between technical and business knowledge and *externally* working with successful firms, investors and various supporting bodies.



Q1 In my country, new technology, science, and other knowledge is efficiently transferred from universities and public research centers to new and growing firms.
Q2 In my country, new and growing firms have just as much access to new research and technology as large, established firms.
Q3 In my country, new and growing firms can afford the latest technology.
Q4 In my country, there are adequate government subsidies for new and growing firms to acquire new technology.
Q5 In my country, the science and technology base efficiently supports the creation of world-class new technology-based ventures in at least one area.

Figure 27:
Assessments of aspects of research and development transfer

> ***From interviews with experts:***
> *... If one looks at the proportion of funds the government gives to meet the costs of all the institutes and other research organisations and how much of that finds its way into the economy as services for product innovation, we have a huge unexploited potential ...*

The specific nature of the academic system hampers entrepreneurial activity. This is not just because of the notion of academic freedom but also because the activities required for the transfer of technology are different from those that are basic to the mission of a university, namely the production and dissemination of first-class knowledge. The specific nature of academic culture, which often views involvement in commercial activity as a profanation of the sacred activity of research, further hinders the transfer and commercial exploitation of technology. The inimical climate towards entrepreneurship within academic circles also leads to "undercover entrepreneurship", whereby individuals set up firms in secret.

One of the most important barriers to the transfer of knowledge generated within Slovenian universities is a curious morbid fear of entrepreneurship, expressed in a distrustful attitude toward university staff who have their own businesses. The value system currently predominating within university institutions in Slovenia is not well disposed towards entrepreneurship. A university professor indulging a hobby or gardening is happily accepted, but the concept of the same professor being involved in entrepreneurship and running his or her own business is controversial. The traditional Slovenian image of the impoverished teacher continues to persist in people's minds, even in universities.

Infrastructural barriers are mainly twofold: the immediate economic environment of the universities and mechanisms for encouragement. By virtue of its universal intellectual curiosity a university always has a development role. However, the latter is first and foremost local or regional. The economic environment of the University of Maribor in particular is anything but favourable for the transfer of knowledge between the business sector and the university. The universities also do not have incentive mechanisms with which to support the fragile cooperation between the university and business. The practice of creating firms on the basis of cooperation between a university and university staff is not yet established in Slovenia. Neither of the Slovenian universities has business incubators focused on the transfer of research accomplishments into direct entrepreneurial practice. The highest entrepreneurial success of Slovenian university faculties and research institutes remains the "sale of knowledge" in the form of individual cooperation agreements and joint projects with existing (large) firms.

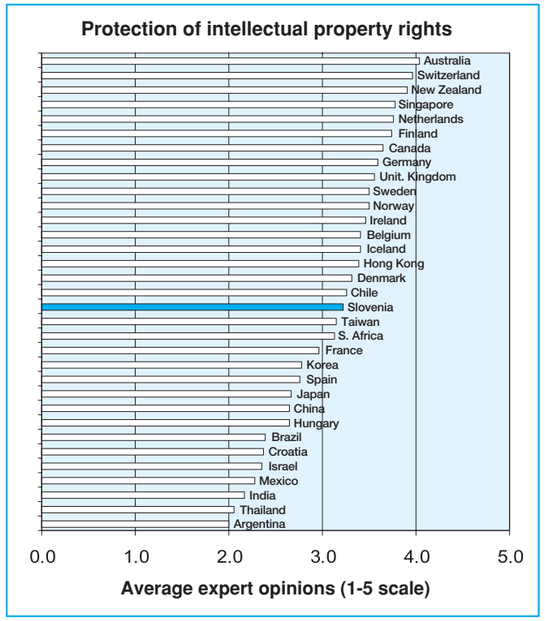
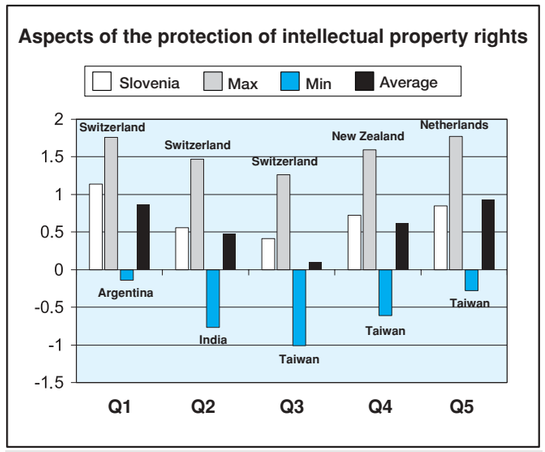


Figure 28: Protection of intellectual property

Protection of intellectual property is frequently cited as one of the basic reasons for problems in the area of the transfer of science and technology. The experts are of a different opinion. In their view this area is relatively well catered for in Slovenia, which ranks above the average for the GEM countries, especially in the area of legislation and the general attitude towards the respect of inventors' rights. The long-term expert work by the

project Agency for Intellectual Property, the Society of Innovators of Slovenia and numerous enthusiastic inventors has evidently paid off. The problem remains, however, that intellectual property by itself means nothing in the absence of mechanisms for its commercial exploitation. This is an area in which many issues remain to be addressed.



Q1 In my country, the Intellectual Property Rights (IPR) legislation is comprehensive.
Q2 In my country, the Intellectual Property Rights (IPR) legislation is efficiently enforced.
Q3 In my country, the illegal sales of 'pirated' software, videos, CDs, and other copyrighted or trademarked products is not extensive.
Q4 In my country, new and growing firms can trust that their patents, copyrights, and trade-marks will be respected.
Q5 In my country, it is widely recognized that inventors' rights for their inventions should be respected.

Figure 29:
Assessment of aspects of the protection of intellectual property

3.2.7 Commercial and professional infrastructure

This topic relates to the presence of commercial, accounting and other legal services and institutions that encourage and support the creation of new small or growing firms.

Until 1990 the commercial and professional infrastructure in Slovenia was weak, as it catered for only around 3,000 "socially owned" enterprises then in existence which typically had their own expert services: accounting departments, legal and personnel services, commercial sections and information technology centres. The private crafts sector had no need for developed modern commercial infrastructure, as it operated along traditional lines. Since 1990 there has been a rapid increase in demand for such services due to the emergence of tens of thousands of new economic entities in the space of a few years, coupled with the fact that many entrepreneurs were not trained for a range of services necessary to meet national requirements for financial reports, comply with regulations and standards, and make sound business decisions. Micro firms do not have the human resources to undertake these tasks themselves.

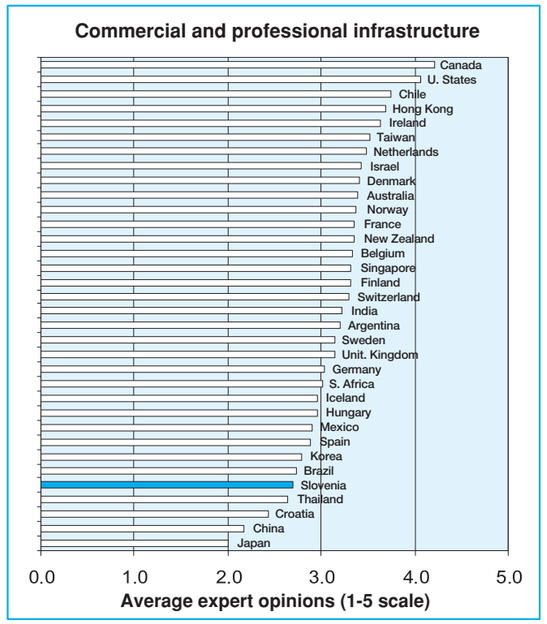


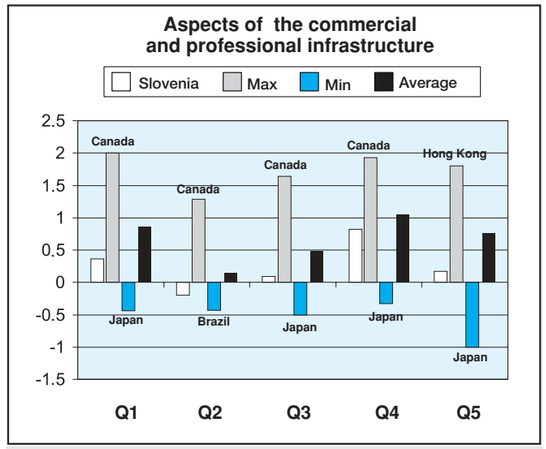
Figure 30: Commercial and professional infrastructure

In the first years following the entrepreneurship boom the supply of commercial and professional services developed unevenly across Slovenia, while the quality of services lagged behind the needs of SMEs due to a lack of experience and a weak market. While many professional staff from large enterprises and public services have turned to offering such services, there remains a need for greater supply and better quality, particularly for entry into the global market. The experts voiced a similar assessment, placing Slovenia 30th in the sample of countries, behind all the developed countries of Europe including even Hungary.

From interviews with experts:
... Firms specialising in accountancy services and having a publicly certified accountant are not responsible for the accuracy of the financial statements. That is the responsibility of the entrepreneur who runs the business, even if they left school without any qualifications. The same goes for tax statements. The tax professional who prepares them for the entrepreneur bears no responsibility. The risk is with the entrepreneur ... You are always on the edge of the law, not because you want to be, but because one rule says one thing and another one says something else. It would be very helpful if legal requirements were simplified and rationalised ...

The experts assessed the commercial and professional infrastructure on five counts, on all of which Slovenia was behind the GEM average, although it fared considerably better than Japan, which was bottom on four counts. The first three questions concerned the attitude towards collaborators, suppliers and consultants. In fact, only consulting falls narrowly within business infrastructure, while the other two categories concern the possibilities for successful delivery by firms in the business environment, thus enabling the "just-in-time" production. While the experts were relatively favourable in their assessment of the easy

access to infrastructural support, they were very critical of its availability and especially of its affordability. These costs are indeed high relative to the price SMEs achieve for their products and services, while persisting problem of collecting receivables is also a contributing factor. The current relatively high price of commercial and professional services due to weak local competition among suppliers can be expected to fall as supply improves and Slovenia opens to the EU market for services. In the assessment of the experts Slovenia also lags behind in terms of access to quality banking services, an area in which the transfer accounts introduced in 2002 are the basis for payments via banks rather than via a special state agency, while other banking services are relatively expensive due to the fact that banks are overstaffed.



Q1 In my country, there are enough subcontractors, suppliers, and consultants to support new and growing firms.
Q2 In my country, new and growing firms can afford the cost of using subcontractors, suppliers, and consultants.
Q3 In my country, it is easy for new and growing firms to get good subcontractors, suppliers, and consultants.
Q4 In my country, it is easy for new and growing firms to get good, professional legal and accounting services.
Q5 In my country, it is easy for new and growing firms to get good banking services (checking accounts, foreign exchange transactions, letters of credit, and the like).

Figure 31: Assessment of aspects of the commercial and professional infrastructure

The practice of outsourcing is only beginning to take off seriously in Slovenia.[13] Firms are in the initial, tactical phase, and SMEs are generally involved as providers of such services rather than clients. The fact is that successful SMEs rely on a network of collaborators, as they themselves specialise in particular know-how and technology and make up the rest of their requirements collaboratively. The network of collaborators requires a lengthy period of time to develop commercial relationships to the level of high-quality and reliable supply and to establish close trust among partners. Small firms encounter difficulties with sourcing raw materials and labour since it is a demanding logistical problem for an individual firm to obtain inputs from the external market, where they are cheaper, due to the small volumes involved. Slovenia lacks a high-quality wholesaling system of suppliers for SMEs that could also effectively source goods and services from distant Asian countries in quantities that would qualify for discounts and permit optimal logistical arrangements using cheap container ship transport.

The experts gave their best assessment to the availability of high-quality legal and IT services. Some studies by contrast have identified problems: (1) that there is a shortage of experienced specialist lawyers in the area of commercial law, and (2) that in the area of accounting services entrepreneurs tend to require only compliance with financial reporting requirements, which accounting firms are relatively good at, rather than management support and financial control. Entrepreneurs are less satisfied with the support provided by accountants with respect to tax issues. Accountants are also not yet adequately trained to advise entrepreneurs on prudent financial management, investment or project planning with regard to profitability and cashflows. For their part accounting firms are dissatisfied with the attitude of entrepreneurs towards timely furnishing of commercial documentation and have difficulties with the inclination (practice) of entrepreneurs to cover some personal expenditures as business costs, and so on. Many family businesses display a traditional allocation of roles whereby women are responsible for bookkeeping even though they are not suitably qualified. This inevitably leads to a poorer information basis for rapid business decision-making. Many services are also undertaken within the grey economy by people lacking proper qualifications, to the detriment of quality.

From interviews with experts:
... As regards the legal system, it is neither compatible with nor geared towards the encouragement of entrepreneurship. That is because the law profession is part and parcel of a bureaucratic state apparatus that basically sees entrepreneurship as a menace to all society's values ... The next barrier is judges' lack of understanding for the entrepreneurial spirit ... A dynamic entrepreneurial existence requires a certain freedom, not formalism, but the courts are bound by formalism ...

The experts did not directly assess the quality of a range of other important commercial services such as marketing, advertising and public relations. Such services are used mainly by large firms and public institutions, as there are as yet no sufficiently cheap "guerrilla" providers of such services for SMEs. Their quality is particularly unsatisfactory with regard to the internationalisation of Slovenian SMEs. Most of the best known international consulting and auditing firms are represented in Slovenia, but these do not serve SMEs as their fees are prohibitively expensive. As of 2002 some commercial and professional services for SMEs are included in the subsidised "voucher" system. Purely commercial provision of such services for SMEs is not financially viable because of the low payment ability of SMEs except in major centres where there are many of them. Research shows that entrepreneurs are also not accustomed or willing to pay for such services, as they do not perceive a sufficiently large benefit of such services for their business to warrant paying a commercial price, partly because at the local business level personal acquaintance with customers is more important than formal promotional activity. Within the support network a sensible balance is therefore being sought between commercial services for established SMEs and a special system of provision for start-ups and micro firms. Within the system of self-employment the national Employment Service has successfully support-

ed entrepreneurs through a combined scheme of information, advice, training, financial assistance and provision of accounting services during the start-up period.

> ***From interviews with experts:***
> *... There is a total lack of transparency about the services available. Entrepreneurs are bewildered by the complicated web of institutions that are involved with small and medium-sized firms in one way or another. We have everything from chambers of crafts, regional chambers of crafts and chambers of commerce and industry to employment services, local entrepreneurial centres, regional entrepreneurial centres, regional development agencies – the whole thing is terribly opaque. Entrepreneurs' confusion is expressed in a completely different way. We don't need these services, say the entrepreneurs, because they are inaccessible, untransparent and inconsistent, and also not permanent ...*

3.2.8 Internal market openness and competition

This topic relates to the question of how far market rules are adapting and market structure is changing with the entry of new and growing firms, competing with and ousting existing suppliers, contractors and consultants. It concerns the fundamental issue of how easy or hard it is to start up a new business and establish a position in the market in Slovenia compared with previous business interrelationships.

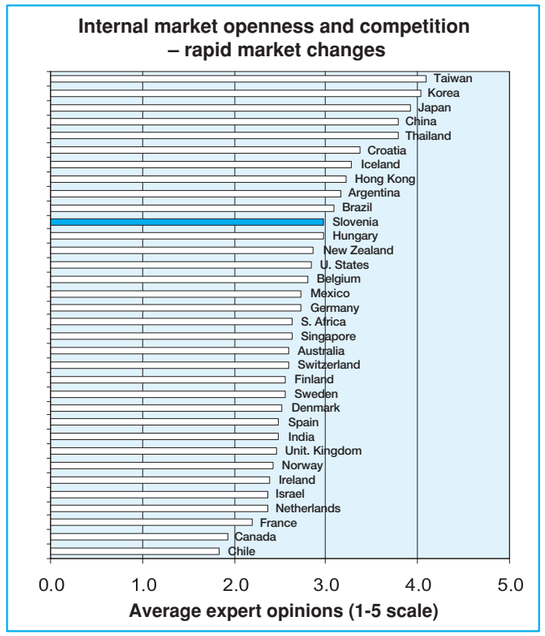


Figure 32: Internal market openness and competition – rapid market changes

In the early 1990s, frustrated demand and the small number of firms meant that a large number of market niches existed in Slovenia, especially in the area of personal and business services, which new firms were quick to fill. Domestic firms were in relatively short supply, many were facing major difficulties as a result of their purchase and sales markets in the former Yugoslavia having disintegrated, and they therefore focused on windows of commercial opportunity in local markets. Although buyers were reserved and cautious in their dealings with new firms due to the uncertainty of their long-term existence, they were at the same time fairly open to trying out new suppliers. Micro firms operating mainly on local markets had no trouble finding customers as they operated on the basis of personal acquaintance between entrepreneur and customer. The government wholly liberalised external trade, with the result that many new firms achieved success through exclusive representation of foreign brands whose products Slovenes had previously purchased in the nearby countries of Austria, Italy and Germany. Various public sector activities, particularly the opening-up of opportunities for private medical, dental, welfare and educational services, became a highly promising area for small private firms. The privatisation of public services through the award of procurement contracts enabled new providers to establish themselves who did not share the deficiencies of public agencies and used a combination of private and public finance. The absence of no-compete non-competitive clauses enabled some to transfer their business from former socially-owned enterprises to private firms and thus to establish themselves rapidly in the marketplace.

> ***From interviews with experts:***
> *... Entrepreneurship is at last gaining the image of something high quality, important and attractive especially for young people. People are starting to view private firms or autonomous entrepreneurial activity positively and are on the lookout for opportunities they could exploit themselves. This attitude towards entrepreneurship is encouraging people to view it as an equally acceptable alternative to other careers ...*

In the second half of the 1990s conditions began to change rapidly as a large number of new firms filled the most promising gaps in the market while large firms, provided they survived the restructuring period, were privatised and themselves began to successfully meet market needs by developing differentiated goods and services or even taking over successful SMEs. Major retail companies ousted small shops by rapidly covering the geographical territory of Slovenia with supermarkets, while the development of large shopping centres on the outskirts of large towns and cities, which had not provided attractive facilities and good infrastructure in their centres, lead to the demise of many small shops. Increased competition thus made it harder for new firms succeed. Entry by new firms will become tougher in the next two or three years when Slovenia's incorporation into the European single market will remove practically all barriers to entry by strong foreign firms. SMEs will have to prepare for this, although the most successful SMEs at the same time see an opportunity to expand their business internationally.[14]

The experts were asked six questions. The first three assessed the ***speed of change in the market***, on which the experts expressed the view that wholesale and retail markets were changing dramatically with each year. The assessment of Slovenia with regard to the speed of change was above the average for the GEM sample and placed the country as high as 11th position. This speed of change is directly related to the process of economic transition, during which the supply of goods and services has expanded rapidly, while supply and demand conditions

have changed rapidly and unpredictably. The experts were mildly negative in their assessment of the possibility for new and growing firms to enter new markets, which accords with the analysis of developments in the market towards the end of the 1990s, when openings no longer existed and new firms had to establish themselves through innovative products or take on a large number of competitors in order to secure a suitable position in the market.

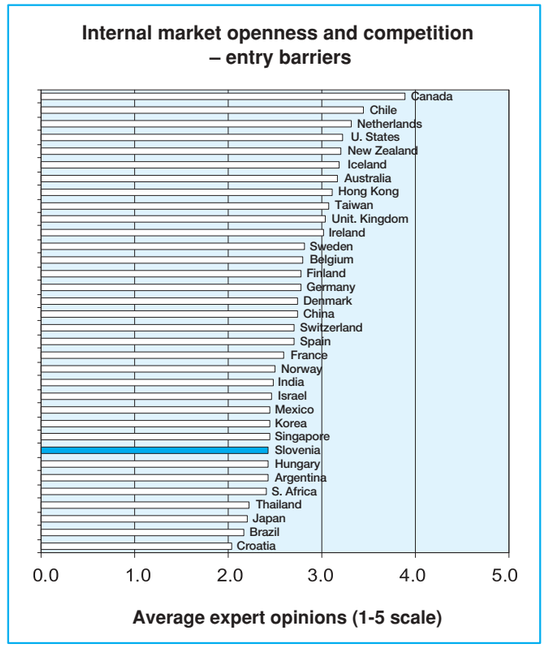
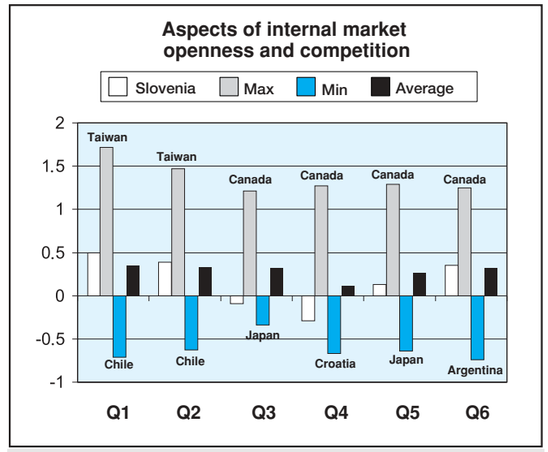


Figure 33: Internal market openness and competition – entry barriers

The experts gave quite a different assessment of Slovenia's situation with regard to ***barriers to entry by firms in the market***, ranking Slovenia 27th, which indicates the presence of significantly larger barriers than in other parts of the world and larger than in all the developed countries of Europe. Croatia was assessed to have the largest barriers to entry, while Hungary was assessed to be similar to Slovenia. The opinion of the experts was that new and growing firms in Slovenia struggle to recoup the costs of market entry, the issue being to seek a sufficiently large market for viable operation. SMEs naturally behave in a variety of ways: some are oriented internationally from the outset, as it is practically impossible for them to find customers for their specialised products in Slovenia, others opt for a gradual, organic penetration of neighbouring markets, while a large number of firms, especially service firms, target domestic local and regional markets within Slovenia. While the experts did not suggest that unfair barriers were created by existing firms, there were frequent complaints that a new firm had little chance of vying with incumbent firms because of "contacts and acquaintances" and even small-scale corruption. While such assertions are inevitably hard to verify, it is certainly the case that many complaints arise in connection with public procurement.



Q1 In my country, the markets for consumer goods and services change dramatically from year to year.
Q2 In my country, the markets for business-to-business goods and services change dramatically from year to year.
Q3 In my country, new and growing firms can easily enter new markets.
Q4 In my country, the new and growing firms can afford the cost of market entry.
Q5 In my country, new and growing firms can enter markets without being unfairly blocked by established firms.
Q6 In my country, the anti-trust legislation is effective and well enforced.

Figure 34: Assessment of aspects of internal market openness and competition

There remain in Slovenia several inconsistent areas where clear rules relating the private and public sphere are lacking, which creates strains and distractions in business. One such area is healthcare, in which Slovenia still has no clear strategy for development of the public sector, with the result that the award of contracts to private providers is often therefore hampered. In particular, however, there is a lack of clear rules governing the provision of these services in the case of employment in the public sector and at the same time the provision of services by public sector employees in the private sector outside their working hours. In the area of education, private schools have sprung up on the initiative of religious organisations or parents wishing to develop alternative, "friendlier" forms of education. In some areas organisations of existing providers are seeking to restrict competition through various rules and collective forms of organisation, the conduct of which is not yet subject to clear rules.

> ***From interviews with experts:***
> *... Municipalities have too little funds at their disposal to have a significant impact on the development of entrepreneurship. Because the law is not respected, powerful lobby groups come forward and cause short-term disruption to what are already frail institutions and so do more harm than good, reinforcing entrepreneurs' mistrust of the state or legal system ...*

A special issue relating to market entry concerns the existence of the grey economy, which was already quite extensive in the former Yugoslavia.[15] A period of relatively relaxed policy towards the grey economy was followed by an initiative by the Chamber of Crafts of Slovenia, which wished to protect the interests of the

legal business of its members through the introduction of legislative measures against the grey economy. Grey activity was most widespread in the area of services and private housing construction, which posed unfair competition to legal firms. Legislation against hidden employment is starting to be enforced in Slovenia with the aid of inspections, although it is possible that tax revenue motives are uppermost in the minds of government.

Overall awareness of the restriction of entry by new firms, or in other words the need to dismantle monopolies, is being heavily influenced by the processes of privatisation and deregulation in some areas. One such area is telecommunications, in which there are three mobile telephony operators and a virtual monopoly of Telekom in conventional fixed-line telephony, and where privatisation is creating opportunities for SMEs to act as local providers of certain services. The power industry and other public utilities are other examples. As yet we have no assessments of how the situation of SMEs is affected by the currently complex system of public procurement in which, especially at the local level, cases of inappropriate selection of contractors frequently come to light, mainly the result of personal and political connections between public institutions and the chosen contractors. Successful complaints by injured parties are contributing to greater recognition of the importance of unbiased selection, although in a small country like Slovenia it is difficult to eliminate problems of insider information or conflicts of interest.

3.2.9 Access to physical infrastructure

This topic relates to the availability and ease of access to existing physical resources – (tele)communications, power and utilities, transportation, land and premises – at a price that does not discriminate against new, small or growing firms.

The experts placed Slovenia 27th out of 34 countries on the assessment of physical infrastructure, a fact that sums up the picture of Slovenian entrepreneurship, which does not have the best infrastructure, although on three of the five counts it was no lower than average.

The experts felt that the physical infrastructure in Slovenia (e.g. roads, buildings, communications, waste collection) were not very supportive of new and growing firms. This is due to factors related to the development of entrepreneurship itself. After 1990, when SMEs developed rapidly, urban planning solutions failed to keep pace with the rapid change in the structure of firms according to size and activity, resulting in inadequate infrastructure. Municipal authorities failed to keep up as the number of (active) firms grew to over 100,000 within a few years. With the growth of firms the "garage" business model became inadequate and the problem of acquiring premises at a suitable price arose. With the development of business zones, which feature in the development programmes of most municipalities, these problems may be alleviated substantially in coming years in parallel with the motorway network construction programme, which still takes insufficient account of business needs. Access to gas, water, electricity and sewerage networks is also a problem, reflecting a bureaucratic attitude on the part of public monopolies. The assessment of Slovenia in respect of other aspects of the physical infrastructure was close to the GEM average:

- the price of access to telecommunications (telephone, Internet) was often the subject of criticism in the past because of the cost of connections, particularly to modern ISDN and ADSL technology; Internet access (except on the Arnes academic network) is also relatively expensive;
- firms can obtain quality access to telecommunications relatively quickly, most easily in the case of mobile telephony for which there are three operators and which is important for doing business with customers;
- the experts were not critical of the cost of basic utilities (gas, water, electricity and sewerage) even though these prices, under a regime of government price regulation, have grown faster than prices of other goods and services in the market, sometimes in the name of "price equalisation with the EU".

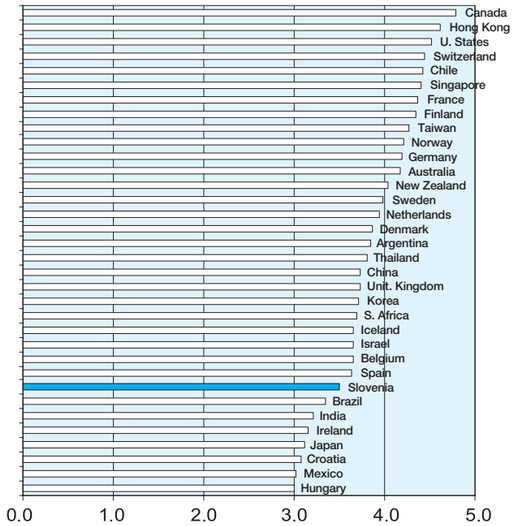
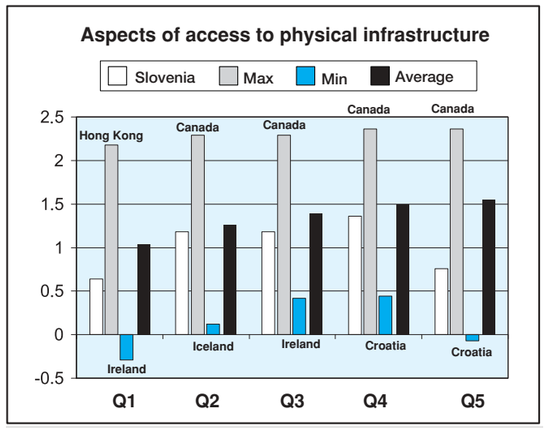


Figure 35: Access to physical infrastructure

From interviews with experts:
... One of the key points is the issue of managing premises, openness of the location, and with it a significant cut in construction costs, so that firms can actually retain funds for their business rather than property. This should be incorporated into all spatial planning. Very big projects, such as motorway construction, have gone ahead without serious thought about the new economic composition and the choice of route, because the planning of enterprise zones that would quickly value these new transport routes did not occur in parallel. This is clear evidence that spatial planners did not realise what was happening. Just as in the cities there is no clear idea of what has been happening ... The system we have is basically a system of rent creation for a circle of people who are close enough to the information flows, spot things far off and can make big profits in a highly speculative way, which really destroys the scope for the development of entrepreneurship ...

From interviews with experts:
... National and local political structures still command a large amount of resources that should be released for the development of entrepreneurship. They consist of land, personnel, permits and assistance, when things should be stimulated ... This is the experience even of established firms, who can at least trade, even if they don't have all the necessary permissions, as these are acquired rights. But someone going into business for the first time encounters this right at the outset ...

Assessments of infrastructure in various countries of the world are fairly closely correlated with the national level of development, as infrastructure requires large-scale long-term capital investments, sound planning and strong business organisation in public enterprises, which are lacking in Slovenia. Moreover, local monopolies create pressure for relatively rapid price rises and cause difficulties in access to services.



Q1 In my country, the physical infrastructure (roads, utilities, communications, waste disposal) provides good support for new and growing firms.
Q2 In my country, it is not too expensive for a new or growing firm to get good access to communications (phone, Internet, etc.).
Q3 In my country, a new or growing firm can get good access to communications (telephone, internet, etc.) in about a week.
Q4 In my country, new and growing firm can afford the cost of basic utilities (gas, water, electricity, sewer).
Q5 In my country, a new or growing firm can get access to utilities (gas, water, electricity, sewer) in about a month.

Figure 36:
Assessment of aspects of access to physical infrastructure

3.2.10 Cultural and social norms

Cultural and social norms include general attitudes, convictions and views, the cultural climate and all implicit and explicit norms relating to the socially acceptable conduct and aspirations of individuals and communities. These norms have a significant influence on the general attitude of the population towards entrepreneurship and entrepreneurial conduct. They describe the extent to which existing norms and values encourage Slovenes to act, or at least do not deter them from acting, in ways that could lead to new ways of doing business or undertaking economic activities and thus potentially a greater dispersion of personal income and wealth.

The study of cultural and social norms covers two aspects: the first is the extent to which (national) culture supports individualism and personal independence, while the second is the extent to which people accept the economic, social and psychological risks associated with entrepreneurship, or in other words how prevalent is the view that individuals themselves are largely responsible for their own lives. The experts placed Slovenia 28th, implying that Slovenia's cultural and social norms are not especially conducive to entrepreneurial ventures. All five elements of cultural and social norms were assessed as unconducive, none of them was beneficial for the development of entrepreneurship and Slovenia was below the average for all countries on all counts.

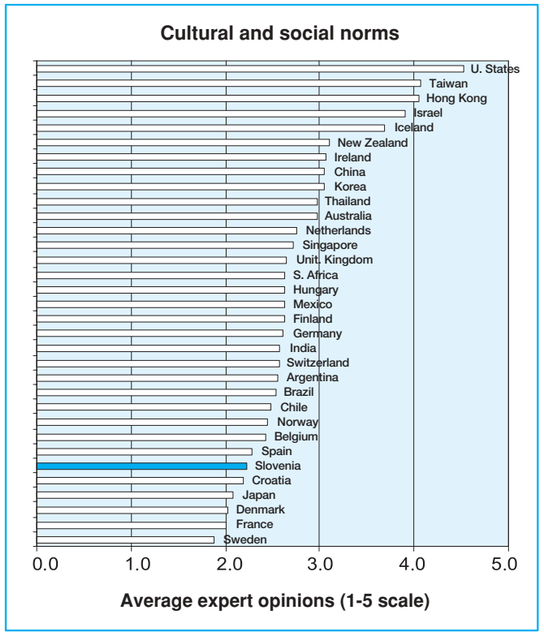


Figure 37: Cultural and social norms

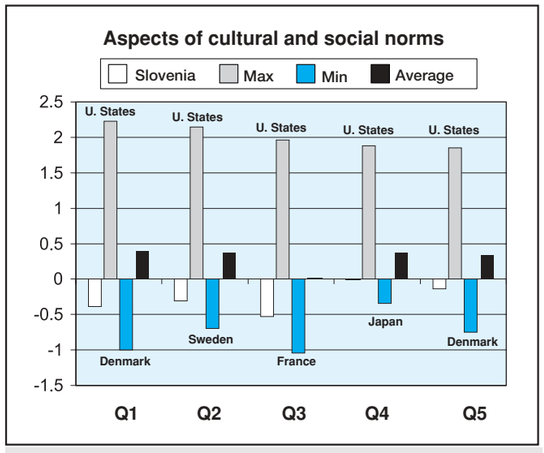
The experts were most critical of the willingness of Slovenes to accept the business risk of decision-making for their own firms. Slovenes' pronounced risk aversion is largely attributed to half a century of encouragement of collectivism and extensive social security, although even before that Slovenes were probably not among the most entrepreneurial of nations.[16] The caricature of Slovenes is of a stolid people that has little appetite for adventure, dislikes risk and avoids uncertainty and change. The national culture does not promote highly individual success achieved through personal effort. Many of the experts anecdotally cite Slovenian envy as a major component of the national character. Arguably, Slovenes support individual achievements that can be "appropriated" by the rest of the nation, such as sporting or artistic success, although at the same time they begrudge them the associated material rewards, as egalitarianism is deeply ingrained. At the same time Slovenes do not support independence, autonomy and personal initiative, as these things set individuals apart from the majority. Slovenian entrepreneurs cite the desire for independence as a key incentive for setting up their own business. Research by the Institute of

Macroeconomic Analysis and Development has shown that when it comes to children Slovenes again value obedience and discipline ahead of creativity. This attitude is later reinforced by the entire schooling system. Assessments of the Slovenian character in terms of qualities related to business emphasise diligence and hard work; even entrepreneurs themselves stress these qualities significantly more than creativity and innovation.

> ***From interviews with experts:***
> *... The cultural barrier is the attitude that if you're good and stand out, you're a problem. Basically it's about the fact that good entrepreneurs aren't willing to praise themselves and serve as a good example. A negative image is ingrained in society. If you're too good, if you rise too fast, that isn't good ...*

The Slovenian experts gave an entirely neutral assessment of the encouragement of creativity and initiative, implying that Slovenes are not opposed to such traits but equally do not esteem them. The experts were somewhat more critical of the fact that Slovenian culture does not emphasise the responsibility of the individual to be in control of his or her own life. Thus, Slovenian public opinion surveys often underscore the expectations on the part of Slovenes that the state will help them resolve entirely personal difficulties that they could resolve for themselves.

> ***From interviews with experts:***
> *... So long as the media look mainly for crime stories about entrepreneurs, people will view entrepreneurship with mistrust ... A criminal makes a sensation, a successful entrepreneur doesn't ...*



Q1 In my country, the national culture is highly supportive of individual success achieved through own personal efforts.
Q2 In my country, the national culture emphasizes self-sufficiency, autonomy, and personal initiative.
Q3 In my country, the national culture encourages entrepreneurial risk-taking.
Q4 In my country, the national culture encourages creativity and innovativeness.
Q5 In my country, the national culture emphasizes the responsibility that the individual (rather than the collective) has in managing his or her own life.

Figure 38: Assessment of aspects of cultural and social norms

Although Slovenia is a relatively small country, we can nevertheless expect variations in cultural and social norms, especially due to regional differences in historical experiences and the influence of neighbouring countries, which varies greatly between Austria, Croatia, Italy and Hungary. The socialist era reinforced people's reliance on the wider community and especially on state institutions, which in today's Slovenia is being thrown over to individuals through the system of contributions, voluntary insurance schemes and so on. The major problems within the sphere of cultural and social norms are probably:

- a low tolerance of large disparities in income and wealth,
- a highly negative attitude or social stigma attached to business failure,
- an ambiguous attitude towards the commercialisation of various spheres of social life,
- an expectation that the state will resolve social problems,
- a harsh and unsympathetic attitude towards the unemployed,
- a low level of public trust in state institutions etc.

> ***From interviews with experts:***
> *... By a venerable tradition, we in Slovenia find it hard to accept above-average results. We have a strong preference for equality ... The egalitarian ideal in Slovenia, along with isolated cases of unethical behaviour, have given entrepreneurship a bad name. The word entrepreneur is often a synonym for a rogue rather than someone who has put in a lot of effort, worked outside normal hours, on Sundays and holidays, and staked their own possessions ...*

Most of Slovenian society still regards a low level of material inequality and cultural and social uniformity as a desirable social goal. There is widespread support for greater social benefits for the less well-off, irrespective of their own contribution to redressing the inequality. The same majority therefore looks unfavourably on any ostentatious display of entrepreneurial success and condemns more aggressive kinds of business conduct and departure from the average, which is of course characteristic of a successful entrepreneur. Even in 2001-2002 a number of debates arose which indicated the presence of anti-entrepreneurial elements in attitudes towards work, quality and the employment model. Most Slovenes take a negative view of temporary employment and seek a high degree of job security irrespective of job performance. Many are opposed to shops opening on Saturdays and Sundays, and so on. The Slovenian media are partly to blame as they seldom portray successful entrepreneurs as role models but devote more space to politicians, athletes, artists and other media personalities. Entrepreneurs are frequently portrayed in a negative light. Prominence is given to personal excesses and ethically dubious conduct on the part of entrepreneurs in sacking workers, their attitude towards the environment, tax evasion etc.

3.3 Attitudes towards women in entrepreneurship

In Slovenia as in most of the GEM countries, considerably fewer women start up a business than men. The difference is somewhat surprising as Slovenia is characterised by the following facts: (a) women are predominantly in regular employment, although recently various forms of reduced hours, home business etc. are becoming more widespread, (b) the educational level of women of younger generations equals or surpasses that of men, although the choice of fields of study is traditional and

provides fewer opportunities for entrepreneurial initiative, and (c) legislation against sexual discrimination is in general adequate, although the problem is not sufficiently discussed in Slovenian society. The proportion of women in political bodies (the National Assembly and the Government) and among the top management of large companies[17] is relatively low. Women who have become managers in firms have often succeeded during difficult times for business during which they displayed an outstanding ability to resolve operating difficulties and motivate colleagues. The general climate towards women entrepreneurs is in no way negative, although not is it especially supportive, as women are rather expected to play a major role in the family and the household. The experts placed Slovenia 12th in their assessment of attitudes towards female entrepreneurs, somewhat above the average for the GEM sample and well ahead of neighbouring Croatia in 24th place and Hungary in 28th place.

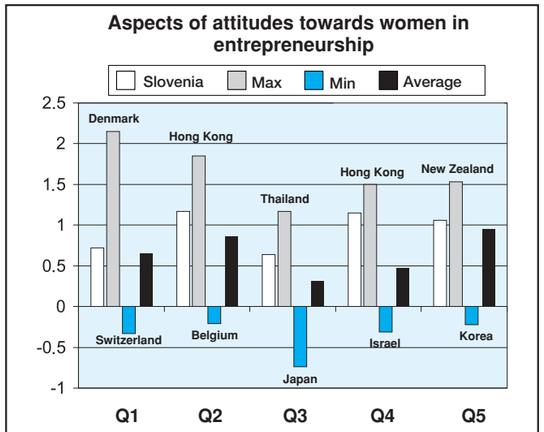
Figure 39: Attitudes towards women in entrepreneurship

The experts gave different assessments of different aspects of the situation in Slovenia. They were positive about the ***availability of social services*** that enable women to continue their careers after starting a family. This is highly important, as the division of labour within the family generally remains unequal, with women taking on most of the housework[18] and men being more involved in various forms of paid activities. These social services mainly consist of kindergartens, there being few other ways in which children can spend most of the day without needing to be looked after by their mothers, although smaller local communities in particular have better organised provision of sports and cultural activities for children. Slovenia still has strong family ties in the form of extended families, in which older generations care for grandchildren, a phenomenon which is connected with the lesser mobility of Slovenes, who often remain in the vicinity of their parents. The assessment that ***starting a business is a socially acceptable career for women*** in Slovenia is very positive. In general women do not encounter prejudice with regard to their entrepreneurial activity; if the business gives them greater flexibility over the time spent with family, this is even welcomed. There are no legal obstacles restricting women in the ownership of firms and their assets and family wealth is usually divided equally.

On the other hand the experts did not support the statement that women in Slovenia were ***encouraged to enter self-employment or start up a business***. Research[19] has shown that society has not given particular encouragement and support to female entrepreneurs. There were no special support programmes for women in the early 1990s and it was only later that specialist female advisers and mentors began to be trained. Women mainly received support within the family and to a lesser extent among friends, as most friendships did not exist in parallel with business contacts. Nevertheless Slovenian women are one of the groups that are to be specially targeted by entrepreneurial initiatives under the national strategy for the development of entrepreneurship and SMEs for the period 2001-2006, as they are still significantly underrepresented as founders and owners of businesses. This encouragement has not yet taken the form of special loan facilities or training and advice programmes on favourable terms.

The experts gave a very favourable assessment of the statement that women in Slovenia have ***access to the same number of good opportunities for setting up a new firm as men***; this assessment for Slovenia is close to the best assessment, for Hong Kong, and considerably above the average within the GEM sample. As mentioned above, there are no obstacles confronting women as opposed to men, and the problems have more to do with the influence of conventional female occupations, many of which are unsuited to commercialisation, with the result that women are more involved in non-profit, socially-oriented activities. Even within the entrepreneurial support network the proportion of women in entrepreneurial centres is very high. Women themselves consider that entrepreneurs accept them very readily as responsible, reliable, trustworthy business partners, but that they find it harder to succeed in certain areas of activity in which men have developed a male-dominated network of relationships, such as wholesale trade and construction. In principle women in Slovenia have the same opportunities as men, although they are hindered by the occupational mix, while in activities requiring large foreign commitments they are held back by family ties for a certain period of their lives.

The experts assessed as partly true the statement that women possess the ***necessary know-how and motivation for setting up a new firm***. Research shows that educational and occupational choices in Slovenia are close to the traditional composition in socialist countries, where certain occupations are female-dominated such as education and culture (where 67.3% of employees are women), healthcare (where they are as much as 81.9%) and social services. Women predominate in certain branches of industry which continue to employ high numbers of people (76.6% of employees in the leather industry and 61.4% in textiles) and are encountering problems due to the migration of these industries to countries with lower labour costs. The educational system has not fostered business knowledge, which is therefore lacked by women, although female entrepreneurs have a relatively strong educational profile.



Q1 In my country, there are sufficient social services available so that women can continue to work even after they start a family.
Q2 In my country, starting a new business is a socially acceptable career option for women.
Q3 In my country, women are encouraged to become self-employed or start a new business.
Q4 In my country, women get exposed to as many good opportunities as men to start a new business.
Q5 In my country, women have the necessary skills and motivation to start a new business.

Figure 40: Assessment of aspects of attitudes towards women in entrepreneurship

Because of women's educational and occupational profile in Slovenia the firms they set up are somewhat different from those set up by men:

- women tend to set up firms in a particular range of activities, especially in the service sector,[20]
- firms set up by women are smaller in terms of revenue and employees, although they are not necessarily less profitable,[21]
- women emphasise job satisfaction and other non-pecuniary success indicators and attach importance to a positive atmosphere within the firm and to teamwork,
- women are more inclined to employ family members in the business, are prepared to share ownership with their husbands, etc.

Women in entrepreneurship are particularly important in rural areas as their traditional occupations are the basis for a range of profitable activities on farms. In view of the characteristics of women entrepreneurs in Slovenia, which is not ranked highly in terms of total entrepreneurial activity, it would make sense to encourage women to enter self-employment and set up firms as this could bring about:

- a higher general level of entrepreneurial activity, in which women are still an underexploited source of new ventures,
- the development of certain types of firms that complement the existing mix of firms and are important for meeting the varied needs of consumers and households,
- the possibility for women to better reconcile their business and family responsibilities and enjoy a fuller life (research has shown that female entrepreneurs find it easier to have a rounded life than female managers, who encounter greater pressure in their careers) and
- broader emancipation of women, as female entrepreneurs are a group of women who achieve material independence, self-confidence, a wider circle of acquaintances etc. through their business accomplishments.

In the assessment of the experts the basic conditions for more rapid development of female entrepreneurship in Slovenia are favourable, so that this strategic aim should be pursued through better adapted support programmes for women choosing an entrepreneurial career.

3.4 Strengths and weaknesses of the entrepreneurial environment

Table 8 sets out the ten statements with which the Slovenian experts agreed most strongly and the ten with which they most disagreed. The range of assessments extends from a highest mark of 3.86 for the ability to meet the costs of essential utilities to a lowest mark of 1.31 for the speed of securing concessions and necessary permits for business. If we consider the ranking within the GEM countries on this basis, the highest assessment was of the equality of women in taking advantage of business opportunities (5th position) and legislative protection of intellectual property (11th position). The lowest position (bottom) was recorded for the success of the transfer of new technological, scientific and other knowledge from universities and public research centres to new and growing firms, and venture capital.

Main strengths	*Main weaknesses*
• Slovenes are clever, capable, hardworking, persistent, innovative and enterprising. • They are well educated and highly skilled, and capable of adopting new knowledge and technology (technical knowledge and trade skills are emphasised). • Historical experience has hardened them, and they have not been subdued by the collectivist system. • Their potential is underexploited, there exists "critical mass" for entrepreneurial development, and they are good at organising themselves. • They are business-oriented and not inclined towards excessive politicisation. They rely on their own strengths and want a better life. • They are open and multicultural with good knowledge of foreign languages. • Family units foster the starting-up of businesses etc.	• Entrepreneurship is viewed as a speculative activity, as a result of certain cases of fraud, which lowers the social status of an entrepreneurial career. • At the same time they tend to seek safe and dependable employment, they are unwilling to take risks and are not motivated towards self-employment. • They lack the entrepreneurial know-how and capability to face intense competition, information about opportunities is inadequate and the transfer of knowledge is poor. • Collaboration is lacking, individualism prevails and business remains within local bounds. • Constraints on the highly able, negative social selection, egalitarianism and low aspirations. • Passivity, lack of ambition and vision etc.

Top ten TRUE assessments	5 – Completely true	Rank of Slovenia
H04 In Slovenia, new and growing firm can afford the cost of basic utilities (gas, water, electricity, sewer).	3.86	23/37
H02 In Slovenia, it is not too expensive for a new and growing firm to get good access to communications (phone, Internet, etc.)	3.68	21/37
H03 In Slovenia, new and growing firm get good access to communications (telephone, Internet, etc.) in about a week.	3.68	22/37
P02 In Slovenia, starting a new business is a socially acceptable career option for women.	3.67	13/32
P04 In Slovenia, women get exposed to as many good opportunities as men to start a new business.	3.65	5/32
N01 In Slovenia, the Intellectual Property Rights legislation is comprehensive.	3.64	11/32
P05 In Slovenia, women have the necessary skills and motivation to start a new business.	3.56	14/32
K02 In Slovenia, there are more good opportunities for the creation of new firms than there are people able to take advantage of them.	3.43	15/35
M01 In Slovenia, the creation of new ventures is considered an appropriate way to become rich.	3.41	16/34
D05 In Slovenia, the level of business and management education is truly world-class.	3.37	12/34

Top ten FALSE assessments	5 – Completely false	Rank of Slovenia
B04 In Slovenia, new firms can get most of the required permits and licenses in about a week.	1.31	26/34
A06 In Slovenia, initial public offerings are an important source of equity for new and growing firms.	1.63	29/34
A05 In Slovenia, venture capitalists are an important source of private support for new and growing firms	1.77	34/34
E01 In Slovenia, new technology, science, and other knowledge is efficiently transferred from universities and public research centers to new and growing firms.	1.73	34/34
B01 In Slovenia, government policies (e.g. public procurement) consistently favour new firms.	1.76	25/34
E04 In Slovenia, there are adequate government subsidies for new and growing firms to acquire new technology.	1.76	33/34
C01 In Slovenia, a wide range of government assistance for new and growing firms can be obtained through contact with a single agency.	1.78	25/34
B05 In Slovenia, the amount of taxes is NOT a burden for new and growing firms.	1.86	29/34
E02 In Slovenia, new and growing firms have just as much access to new research and technology as large, established firms.	1.92	23/34
I03 In Slovenia, the national culture encourages entrepreneurial risk-taking.	1.97	26/33

Table 8: Top ten and bottom ten assessments

In the personal interviews the 37 experts were asked to name the three main weaknesses holding back the development of entrepreneurship in Slovenia, and the three main strengths encouraging it. The responses were allocated to the nine entrepreneurial framework conditions and their frequency calculated. *Figure 41* shows the ratio of strengths to weaknesses for Slovenia according to the different areas and by comparison with the total sample of all countries participating in the GEM research.

It is evident that the distribution of strengths and weaknesses for Slovenia differs from that for the GEM sample as a whole, and also that the strengths and weaknesses for Slovenia are more uneven than for the other countries. Thus, the values for strengths range from 0% (for government programmes and research and development) to 36.4% (cultural and social norms), compared with 2.64% to 26.4% in the GEM sample.

The Slovenian experts, like the others in the GEM sample, perceived the greatest strengths in cultural and social norms, which at the same time are also a major weakness. The opinions of the Slovenian experts on strengths and weaknesses expressed in the interviews are summarised on previous page.

It is clear that the experts expressed a distinctly mixed view of Slovenes' capabilities and the effects of social norms. The mixed nature of the assessment reflects a dearth of research and wider social debate about issues of entrepreneurship and how to turn Slovenia into an entrepreneurial society.

Compared with other countries, Slovenia is also assessed very negatively with regard to government policy, which experts see almost exclusively as a major weakness, while government programmes are identified as neither a weakness nor a strength, which is quite different from the sample as a whole. The main criticisms levelled at government policy are as follows:

- the most frequently mentioned problem is bureaucracy, especially in setting up firms and obtaining permissions (including at the local level),
- the legal system is inadequate and legislation increasingly restrictive,
- regulation is overly burdensome and state intervention excessive,
- government attention is focused on medium-sized and large enterprises and failing sectors (which was indisputably true in the first half of the 1990s, but is less so today),
- government costs are high, as a result of which taxes and contributions are high, and the conduct of the tax authorities is untransparent.

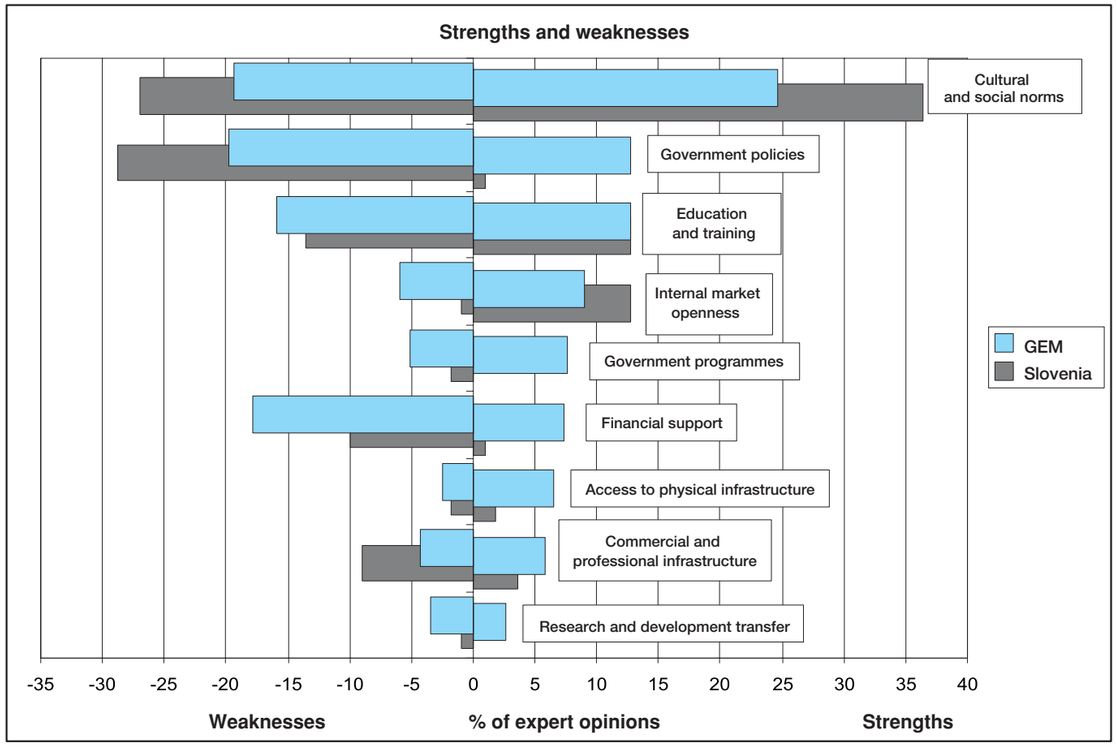


Figure 41: Strengths and weaknesses

Interestingly, experts see education and training as a strength and a weakness in almost equal measure, as Slovenes are well educated but not in quite the right areas and quite the right way for an entrepreneurial career. Specialist knowledge and experience are also lacking.

The market situation is viewed as a major strength, as the experts perceive great opportunities in market niches, although Slovenia's small size makes internationalisation of business a necessity, a fact which entrepreneurs are considered to be well aware of, partly due to Slovenia's strategic geographical position. This is an optimistic assessment given the current rather low level of involvement of SMEs in external trade. Slovenia's weaknesses are most pronounced in the area of finance, although less than in the GEM sample as a whole. The experts enumerated the same weaknesses of the system of finance as were reported in the survey of entrepreneurs: an ineffective banking system ill adapted to the needs of SMEs, high costs of financial support, problems with guarantees, shortage of venture capital and problems with financial discipline. The experts also gave a poor assessment of access to business infrastructure, which entrepreneurial networks accuse of being too concerned with itself and not taking the right action. Specialised assistance for innovative and growing firms is also rated poorly.

A special issue concerns areas in which the experts do not see any major impact on the development of entrepreneurship, but whose impact could be significant. One such area is government programmes, which the experts feel have practically no perceptible effect on the development of entrepreneurship. Research and development clearly also do not contribute to the development of business, which is major gap if the future depends on innovative, technologically oriented firms.

The experts clearly are not all equally aware of all the problems connected with the development of entrepreneurship, and also give a one-sided and critical assessment of some areas. Many programmes run by government and the entrepreneurial networks are appropriate and in line with action being taken in the developed countries of Europe. However, the Slovenian government is not able to promote this fact appropriately, and is also failing to ensure the necessary concentration of funds for major shifts. The experts are also not sufficiently aware of the potential range of certain forms of entrepreneurial infrastructure, the deficiency of which therefore is not even perceived by them as a weakness – the issues of business zones, appropriate urban planning, technological parks and incubators are certainly important for the enhancement of entrepreneurship, but this is scarcely reflected in the assessments of the experts.

3.5 Who are the Slovenian entrepreneurs?

Ascertaining who are the main kinds of people who choose to take the entrepreneurial route is not simple, but is necessary, as it is otherwise difficult to conduct an effective policy of stimulating entrepreneurship. How can we create conditions for entrepreneurs if we do not know who they are? The predominant type of Slovenian entrepreneur is:

- male,
- aged between 25 and 34,
- educated at least to secondary level,
- in the top third income bracket and
- employed.

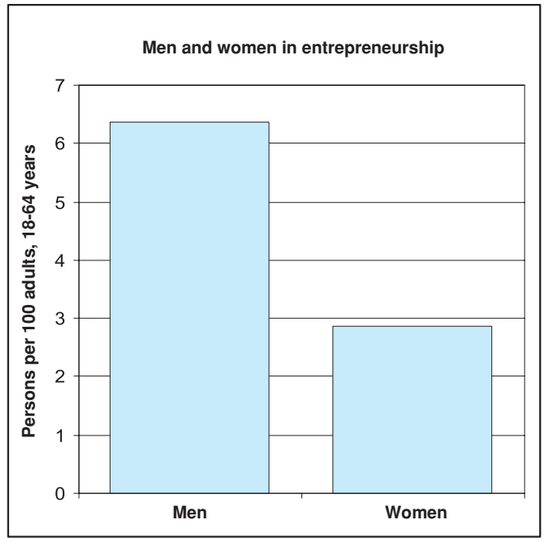


Figure 42: Representation of men and women

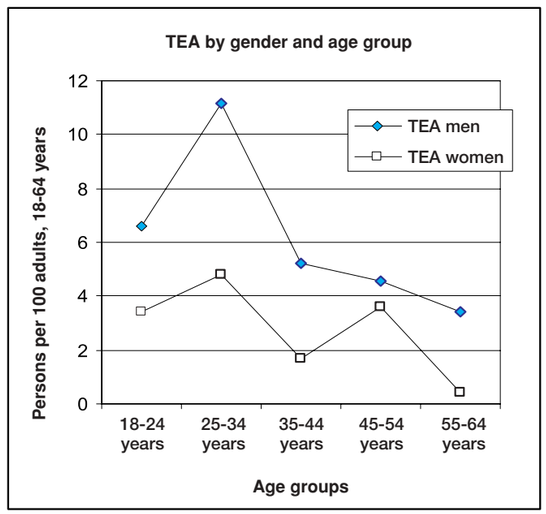


Figure 43: TEA by gender and age group

There are half as many female entrepreneurs as male and those who fall in the bottom third of the income scale are very unlikely to become entrepreneurs.

In Slovenia, as in all other GEM participant countries, males in the 25-34 age bracket form the largest proportion of total entrepreneurial activity with 11.15%, while women of the same age make up 4.80%. The exceptions to the pattern are men who have taken the entrepreneurial route out of necessity, who are predominantly in the 35-44 year-old age bracket, and female opportunity-based entrepreneurs, who are predominantly aged between 45 and 54 (2.74%) and 18 and 24 (2.64%). This is probably attributable to the traditional role still played by women in Slovenian society, as these are times of life in which women are less likely to be burdened with maternity and a family.

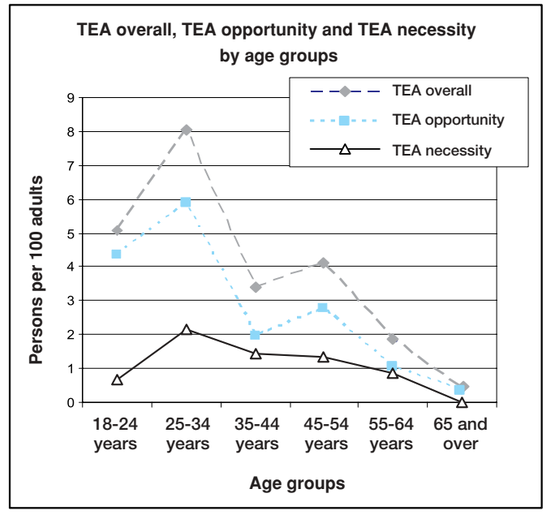


Figure 44: TEA by age group

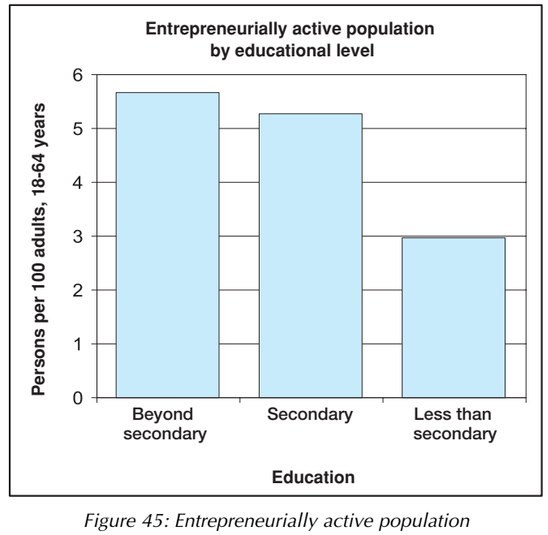


Figure 45: Entrepreneurially active population by educational level

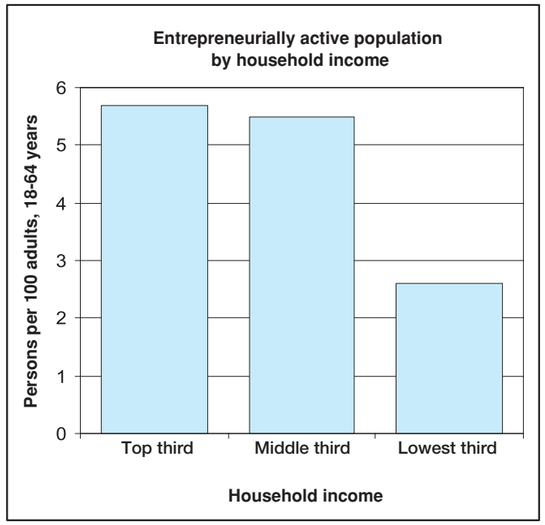


Figure 46: Entrepreneurially active population by household income

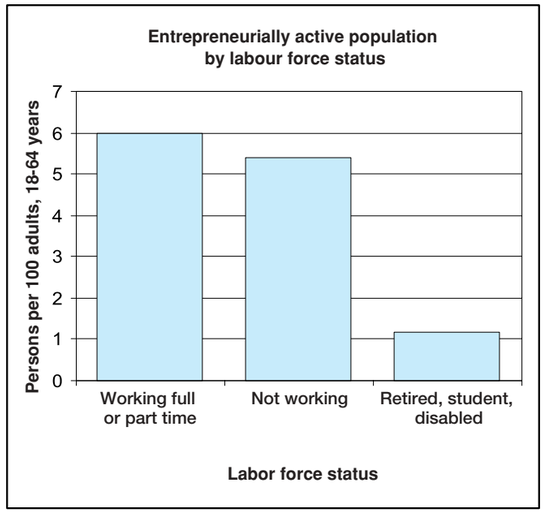


Figure 47: Entrepreneurially active population by labour force status

Among adult Slovenes the largest groups to have chosen the entrepreneurial route are those with a post secondary education (5.68%), followed by those with a secondary education (5.27%).

The survey also posed questions to the adult populations relating to acquaintance of other entrepreneurs, business opportunities, knowledge about entrepreneurship and fear of business failure. These turn out to be highly relevant questions that display statistically significant differences between the entrepreneurially active and inactive.

Knowing other entrepreneurs is a very important factor. Seven per cent of those who personally know someone who has set up a firm within the previous two years are entrepreneurs, compared with only two per cent or so of those who do not. Awareness of business opportunities is also important. Those who believe that good new business opportunities will arise in the area where they live within the next six months are almost twice as likely to be entrepreneurs than those who do not perceive the existence of such opportunities. Those who have confidence in their own knowledge, experience and skills are more than eight times as likely to be entrepreneurs as those who do not.

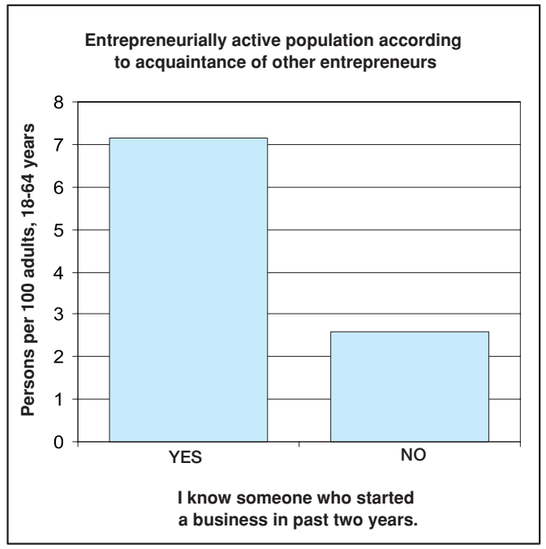


Figure 48: Entrepreneurially active population according to acquaintance of other entrepreneurs

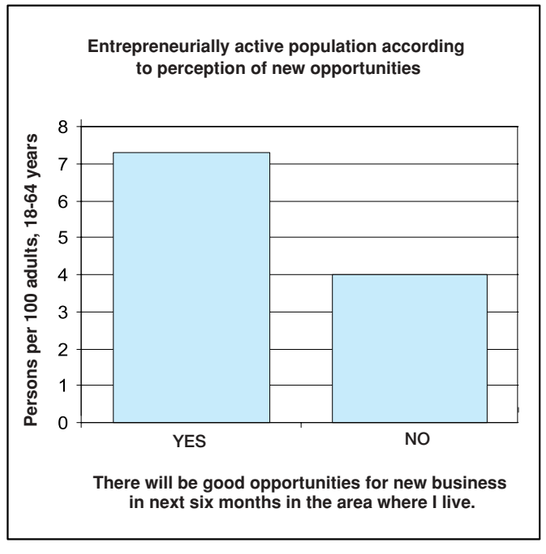


Figure 49: Entrepreneurially active population according to perception of new opportunities

A particularly important factor is whether people have the knowledge, experience and skills for starting up a new business or setting up a firm. Those who have confidence in their own knowledge, experience and skills are more than eight times as likely to be entrepreneurs as those who do not. Self-confidence is also important. Those who do not fear failure are almost twice as likely to take up entrepreneurship.

Figure 50: Entrepreneurially active population according to necessary knowledge and skills

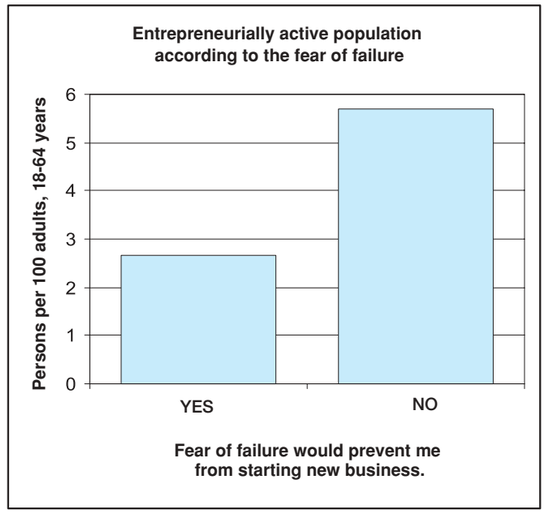


Figure 51: Entrepreneurially active population according to fear of failure

The lesson for encouraging entrepreneurship is clear: measures must be introduced that will foster:

- recognition of entrepreneurs,
- the creation of business opportunities and awareness of them,
- entrepreneurial education and
- elimination of the fear of failure.

It is also clear that raising entrepreneurial activity in Slovenia requires increasing the participation of women and of those age groups that are currently the least involved – men over 35 and women between 35 and 44.

Slovenia	Age group	Men	Women
TEA		6.37	2.86
	18-24 years	6.61	3.4
	25-34 years	11.15	4.8
	35-44 years	5.19	1.68
	45-54 years	4.59	3.61
	55-64 years	3.42	0.44
TEA-opportunity		4.65	1.84
	18-24 years	5.98	2.64
	25-34 years	9.49	2.13
	35-44 years	2.76	1.18
	45-54 years	2.84	2.74
	55-64 years	1.67	0.44
TEA-necessity		1.72	1.02
	18-24 years	0.63	0.75
	25-34 years	1.67	2.67
	35-44 years	2.44	0.5
	45-54 years	1.75	0.87
	55-64 years	1.75	0
TEA for nascent firms		2.5	0.78
	18-24 years	3.41	0.46
	25-34 years	3.92	1.3
	35-44 years	1.9	0.66
	45-54 years	2.01	0.99
	55-64 years	1.16	0.23
TEA for new firms		0.77	0.76
	18-24 years	0	1.18
	25-34 years	2.09	1.57
	35-44 years	0.64	0.2
	45-54 years	0.35	0.76
	55-64 years	0.49	0

Table 9: TEA index by age and gender

The fact that, among young businesses in Slovenia, nascent entrepreneurs outnumber new firms by two to one is clear evidence that the mortality rate is high. Individuals are capable of setting up firms and going into business, but struggle to survive. We have no figures for whether businesses founded by necessity are more likely to fail than those founded in response to a business opportunity. This will require monitoring of the population over time and possibly conducting panel research in which a group of nascent entrepreneurs is tracked over several years.

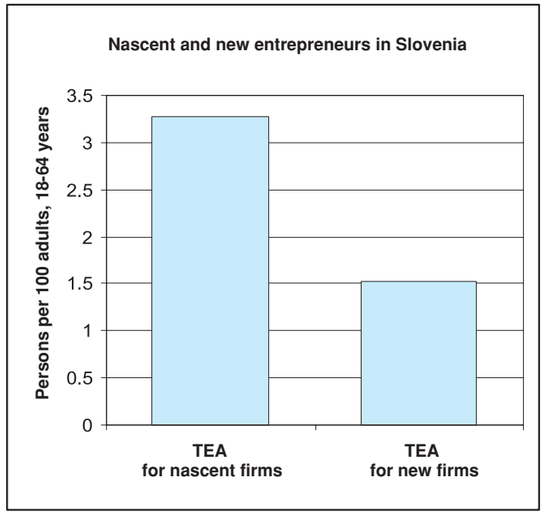


Figure 52: Nascent and new entrepreneurs in Slovenia

In any case, however, the high mortality rate for newly established firms entails an irrational consumption of financial, social and emotional capital. It also exacerbates the fear of embarking on an entrepreneurial career.

3.6 The development and export orientation of Slovenian entrepreneurs

Table 10 shows the differences between necessity entrepreneurs and opportunity entrepreneurs with regard to business expansion and development orientations. These differences are statistically significant at the 1% level.

	All	Number	Opportunity	Necessity
No cases	78		55	23
			70.4%	29.6%
Market niche creation				
No or little	84.8%	66	68.7%	31.3%
Some or maximum	15.2%	12	100%	0%
	100%	78	73.4%	26.6%
Number of jobs in 5 years				
19 or less	67.1%	49	71.4%	28.6%
20 or more	32.9%	24	70.8%	29.2%
Sum	100%	73	71.2%	28.8%

Table 10: Development and export orientation of entrepreneurs

Entrepreneurs who went into business in order to take advantage of a business opportunity predict

- wider business expansion and
- a larger number of employees

than those who did so because they had no better choices for work.

Again it is evident that the incentive to take the entrepreneurial route is not negligible, and that it needs to be taken into account in framing and implementing policies for encouraging entrepreneurship.

3.7 Business opportunities and capabilities

Knowing other people who are engaged in entrepreneurial activity is important because they can serve as role models and sources of information, experience and advice. People who know someone who has set up a firm are three-and-a-half times as likely to be entrepreneurs as those who do not. From the perspective of enhancing entrepreneurship in Slovenia it is therefore significant that 44 per cent of the adult population personally know someone who has set up a business within the previous two years. This places Slovenia high up in the rankings in 10th place among the 37 GEM participating countries.

Opportunities, skills and motivation	Slovenia 2002	Rank of Slovenia
The percentage of adults, who personally know someone that started a business in the past two years.	44.58%	10/37
The percentage of adults who think that there will be good opportunities for starting a business in the area where they live.	29.81%	19/37
Opportunity index (average expert opinions, 1-5 scale)	2.98	27/34
The percentage of adults who think that they have the knowledge, skill and experience required to start a new business.	44.34%	16/37
Capacity index – potential (average expert opinions, 1-5 scale)	2.47	17/34
The percentage of adults who think that fear of failure would prevent them from starting a business.	31.60%	18/37
Capacity index – motivation (average expert opinions, 1-5 scale)	2.83	29/32

Table 11: Opportunities and capabilities

Many factors are involved in an individual's decision to set up a firm. For an individual to start a new venture he or she must perceive a business opportunity, have sufficient knowledge and skills and be motivated for entrepreneurial activity.

Discovering a business opportunity is the first step in starting a venture. One-third of Slovenes believe that good opportunities for starting up new ventures will present themselves in the next six months. This seems high, but only until one compares it with other countries participating in the research such as New Zealand, Mexico, Finland or Denmark, where over half of the population is of this belief. Nevertheless, Slovenia ranks 19th in terms of perception of business opportunities. The experts were also asked about perception of business opportunities and were considerably more critical than the surveyed population, their average response placing Slovenia much lower down the scale. In particular, the experts considered that there were many more business opportunities in Slovenia than there were people capable of taking advantage of them.

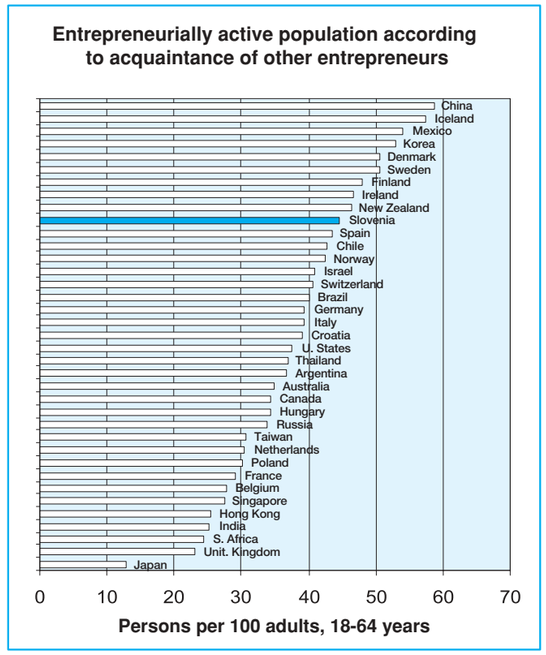


Figure 53: Entrepreneurially active population according to acquaintance of other entrepreneurs

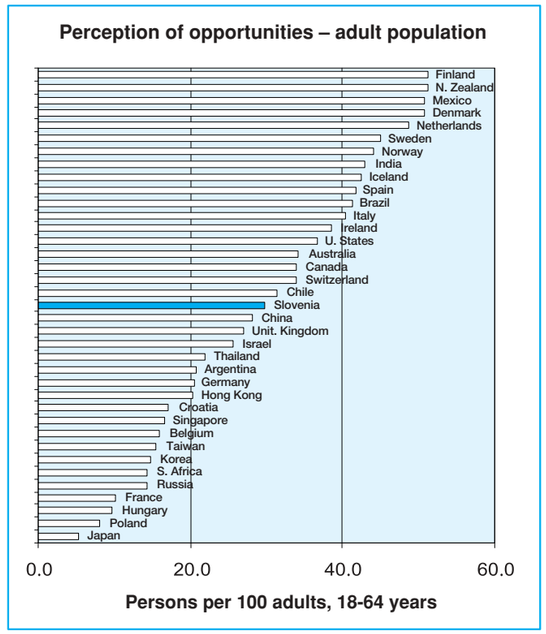
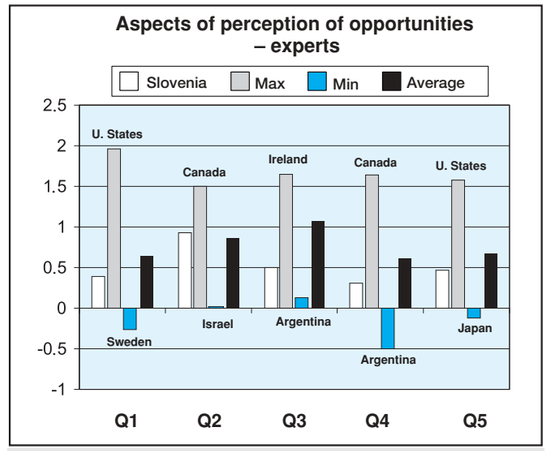


Figure 54: Perception of opportunities – adult population

For individuals to opt for entrepreneurial activity they must not only be able to recognise a business opportunity but must also have the requisite entrepreneurial capacity, consisting of potential and motivation.



Q1 In my country, people see lots of good opportunities for the creation of new firms.
Q2 In my country, there are more good opportunities for the creation of new firms than there are people able to take advantage of them.
Q3 In my country, good opportunities for new firms have considerably increased in the past five years.
Q4 In my country, it is easy to get the information required to assess business opportunities.
Q5 In my country, there are plenty of good opportunities to create truly high growth firms.

Figure 55: Assessment of aspects of perception of opportunities – experts

As far as potential is concerned, two-fifths of Slovenes believe they have the necessary knowledge, skills and experience for starting a new business or setting up a new firm. This opinion is endorsed by the experts, who tend to believe that Slovenia has many people capable of reacting quickly to good opportunities for new ventures. On the other hand they are critical of their knowledge of running a small business.

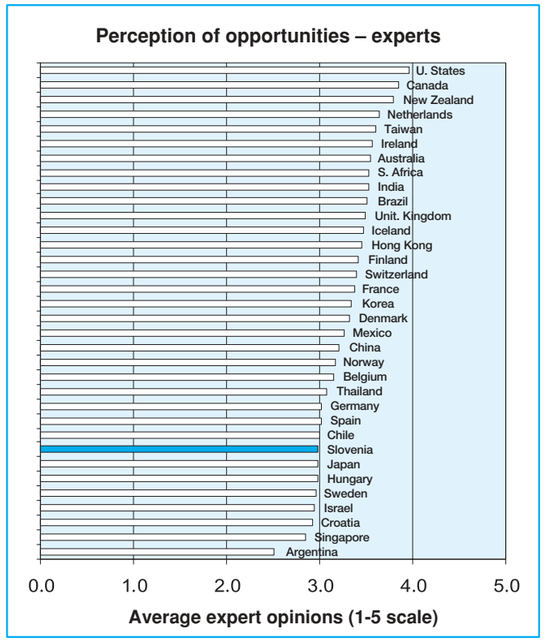


Figure 56: Perception of opportunities – experts

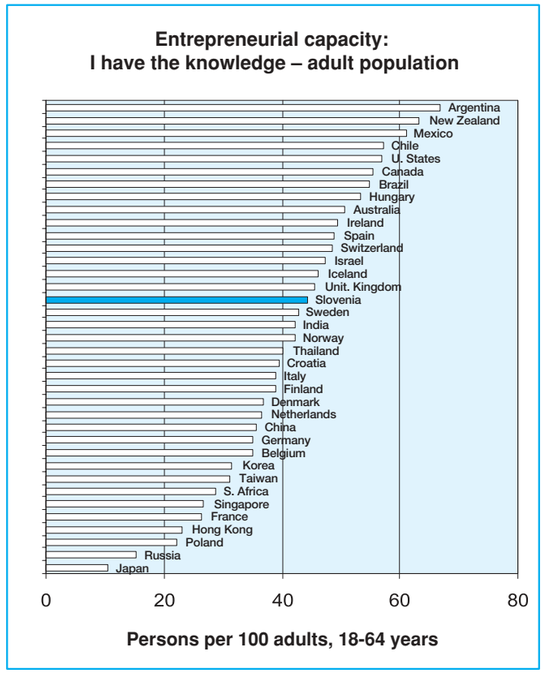


Figure 57: Entrepreneurial capacity: I have the knowledge – adult population

Motivation for embarking on an entrepreneurial career always partly reflects the general climate of opinion towards entrepreneurship, which in Slovenia is adverse. One-third of Slovenes would be deterred from starting a new business or setting up a firm by fear of failure.

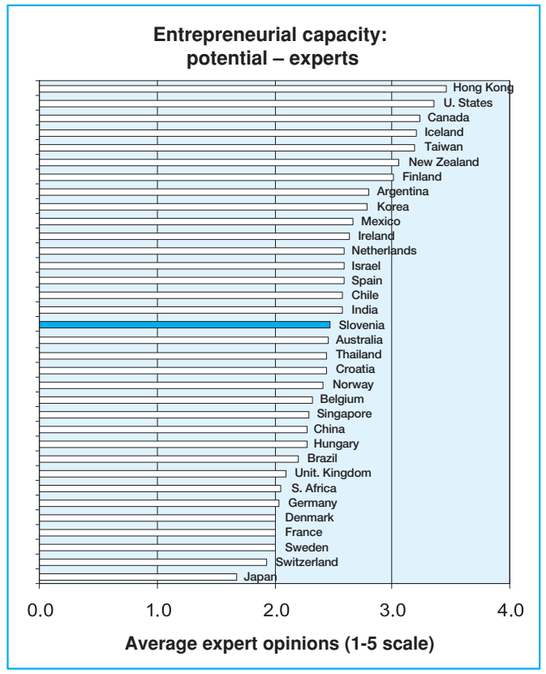
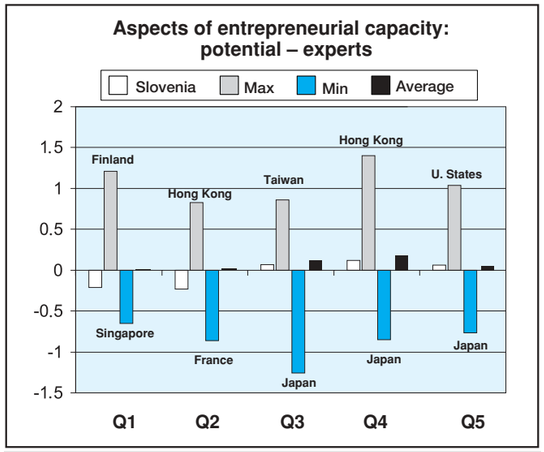


Figure 58: Assessment of aspects of entrepreneurial capacity: potential – experts



Q1 In my country, most people believe that creating new or high growth businesses is easy.
Q2 In my country, many people know how to manage a small business.
Q3 In my country, many people have experience in starting a new business.
Q4 In my country, many people can react quickly to good opportunities for a new business.
Q5 In my country, many people have the ability to organize the resources required for a new business.

Figure 59: Entrepreneurial capacity: potential – experts

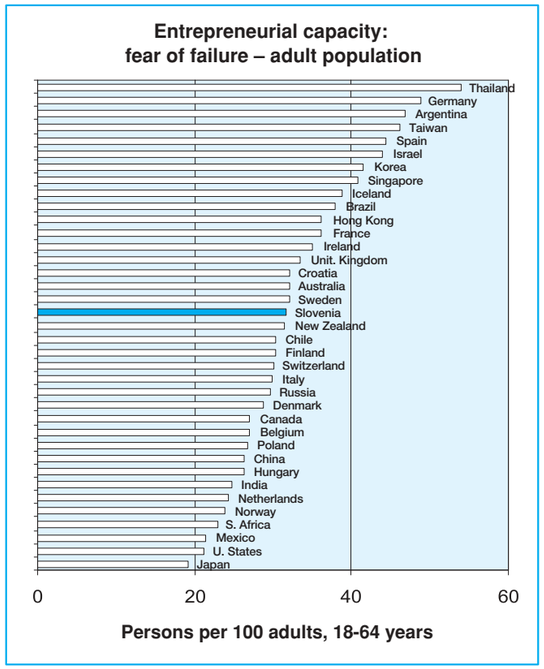


Figure 60: Entrepreneurial capacity: fear of failure – adult population

Besides fear of failure, which acts as a deterrent to entrepreneurship, another major motivational factor is the general attitude of society towards getting rich (income inequality), the social status of entrepreneurs and the attitude of the media towards entrepreneurship. The assessment of the Slovenian experts placed Slovenia 29th out of 32 countries.

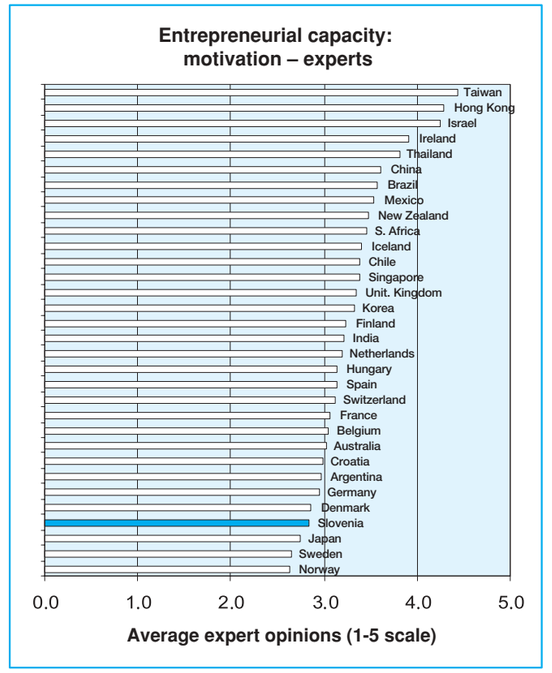
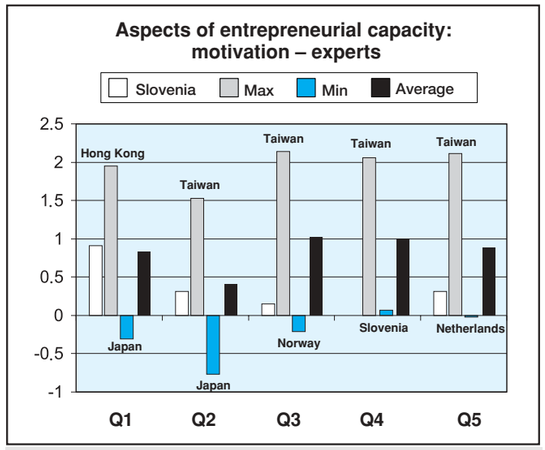


Figure 61: Assessment of aspects of entrepreneurial capacity: motivation – experts



Q1 In my country, the creation of new ventures is considered an appropriate way to become rich.
Q2 In my country, most people consider becoming an entrepreneur as a desirable career choice.
Q3 In my country, successful entrepreneurs have a high level of status and respect.
Q4 In my country, you will often see stories in the public media about successful entrepreneurs.
Q5 In my country, most people think of entrepreneurs as competent, resourceful individuals.

Figure 62: Entrepreneurial capacity: motivation – experts

4 Conclusions and recommendations

4.1 Research highlights

The year 2002 was the first in which Slovenia took part in the GEM study of entrepreneurial activity, which now involves 37 countries around the world. Our conclusions and recommendations can therefore only draw on that year's research findings, comparison with other countries and the opinions of the group of experts. In 2002 the level of total entrepreneurial activity for Slovenia (the TEA index) was 4.63%. This placed Slovenia 25th out of the 37 countries. The relatively high rate of unemployment in Slovenia, which has been slow to fall in past years and because of recession has persisted at a level to which Slovenian society is socially and psychologically not well adapted, has forced many Slovenes to consider starting their own business. Slovenia ranks fairly high, in 13th place, in terms of the TEA necessity index, although cross-country differences in this index are minor. Slovenes are less likely to be opportunity entrepreneurs, ranking only 27th in this regard. The reason why people elect to take the entrepreneurial route is not unimportant. Opportunity entrepreneurs predict considerably greater business expansion and a larger number of employees in future years than necessity entrepreneurs. Those who go into business in order to take advantage of a market opportunity are a higher "quality" of entrepreneur, with a stronger entrepreneurial motivation, and driven by a vision of business success.

The initial entrepreneurial wave that came in the wake of property and market liberalisation has clearly died down. Slovenia no longer has "pent-up" entrepreneurs waiting for systemic obstacles to be removed, and we must therefore seek new entrepreneurs among the same groups as in the developed countries. This is reinforced by the fact that the group that is most active in setting up firms are those aged 25-34, who were not held back by systemic constraints in the past.

Because of the low level of entrepreneurial activity, Slovenia's problem lies in the fact that while 3.3% of adults contemplate or plan starting their own business, only 1.5% actually end up doing so. The number halves because of significant barriers to actually taking the step of going into business. While some other countries show a similar phenomenon, in most cases the difference is not so large.

Slovenian women lag behind their male counterparts in terms of entrepreneurial activity, which is linked to their typical educational and occupational choices. Women predominate in mass production industries with a specialised division of labour, which does not prepare them for taking on the overall running of a business, or else they are employed in public sector organisations in which the transition to autonomous business activity is heavily regulated and constrained (concessions in healthcare, issues of public funding in education, childcare and social services).

The supply of venture capital through formal venture capital firms is very limited in Slovenia. The situation is slightly better with regard to informal business finance, as 2.2% of adult Slovenes have put money into businesses set up by others. While this is less than the GEM average, it puts Slovenia alongside many of the developed countries.

Knowledge and skills and the motivation and capability to identify business opportunities are a key factor in entrepreneurial success. The research found that almost half of Slovenes feel that they have the necessary knowledge, skills and experience to start a business or set up a firm, which is extremely high. A new self-confidence seems to be emerging to which we have not been accustomed in the past.

This self-confidence, which places us 7th among the countries of Europe, is of great importance. Those who believe in their own knowledge, skills and experience are more than eight times as likely to be entrepreneurs as those who do not. Knowing other entrepreneurs is also important. Those who know someone who has started a business are three-and-a-half times as likely to be entrepreneurs as those who do not. Just under half of the adults in Slovenia know someone who has started a business in the last two years. This puts Slovenia 10th out of all 37 GEM countries and 6th out of the 19 European countries.

Slovenia's small size may be a great strength. But only if, as one of the experts interviewed put it, Slovenia "*becomes a society of winners, not a mediocre society in which the media and others are most interested in losers*". Motivation to take up an entrepreneurial career always partly reflects the general climate of opinion towards entrepreneurship. If this climate is inimical, fear of failure is increased. Slovenes fear failure. Fear of failure would deter one-third of Slovenes from starting a new business or setting up a firm. Courage is important in an entrepreneurial career: people are almost twice as likely to become entrepreneurs if they do not fear failure.

4.2 Recommendations

Recommendations are mainly distilled from the thoughts of the expert interviewees. The data from the wider sample of the adult population reflect the state of development of entrepreneurship but are less informative about useful measures. The expert opinions are also supplemented with other research into entrepreneurship and assessed in terms of their rationale and expected impact. The recommendations are arranged according to the key areas that matter for the development of entrepreneurship.

Financial support

In the area of financial support for SMEs the experts set out the familiar problems and ways of solving them, through:

- better training of the staff in commercial banks for dealing with SMEs, including joint deals with public funds,
- improved state support, to provide a larger volume of funds, more favourable terms of borrowing and some grants,
- more selective support, particularly aimed at firms in the initial phase of operation, firms creating new jobs and firms supporting the preparation of development projects (marketing, consulting, technical development, project documentation),
- linkage of financial and advisory support for greater effectiveness,
- a sustained emphasis on greater transparency of the system of favourable financial support and better communication to entrepreneurs about financial support on offer.

The experts laid stress on the great importance of venture capital for growing firms, and therefore suggest that the government link public and private funds or allow pension funds to make venture capital investments. The capital market should also be opened up more to the entry of foreign capital in the SME sector. The experts did not make suggestions for improving the organisation of "business angels" as they obviously viewed these relationships as purely private arrangements that did not need organisational improvement.

Government policy

Government policy was assessed as a weak point in the development of Slovenian entrepreneurship. The experts listed several general suggestions for improvement:

- Slovenia should place great emphasis on the strategic orientation towards encouraging entrepreneurship and determine national priorities with which the government would give a clear signal as to its attitude towards entrepreneurship,
- A more SME-friendly environment should be created: all procedures should be simplified, especially for self-employment in micro firms, deregulation should be swift, which would mean fewer permissions and licences, and public bodies should be more flexible, effective and entrepreneur-friendly, requiring training or even replacement of staff,
- Government policy should be more transparent and coordinated between resources and agencies; more power should be devolved to the local level and the "rules of the game" should be made clear and predictable.

For the implementation of such policy the experts underlined the need to continue to put into effect the Anti-bureaucracy Programme and reform of public administration. They cited the following special areas of government policy:

- a major overhaul of tax policy, which is the most frequently mentioned problem for SMEs, where they recommend a reduction of taxes and contributions and above all tax relief for new firms or for stimulating job creation, investment, R&D and exports,
- the adoption of more liberal labour legislation,
- in regional policy, an end to the excessive concentration of business activity towards Ljubljana,
- in public procurement policy, opening up some areas to SMEs and at the same time ensuring regular payment of due amounts from the budget,
- ensuring overall financial discipline.

The experts felt that government policy should especially facilitate the entry of new firms, but at the same time stressed firms with growth potential. They recommended that Slovenian policy-makers learn from successful small countries in this area (Denmark, Ireland, Singapore), although they should not follow their example uncritically.

Government programmes

The Slovenian experts gave fairly general recommendations for improvement in this area:

- the organisational structure of the support network must be improved, with a particular recommendation for more involvement of non-governmental organisations, the establishment of regional development agencies, more responsibility for project managers and therefore the introduction of a system of effectiveness measurement, and a greater role for municipalities,
- government officials need to be trained in order to take on more advisory and support rather than just administrative functions,
- priority programmes should include: self-employment, development of entrepreneurship among young people, in rural areas and in the tourism industry, stimulation of clusters for the global market, family firms and international business development.

The experts advocate support programmes for successful firms with an accent on simplicity and cheap access of SMEs to such programmes on the one hand, and greater professionalism and political neutrality in their implementation on the other – they explicitly state that performance and results are what counts. The government should provide for more involvement of Slovenian experts in EU programmes such as PHARE and reciprocity of supply in foreign procurement contracts.

In all three areas, in each of which the government is heavily involved, the experts' suggestions are for the most part familiar. The government has already largely incorporated them into its development documents and action plans. However, the experts draw attention to:

- the inadequate consistency of the functioning of the various government departments and agencies, which gives "mixed signals" to Slovenes as to how important the government sees entrepreneurship,
- the large number of programmes that are insufficiently linked together and are not supported by adequate funding,
- the presence of a bureaucratic mentality, which can poison the dealings of micro firms whose owners are not equal to the public administration,
- a lack of visibility and promotion of programmes for the support of entrepreneurship.

Education and training

In the GEM project, education is one of the key areas for the encouragement of entrepreneurship. Education and training in Slovenia were very positively assessed, although the experts nevertheless had many ideas for improvement:

- entrepreneurial course content (and subjects) should be incorporated into all levels of the educational process (from kindergarten on), which should become part of national education policy,
- methods of working with pupils and students should be altered, with an emphasis on the "culture of activity", creativity, innovation and initiative, acquisition of business skills and especially the recognition and activation of opportunities,
- education should continue in the form of ongoing training alongside work,
- internationalisation of the educational sphere should be ensured through exchanges of teachers and learners, transfer of programmes and teaching methods, and especially through the placement of students and entrepreneurs into foreign firms,
- special emphasis was placed on the training of quality consultants for existing and growing firms,
- the content of entrepreneurial training courses should in particular include finance, marketing, people management, working on the Internet and doing business within the EU, as well as foreign languages, and courses should be interdisciplinary,
- pupils and students should organise more entrepreneurial events themselves and have a wider choice of subject matter,
- a larger proportion of students should be encouraged to follow a technical orientation etc.

Education should in particular develop the entrepreneurial qualities and skills of participants, by no means all of whom will go on to set up firms, but all of whom will be aware of this career option in a world that is changing rapidly and no longer provides lifelong employment.

Transfer of research and development

In the more specialised area of R&D the experts made fewer recommendations. Clearly there is too little concrete thought in Slovenia as to how to ensure that this transfer takes place, as there were frequent very general suggestions about "speeding up R&D transfer using appropriate mechanisms", but far fewer ideas about what this might actually involve. The following suggestions were made:

- public part-funding of innovations and the creation of prototypes, which is in fact already part of research policy (the proposals envisage non-repayable funding),
- tax relief for R&D investments in firms,
- encouraging academics to make applied use of R&D accomplishments by removing the no-compete clause and changing selection criteria, which should value the use of knowledge more highly,
- regulating the system of intellectual property, especially in universities and institutes,
- encouraging employment in high-tech firms by guaranteeing wages during the start-up period etc.

Our finding is that the Slovenian government already has projects that largely follow these recommendations, but that problems exist in the differing views of interested parties, as is the case in other countries too. Incomplete aspects of the intellectual property system permit arrangements that are currently more favourable for individuals than institutions, which as a result do not organise expert assistance, leading to poor results in the development of new technology, products and services.

Commercial and professional infrastructure

The experts largely neglected this area and their recommendations centred on three proposals:

- to provide better linkage, cooperation and lobbying of entrepreneurs through entrepreneurial associations, clubs and regional chambers,
- to ensure the availability of high-quality accounting services for SMEs through better information support and
- to encourage the development of commercial services in the form of outsourcing to specialist firms, especially marketing, legal and accounting services.

The encouragement of professional excellence in the field of commercial services is beneficial for Slovenia and is an area in which the Finnish example of initiatives to foster the exchange of knowledge and experience and the promotion of good practice in the public sector and among service providers could be followed, as SMEs by themselves are hard put to evaluate how to obtain quality services at favourable rates.

Internal market openness and competition

As Slovenia is a small open economy, competition is largely effective in the area of market activities. The experts propose:

- a significant improvement of the mechanism for public procurement by tender, in which there have been a number of dubious decisions,
- the reduction of entry barriers for new firms,
- improvement of all forms of cooperation between large and small firms, such as contractual joint ventures, joint investments, strategic partnerships etc.,
- encouragement of cross-border cooperation of SMEs, which breaks down local monopolies, and
- an effective legal and judicial system for dealing with cases of restriction of competition.

Fewer solutions are to be expected in this area, possibly because of recession but also because of government policy, which is attempting to restrain inflation through tighter control of prices.

Access to physical infrastructure

Slovenian SMEs have outgrown the "garage" phase of development, with the result that the issue of access to physical infrastructure featured quite prominently in the experts' proposals:

- planning of physical infrastructure for new and growing firms aimed at allowing them easier access and lower land prices,
- provision of sites for commercial building or the development of enterprise zones providing high-quality and economical infrastructure without protracted administrative processes,
- simple access to energy and telecommunications services,
- technological and science parks at two or three sites in Slovenia.

Awareness of the need to resolve physical planning issues has grown in Slovenia and business zones are springing up in many locations, although often with inadequate know-how and ineffective management, as these tasks are not yet the responsibility of entrepreneurial centres or development agencies.

Cultural and social norms

The experts are intensely aware of the inappropriate social status of entrepreneurs, but their proposals do not amount to a comprehensive system of promotion. The proposals are centred around three areas:

- changes in cultural and social values are needed in order to encourage enterprise, greater cooperation and the emergence of entrepreneurial networks,
- the heaviest emphasis is placed on improving public perceptions of entrepreneurs, who need to become people who create jobs, improve incomes and provide a creative working environment, so that success stories and positive entrepreneurial role models should be emphasised,
- the media are the main tool of promotion and must therefore change their attitude towards entrepreneurship, which requires professional training for journalists.

The promotion of entrepreneurship should ensure that more and more Slovenes realise the importance of entrepreneurs and accept entrepreneurship as a consensual force for development

as well as the need for a dynamic environment. The experts are probably not critical enough of the speed with which Slovenes can be induced to change their values. However, they do stress the need for long-term measures and the importance of realistic actions, as advertising campaigns are not necessarily a good solution because of their possible intrusiveness. Interesting ideas include the promotion of internal entrepreneurship within large companies, a youth orientation of promotional activity (and why not also an orientation towards the middle generation, who set up most firms?) and a warning that excessive concentration on high-growth firms, which are relatively few and far between, ignores the large number of lifestyle micro firms, which are important for self-employment and meeting local needs, especially for services.

4.3 Conclusion

From the perspective of practical policy towards the development of entrepreneurship, the majority of these expert recommendations are familiar to government policy-makers and successful collaborators in the entrepreneurship encouragement network. Inevitably this awareness does not extend to all those within government and local institutions who have dealings with entrepreneurs, and the fact that these things are familiar does not mean that the relevant institutions have acted on them consistently. A running theme in the experts' recommendations is therefore that the government is not taking a sufficiently long-term approach in its actions, that it has not built up an appropriate local network for their implementation and that many staff lack specific know-how and suitable methods of working with potential and actual entrepreneurs.

As a caveat to these recommendations for activities and measures aimed at stimulating the development of entrepreneurship in Slovenia, we must therefore acknowledge a fact that applies to all countries: that radical changes in entrepreneurial potential within a particular country cannot be brought about overnight. Real change for the better requires perseverance and long-term effort for more effective action in a range of areas of government and many sections of society that help or hinder the impulse towards autonomy and creativity. It is important that government policy towards entrepreneurship should be consistent and hence predictable from the point of view of individuals who choose to set up their own businesses. This also requires coordinated activities of central and local government authorities. Given significant market and technological uncertainty, any additional fear that the state, despite its promises, may worsen conditions for entrepreneurial business, be it through unnecessary administrative demands or tax increases and the scrapping of tax inducements, will be unacceptable to a large number of potential entrepreneurs. Government should therefore ensure:

- that it puts into effect the Strategy for the Development of SMEs and Entrepreneurship in Slovenia for 2001-2006, which envisages the central elements of support for business being incorporated into a comprehensive development strategy, especially in the area of industrial, fiscal, education and employment policy,
- that entrepreneurship is linked more tightly with regional development policy and that local initiative is thus boosted, through a stronger role for local and regional communities,
- that each major government measure remains in effect for at least 3-5 years, so that entrepreneurs should have stable expectations about the business environment in which they will be operating; these measures should also be improved (revised) on an ongoing basis in response to experience and effect,
- that consideration is given to the impact of all laws, regulations and measures on smaller firms, for which the administrative burdens are larger; government should beware especially of increasing the burden on SMEs of various regulations which are simply cited as necessary for harmonisation with European Union law, yet are more stringent than in most less developed EU member states, which have better recognised the ill effects of complex legislation on micro and small firms and crafts and trades.

To conclude, in 2002 Slovenia was not yet functioning as an entrepreneurial society. Awareness has yet to spread that successful development requires cooperation/partnership between government and entrepreneurs, since no-one can force an entrepreneur to expand, hire and develop. This can only come from the individual's own motivation, which depends on the conditions created within society. The fundamental challenge confronting us is therefore that of putting in place a clear vision of Slovenia's long-term development as an entrepreneurial society and creating a conducive environment so that as many people as possible should embark on entrepreneurial ventures. The road to entrepreneurial society is long and winding.

Annex 1: TEN YEARS OF ENTREPRENEURSHIP IN SLOVENIA

Introduction

At the start of the transition from "socialist self-management" to a market economy Slovenia was one of the most advanced countries of Central Europe because of its relatively liberalised economy, which was open to Western Europe. The transition process itself, coupled with the political, economic and social problems of gaining independence from the former Yugoslavia, inevitably had an adverse effect on the economy, although GDP shrank by less than in most other countries in transition. The effects were felt in high unemployment, substantial inflation and a need for structural transformation of the economy.

The economic restructuring process began with the Enterprise Act (December 1988), which permitted the private setting-up of firms with no special restrictions. Private ownership of productive assets, especially in crafts and trades, on farms, in hotels and restaurants, transport and other activities, had previously been restricted. Starting in 1989 a process of rapid development of the small business sector began, which slowed down considerably after 1994 without a large volume of dynamic, technologically oriented, innovative firms having been achieved.

The entrepreneurial "revolution" of the early 1990s

The change of economic system and the liberalisation of the market and private enterprise caused a burgeoning of new firms. In the socialist context of Slovenia during the 1980s around 2,500 firms were active and there was practically no entry and exit by firms. The number of small firms was negligible and out of line with the typical size distribution of firms, a phenomenon which became known as the "socialist black hole".[22] Large enterprises included a few large conglomerates that had been created by political decisions, but most of these collapsed after 1990. At the same time there existed a large private crafts and trades sector, which in 1991 consisted of 35,700 autonomous tradespeople and a large number of spare-time, occasional workers. A number of factors were responsible for the rapid initial development of new firms:

- a strong tradition of private enterprise in crafts and trades (and significant financial capital),
- Slovenia's openness to the European and broader international economy, which fostered a market orientation, developed management capabilities and shaped a positive attitude towards the operation of the market,
- action by support organisations, the Chamber of Commerce and Industry and especially the Chamber of Crafts,
- available productive know-how, although the educational system did not nurture a practical vocational orientation, a desire for business autonomy, and risk-taking,
- a considerable number of people working abroad, who brought a commercial mentality, business contacts and significant financial capital.

After the initial surge of enthusiasm for the privatisation process it became clear that unleashing entrepreneurial potential was more important than seeking owners.[23] This unleashing of potential was most directly evident in the rapid growth of registered companies. The Companies Act brought in the legal status of autonomous entrepreneur, into which most craft and trade businesses were converted (these have simpler registration procedures and bookkeeping requirements than commercial companies). Entrepreneurial activity in Slovenia and its composition by type of business in the market sector in 2000 are shown in *Figure 1*. Entrepreneurial activity takes a variety of formal and informal forms, of which autonomous entrepreneurs are the most numerous. Among companies, the most common form is the limited liability company (85% of all companies in 2000), while former socialist enterprises were registered as joint stock companies (2.7% of all companies) under the Ownership Reform Act. The number of branches of foreign companies is increasing, while in the area of direct investment more foreign capital is entering in the form of joint ventures, mixed firms or takeovers of Slovenian firms.

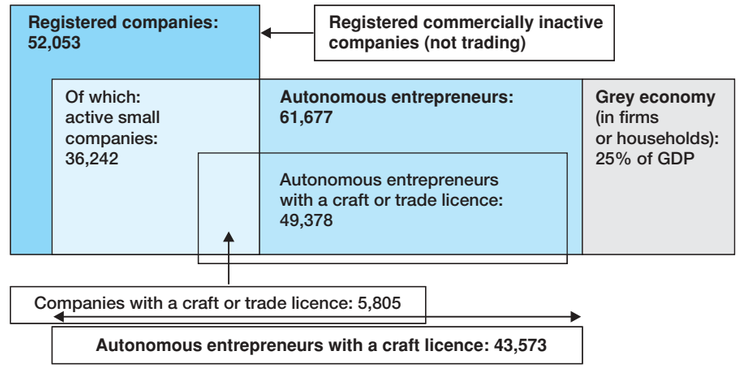


Figure 1: Composition of activities in the Slovenian economy by type of commercial entity, 2000 [24]

Slovenian entrepreneurs

While Slovenia lacks a detailed analysis of who joined the entrepreneurial wave, various studies of different groups of entrepreneurs suggest that today's SME owner managers have the following backgrounds:

- former employees in "socially-owned" enterprises, who have responded to market opportunities and the profit motive or a desire for autonomy,
- middle and senior management of "socially-owned" enterprises, who left these enterprises, set up their own firms and thus resolved the problem of indebtedness and overstaffing,
- successful craft and trade practitioners with a stable clientele and large production capacity,
- unemployed individuals from the self-employment programme,
- members of independent professions, such as architects, lawyers, consultants and artists.

Firms set up by such diverse groups are characterised by different types of behaviour. Dynamic companies contains many former managers who have business know-how and experience of running large firms. Unemployed people, who formed around 25% of new firms in the period 1991-95 with government assistance (information advice and financial support), generally have lifestyle businesses. Professional and younger, educated generations set up "new economy" firms using modern technology and with more of an international orientation.

In the period 1990-95 a frequent reason for setting up a firm was job dissatisfaction in large "socially-owned" enterprises, in which enterprising individuals were often unable to realise their ideas, and the desire to make the most of their abilities, coupled with a perceived market opportunity. Unemployment or dissatisfaction with pay were factors to a lesser extent. The most powerful incentives for Slovenes to go into business on their own are independence and scope to make their own decisions. Earnings are only in third place, which explains why most firms are not heavily growth-oriented.

In the early 1990s many entrepreneurs with only a vocational or secondary education chose to start their own business. Such people made up 70% of self-employed individuals, 66% of "average" entrepreneurs and craft workers or tradespeople, and 60% of women. Since 1995 the educational level of entrepreneurs has been improving, which is also resulting in closer attention to R&D, innovation and modern technology. In the initial period firms were set up by highly experienced entrepreneurs who had previously not been allowed to do so by the system (over 60% of entrepreneurs had more than ten years' work experience), whereas now young people are becoming more and more involved. Slovenian entrepreneurs view their strengths as responsibility, enthusiasm and persistence, and to a much lesser extent creativity, innovation, vision and willingness to take risks. The psychological profile of Slovenian entrepreneurs is on the whole closer to the attributes of good employees than to the desired qualities of dynamic, innovative entrepreneurs.

Many of the firms that came into being during the entrepreneurial wave of the 1990s were family businesses; in 2002 out of a sample of 222 SMEs around 57% were family-run. By 2010 many family firms will run up against the dilemma of transition to the next generation, which most of them are unprepared for. Women founded around 24% of firms; an analysis of companies for 1999 showed that 17.4% were started and run by women, 16.9% were run by men and women, and 65.7% were run by male owners. The role of women is larger than this implies, as they are important members of family firms even if this is not apparent in a formal ownership stake, because of the influence of traditional mentality. Women on average set up smaller firms (in 1998 they employed on average 2.4 people, while firms set up by men employed 3.7; 19.3% of firms run by women had one employee and only 8.8% of them had 26-50 employees). Female firms are also smaller in terms of capital and revenue and are less export-oriented, which is linked to the fact that most of them are service businesses serving the local market. In terms of financial indicators per employee they often do as well as "male" firms and in some years are indeed more profitable.

The legal framework for entrepreneurship and SMEs

Even under socialism Slovenia had a legal framework in place for private activity in crafts and trades, which was subject to restrictions on the number of employees and on assets (size of premises, carrying capacity of vehicles etc.). The Enterprises Act (1988) and liberalisation of external trade were followed by the Small Business Development Act (1991), which defined the small business sector and provided for the creation of the Small Business Development Fund and a support network coordinated by the Small Business Development Centre. The legal framework for the setting-up and development of firms was laid down in the Companies Act (1993) and the Crafts and Trades Act (1994). Both laws necessitated formal legal changes (in the crafts and trades sector) or capital increases of companies because of an increase in the legally required sum of founding capital. This also put an end to the formerly very low cost of setting up a company. Important subsequent legislation on SMEs governs regional development, finance transactions, employment relations and various regulations regarding working conditions, such as workplace safety, hygiene and technical standards, etc. This legislation falls short of the level of liberalisation and flexibility of the developed market economies, especially for micro firms and crafts and trades. The tax authorities are also well known for their poor understanding of the problems encountered by SMEs.

The Slovenian government changed the status of the ministry responsible for the small business sector or entrepreneurship several times during the 1990s. Under the latest system responsibility for entrepreneurship, which today is viewed primarily as a segment of small and medium-sized enterprises, lies with a section of the Ministry of Economy, which is also responsible for firms (and competition), the internal market, regional development and technological development. Recently programmes for the development of micro firms and craft and trade activities have been under development, as these businesses represent an important potential source of employment and a possible source of demand for many small-scale resources. With a threefold increase in the number of municipalities since 1995 and with administrative units as an extension of the state administration, administrative reforms have also made formal procedures more onerous and led to a dispersion of development funds, which therefore lack "critical mass" for larger regional projects.

Entrepreneurship and SMEs did not yet receive special attention in Slovenia's development strategy in the early 1990s. The first Small Business Sector Development Strategy was drawn up in 1996 but did not pass through a formal procedure and become a binding document. Its content was, however, incorporated in the accession strategy for joining the EU. The current SME and Entrepreneurship Development Strategy was produced in 2001 and describes entrepreneurship as an engine of development, structural change and competitive ability of the Slovenian economy. In this respect the term entrepreneurship covers corporate enterprise, in which the composition and conduct of SMEs and leading large firms have seen many changes.

The support environment

The concept for a support network for the development of SMEs changed several times during the 1990s. Originally aimed at small firms, the network has nevertheless been based throughout on partnership among existing institutions, especially the Chamber of Commerce and Industry and the Chamber of Crafts, the Employment Service and the entrepreneurial centres, although initially the network was organisationally directed at the then-existing municipalities. With the reform of the municipalities in 1995 many have become so small that they lack the

resources for local enterprise centres. These centres are therefore due to be reformed on a supra-municipal basis. At the same time a network of regional development agencies is being built up, to be responsible for development planning, Slovenia's inclusion in EU structural funds and the development of major projects linking several municipalities.

Slovenian entrepreneurs lack capital and knowledge of financial management. The commercial banks are not yet sufficiently effective in supporting SMEs, because of which the central institution for financial support of SMEs is a national public fund that facilitates cheaper borrowing via the business banks and approves guarantees. Regional guarantee schemes are intended to resolve the problem of guarantees, while local funds or municipal budgets supply firms in the start-up phase with micro credit, interest rate subsidies and other forms of smaller-scale assistance. The provision of venture capital is low in terms of amounts and the number of projects involved. The value of direct private investment in firms owned by other parties is probably larger, although there are no reliable estimates. These investments occur mainly by way of personal acquaintance and family relations. Problems with serious debt repayment difficulties surface time to time, an area in which modern creditor protection is not effective.

As early as around 1990 several incubators sprang up in Slovenia with funding from municipalities or large enterprises wanting to alleviate the problem of surplus employees. Most of these incubators failed to become established due to inappropriate planning decisions (too small or unsuitable premises or a lack of premises altogether) and a lack of operating funds. Recently several incubators have been set up with the help of the municipalities, government and PHARE project funding. Incubators are also being set up at the Universities of Ljubljana and Maribor. There is also a technological park at both institutions.

Towards the end of the 1990s the concept of designing favourable spatial planning solutions through enterprise or craft and trade zones became increasingly established. Such zones are important because of the high prices of land and infrastructure, but municipalities lack the funds for effective involvement. Some municipalities are hoping to attract entrepreneurs from outside, including from abroad, with enterprise zones, especially through cross-border links, for which municipalities are however too small.

Entrepreneurship and regional development

During the socialist era Slovenia established the concept of polycentric development, whereby firms were created over the entire territory, often as dislocated branches of major enterprises. This policy was financially supported by a development fund for less developed regions or by government through a system of tax reliefs and subsidies. During the transition period the government neglected uniform regional development. Being the metropolis, Ljubljana acquired increased political, economic and cultural functions and established itself as the undisputed financial centre of the new state. The process of the creation of new firms, especially in the area of commercial services, was therefore most intense in central Slovenia.

The development of entrepreneurship during the 1990s brought a number of regional characteristics to light:

- because of its role as the metropolis, a growing market, high purchasing power and well developed commercial services, central Slovenia achieved a high concentration of SMEs, even though this was not the result of planned policy or effective measures by the City Municipality of Ljubljana,
- entrepreneurship developed more strongly along the border with Italy, partly due to knowledge of the Italian language on the Slovenian side of the border, the activity of the Slovenian minority in Italy, important transport routes and tourism,
- elsewhere in regional centres the number of firms is around average, which is often linked to their commercial functions as a centre and to improved logistics,
- in the less developed regions of south-eastern Slovenia and along the Croatian border the number of new SMEs is low, the population is still engaged in farming occupations, and there is much daily and seasonal migration to Austria, Italy and the more developed regions of Slovenia,
- certain traditional centres of mining and heavy metalworking are finding it very difficult to make the transition to more entrepreneurial activities, as people lack certain knowledge and skills, while the quality of life in such centres is also becoming unattractive,
- in regions where highly successful large enterprises have remained, the pressure to turn to entrepreneurship is distinctly lower, service sector SMEs are developing gradually to serve the needs of the economy and the processes of contractual cooperation with large firms are no longer rapid.

Financial funds for the encouragement of entrepreneurship are lacking to support a stronger role of entrepreneurship at the local level, although some municipalities have been much more successful than others in cases where the municipal leadership has grasped the significance and potential of entrepreneurship.

Conclusion

In the first half of the 1990s the rapid emergence of SMEs justified use of the term "entrepreneurial revolution". Subsequently the initial entrepreneurial surge died down, market niches were filled and larger enterprises became more competitive again with the end of privatisation and restructuring.

The problem of Slovenian SMEs remains that for the most part they do not act as a dynamic sector; they do not grow, and firms are more the result of an ambition to achieve autonomy and attain a certain lifestyle. The number of technologically oriented firms or firms based on their own innovations is small. The competitiveness of SMEs therefore depends too much on long-term hard work and relatively low wages, and too little on first-rate knowledge, innovation and modern technology. Successful firms struggle to recruit workers with an excellent training, and must therefore invest more in further training or be content with less demanding production. Awareness of entrepreneurship and SMEs gradually set in throughout the 1990s, although there is no clamour of interest in such a career. We still lack a positive attitude towards entrepreneurship, towards successful and wealthy entrepreneurs, while our entrepreneurial infrastructure also fails to provide conducive conditions for the emergence and growth of firms.

Annex 2: SLOVENIAN ENTREPRENEURSHIP IN 2001

The Global Entrepreneurship Monitor looks in detail at one of the two sources of economic growth, namely the entrepreneurial process by which nascent and new firms come into being. It is not directly concerned with firms more than three-and-a-half years old. Nevertheless, as it is recognised in the GEM conceptual model, these are major contributors to national economic growth. The TEA index of 4.63% for Slovenia implies that there were fewer than 60,000 nascent and new entrepreneurs in Slovenia in May 2002. Their basic characteristics have been analysed in the preceding pages. What follows is some basic information about **all** firms in Slovenia.[25] This information thus includes existing, established firms as well as GEM entrepreneurs.

Methodological note

This overview of Slovenian entrepreneurship covers all companies and autonomous entrepreneurs and other "taxable entities"[26] engaged in entrepreneurial activity which traded and submitted a business report for 2001. Data were obtained from two sources: the Agency for Payments (APP) for companies and the Tax Administration of the Republic of Slovenia for autonomous entrepreneurs and other taxable entities. Since these two basic sources are not harmonised, it was not possible to use them directly but it was necessary to combine and reconcile them. After combining the data on companies and autonomous entrepreneurs and taxable entities we categorised firms into conventional size brackets. Firms with 0 to 9 employees are referred to as *micro firms.* Firms with 10 to 49 employees are referred to as *small firms.* Firms with 50 to 249 employees are referred to as *medium-sized firms.* Firms with 250 or more employees are referred to as *large firms.* We use only the number of employees to categorise firms by size, although revenues and assets are also often used.

The division of Slovenia into regions is taken from the Statistical Office of the Republic of Slovenia, which defines statistical regions based on functional and planning regions comprised of municipalities. There are 12 statistical regions. To avoid potential identifiability of individual firms whose total number in a particular activity in 2001 was three or less, balance sheet data is given in aggregate form only within each region.[27]

Certain taxable entities that do not belong to any standard activity fall into activity X according to NACE classification of activities. In 2001 there were 1,064 such firms, employing 20,767 people.

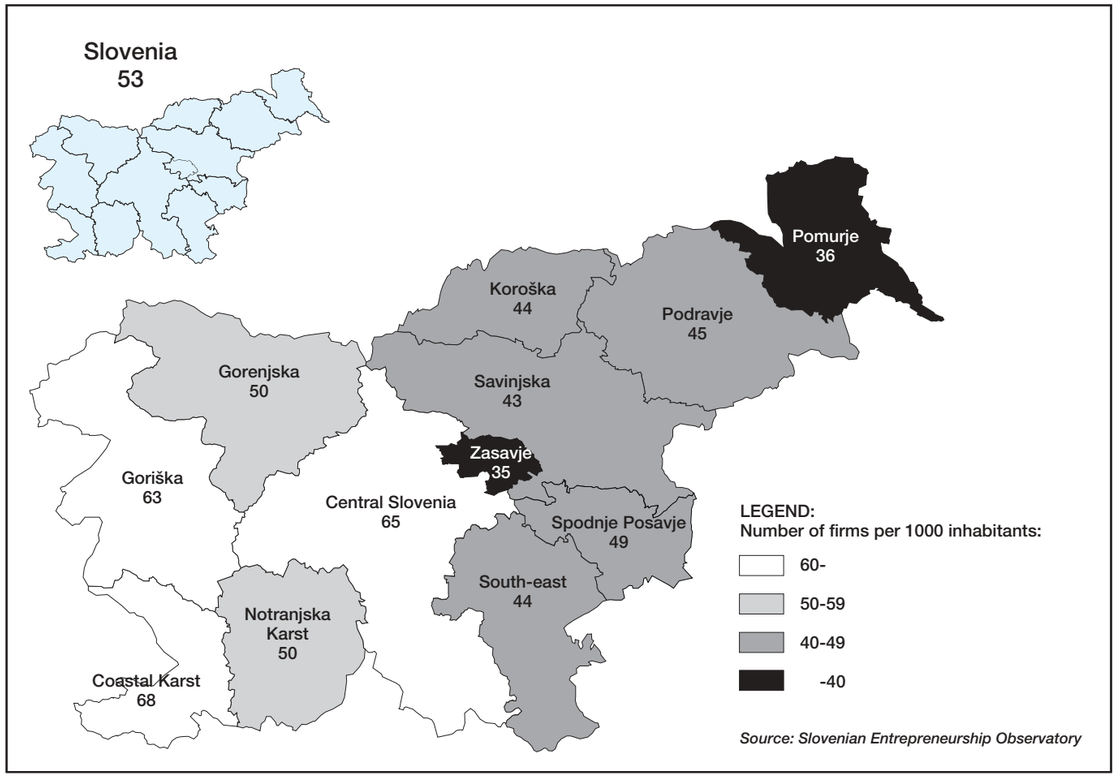


Figure 1 – Annex II: Number of firms per thousand inhabitants

	Number of employees					Total
	0	1-9	10-49	50-249	250 and more	
Number of firms	9,523	87,140	4,695	1,210	327	102,895
Share of firms (%)	9.3%	84.7%	4.6%	1.2%	0.3%	100.0%
Employment	0	170,013	92,301	132,194	222,722	617,230
Employment share (%)	0.0%	27.5%	15.0%	21.4%	36.1%	100.0%
Employees per firm	0.0	2.0	19.7	109.3	681.1	6.0
Turnover per firm						
(in million SIT)	8	25	392	1,789	13,452	103
(in 1,000 euro)	35	113	1,802	8,230	61,872	475
Value added per employee						
(in SIT)		3,011,369	4,427,422	4,259,391	5,144,500	4,277,292
(in euro)		13,851	20,364	19,591	23,662	19,674

**1 euro = 217,413 SIT (per July 3rd, 2001)*

Table 1 – Annex II: Slovenian firms by size classes in 2001

Number and average size of firms

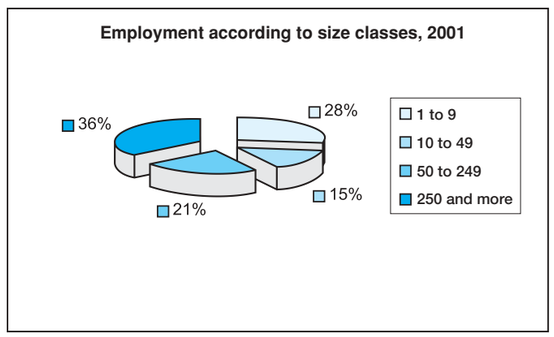
In 2001 there were 102,895 firms in Slovenia, including 9,523 with 0 employees,[28] 87,140 with 1 to 9 employees, 4,695 with 10 to 49 employees, 1,210 with 50 to 249 employees and 327 with 250 or more employees. Micro firms in Slovenia in 2001 numbered 96,663, or 93.9% of all firms. If we add small and medium-sized firms, there were 102,568 micro, small and medium-sized firms (SMEs) in Slovenia in 2001, or 99.7% of all firms. The 327 large firms with 250 or more employees represent only one-third of one per cent of all firms in Slovenia.

Over two-thirds of firms making daily business decisions in the Slovenian market are individual or autonomous entrepreneurs. Because most of them are economically weak and lack bargaining power, it is all the more important that economic policy focus special attention on them, as well as on micro firms in general. It will not be possible to foster the development of the Slovenian economy if micro and small firms are not helped to compete and cooperate equally with more powerful medium-sized and large firms. The largest number of firms is in activity G: wholesale and retail, repair of motor vehicles, personal and household goods (23%). This is followed by activity D: manufacturing (20%), activity K: real estate, renting and business activities (16%), activity F: construction (13%) and activity I: transport, storage and communication (10%). Less than one-fifth of firms fall into the other activities.

The largest number of firms is in the Central Slovenia region (31,632) and the fewest are in the Zasavje region (1,547). Regions with a smaller absolute number of firms also have fewer firms per thousand inhabitants, which indicate a lower rate of entrepreneurial activity in such regions. Way above the national average in terms of number of firms per thousand inhabitants (52), are the Coastal Karst region, with 68 firms per thousand inhabitants and the Central Slovenia region (65). In last place is the Zasavje region with 35 firms per thousand inhabitants *(Figure 1).* Regions with smaller number of firms per thousand inhabitants are evidently less developed.

Number of employees

Slovenian firms employed 617,230 people in 2001. This includes 43,567 taxable entities that officially had no employees, because by statistics individual entrepreneurs are not considered as employees. Our study counts these entities as firms with 1 to 9 employees. On this basis, micro firms employed 170,013 people (or 27.5% of all employees), small firms 92,301 (15%), medium-sized firms 132,194 (21.4%) and large firms 222,722 (36.1%). SMEs thus employed 394,508 people (or 63.9% of all employees). No large firms were engaged in fishing (NACE B), financial intermediation (NACE J), public administration and defence, compulsory social security (NACE L) and education (NACE M). Employees in SMEs predominate in the following activities: real estate, renting and business activities – NACE K (91%), hotels and restaurants – NACE H (90%), agriculture, hunting and forestry – NACE A (87%), other community, social and personal services – NACE O (84%), health and social work – NACE N (78%), construction – NACE F (76%), wholesale and retail, repair of motor vehicles, personal and household goods – NACE G (73%), and manufacturing – NACE



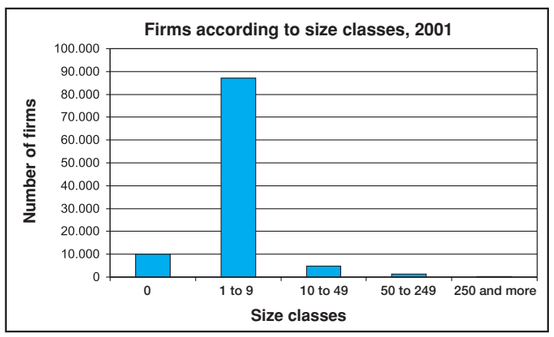


Figure 2 – Annex II: Slovenian firms in 2001 by size classes and employment

D (51%). Large firms dominate the following activities in terms of number of employees: mining and quarrying – NACE C (79%), electricity, gas and water supply – NACE E (60%) and transport, storage and communications – NACE I (51%).

Value added

Slovenian firms generated SIT 2,640,073 million (€12,143 million) in value added[29] in 2001. The distribution of value added by firm size was as follows: firms with zero employees €48.7 million (0.4% of total value added for 2001), firms with 1-9 employees €2,355 million (19.4%), firms with 10-49 employees €1,880 million (15.5%), firms with 50-249 employees €2,590 million (21.3%) and firms with 250 or more employees €5,270 million (43.4%).

Figure 3 – Annex II: Value added per employee

It is evident that micro and small firms are becoming increasingly important, as their combined value added in 2001 had risen to €4,283 million or 35% of the total. Meanwhile medium-sized firms created €2,590 million or 21% and large firms €5,270 million or 43%. SMEs were therefore responsible for a total of 56% of value added in 2001 *(Figure 3)*.

Average added value per employee in Slovenia in 2001 was SIT 4.3 million (€19,674). Average value added per employee in micro firms was below the national average at SIT 3.0 million (€13,851). Average value added per employee was SIT 4.4 million (€20,364) in small firms, SIT 4.3 million (€19,591) in medium-sized firms and SIT 5.1 million (€23,662) in large firms. The average value added per employee in SMEs was below the national average for all firms at SIT 3.8 million (€17,422).

Comparing Slovenian entrepreneurship with the EU-19, we find that while the number of firms and the distribution of employees across firms of different size are comparable, the economic power of Slovenian entrepreneurship remains rather weak.[30] Average value added per employee in the EU-19 in 2000 was €80,000, compared with only €19,000 in Slovenia. Comparison between average income and average value added also suggests pronounced cost inefficiency of Slovenian firms. While the ratio of income in Slovenia and the EU-19 is 1 : 2.75, that of value added is 1 : 4.21. This difference is greatest in the case of medium-sized firms, which achieve only 17% of the value added created by European firms (€18,000 as against €105,000).

For a successul integration into the European market, Slovenia should accelerate investment into higher education, information technology, research and development as well as efficient legislation in the field of intelectual property, to build a knowledge-based society (which is the prime objective of the Slovenian strategy for economic development 2001-2006). The aim can be reached by transforming the country into a competitive and dynamic knowledge-based economy, capable of sustainable economic growth through the support of entrepreneurship and entrepreneurial dynamism. It is important to introduce the type of policies to enhance the possibilities for success and growth, as well as to affect the birth of enterprises and the survival of new and already established enterprises.

The primary objective should be to create conditions for the quick and sustainable growth of productivity. An economy cannot be competitive unless companies operating there are competitive, whether they are domestic or subsidiaries of foreign companies. The sophistication of companies is bound to the quality of the national business environment. More sophisticated strategies by companies require more highly skilled people, better information, improving infrastructure, more advanced institutions, and stronger competitive pressure. The types of competitive advantages a nation's companies enjoy must shift from comparative advantages (low-cost labor or natural resources) to competitive advantages due to more distinctive products made with more productive methods. Only stable political and legal institutions and healthy macroeconomic policy assure and create the potential for improvements in national prosperity, of which the aims are high wages and attractive capital investment. It cannot be the aim of the macroeconomic policy to improve only the political and legal institutions per se, without worrying about the enterprise sector. The prosperity of the nation's capabilities is dependent on the microeconomic level of the economy.

ENDNOTES

[1] This is set out in more detail in Reynolds, P. et al.: *Global Entrepreneurship Monitor 2001 Summary Report.*

[2] Currently the most comprehensive in the field are the *Global Competitiveness Report* and the *World Competitiveness Yearbook*.

[3] Some countries have a considerably larger sample, even exceeding 15,000 adults in cases such as Germany, where the GEM is used to study differences across regions, or the United Kingdom. Thailand and Mexico had a sample of somewhat more than 1,000 adults.

[4] The coding and processing of the interviews was carried out by the coordination team in London using the program NUD*IST.

[5] The *necessity quotient* is computed as $\frac{TEA_{necessity}}{TEA_{opportunity}}$ and the *opportunity quotient* as $\frac{TEA_{opportunity}}{TEA_{necessity}}$.

[6] The *survival quotient* is computed as $\frac{TEA_{new}}{TEA_{nascent}}$ and the *mortality quotient* as $\frac{TEA_{nascent}}{TEA_{new}}$.

[7] See the analysis of problems of financing and financial support for SMEs in Glas et al., *Projekt izgradnje celovitega sistema ugodnejšega financiranja MSP po sistemu držav EU*, Faculty of Economics, Ljubljana 2002.

[8] In addition to the results of the GEM Slovenia 2002 we have also used some other studies: Glas et al., *Financial Support for SMEs in Slovenia*, Faculty of Economics, Ljubljana 2002, pp. 18-23; Glas et al., *Slovenian Entrepreneurs on Finance for SMEs*, research by the Faculty of Economics, Ljubljana 2002; Glas, Drnovšek, Pšeničny, "Is Private Equity Capital Really the Solution?" Vlerick Leuven Gent Management School, 30 September 2002.

[9] Glas et al., 2002.

[10] Rebernik, M.: "Companies as Business Laboratories". *Journal of Teaching in International Business*, Vol. 13, No. 3/4, pp. 99-115.

[11] European Commission Directorate General for Enterprises (2002): *University spin-outs in Europe – overview and good practice*. Brussels.

[12] Rebernik, M.: "Citati, vinogradi ali podjetja?" In Knez, Ž. (ed.): *Prenos znanja z univerze v gospodarstvo – temeljni spodbujevalec regionalnega razvoja*. Univerza, Maribor 2002. pp. 27-35.

[13] See Uršič B., Glas M., "Outsourcing in Slovenia: An Opportunity for SMEs", *32nd EISB Conference*, Sophia Antipolis, 2002.

[14] See Glas, M., Hisrich, R., Vahčič, A., Antončič, B.: "The Internationalisation of SMEs in Transition Economies: Evidence from Slovenia", *Global Focus*, 11 (1998), 4, pp. 107-124.

[15] Estimated at around 16-24% of GDP by S. Kukarjeva of the Institute of Economic Research, Ljubljana.

[16] Glas et al., 1998.

[17] *Human Development Report* – Slovenia for 1998 clearly showed the differences in the position of women: female students represent 69% of all registered university students and women make up 48.8% of the total wok force, but only 28.3% of managers in firms, 7.8% of National Assembly deputies and 6.3% of ministers in the Government of Slovenia.

[18] A study of the quality of life in Slovenia during the 1980s showed that Slovenian women spent an average of 28.5 hours a week on housework and 23.7 hours on childcare, compared with only 7 hours and 17.9 hours a week respectively for Slovenian men.

[19] See Glas, M., Petrin, T.: Podjetništvo: nov izziv za Slovenke, *Working Paper 74*, Faculty of Economics Research Centre, Faculty of Economics, Ljubljana; Glas, M., and Drnovšek, M.: Slovenke kot porajajoče se podjetnice, *Working Paper 101*, Faculty of Economics Research Centre, Faculty of Economics, Ljubljana, 2000.

[20] In 1995 women ran 24.4% of all small companies, only 18% in manufacturing, 14.5% in construction and 13.9% in transport and communications, but 33.2% in retail, 35.5% in personal services and 56% in business services (Glas, Petrin, 1998, pp. 4).

[21] See Glas, Drnovšek, 2000.

[22] Vahčič, A., Petrin, T.: "Restructuring the Yugoslav Economy through the Development of Entrepreneurship, and the Role of the Financial System". Society for Slovenian Studies: *Slovenian Studies*, 12 (1990), 1, pp. 67-73; Tyson, L., Petrin, T., Rogers, H.: "Promoting Entrepreneurship in Eastern Europe" in Acs, Z. (ed.): *Small Firms and Economic Growth,* Vol. I, Edward Elgar, Brookfield 1996.

[23] Rebernik, M.: "Beyond markets, hierarchies and ownership mania in transitional countries". *Systems Research and Behavioral Science.* Vol. 14, no. 3, 1997, pp. 183-194.

[24] Glas, M., Drnovšek, M.: "*Small Business in Slovenia: Expectations and Accomplishments*", 2000 (unpublished).

[25] Information summarised from Rebernik, M. et al.: *Slovenski podjetniški observatorij 2002 (Slovenian Entrepreneurship Observatory 2002)*, IPMMP, Maribor 2002.

[26] A taxable entity is any person who independently (autonomously) undertakes a productive, processing, trade or service activity, including coalmining, agricultural and professional activity, as well as the exploitation of property and property services, irrespective of the purpose or outcome of engagement in the activity. They may be autonomous entrepreneurs, other natural and legal persons undertaking activity and reorded in another register or other form of written record-keeping on the territory of the Republic of Slovenia, foreign natural and legal persons who do not have a main office or other registered form in the Republic of Slovenia, if they undertake activity on its territory, other taxable entities liable for income tax and particular subcategories thereof and taxable entities liable for other taxes according to tax and other legislation.

[27] The total number of excluded firms is 120. The number of excluded firms by region is as follows: Pomurje 9, Podravje 12, Koroška 10, Savinjska 13, Zasavje 5, Spodnje Posavje 9, South-east 16, Central Slovenia 5, Gorenjska 13, Notranjska Karst 7, Goriška 6, and Coastal Karst 15.

[28] All taxable entities recorded as having no employees with the Tax Administration of the Republic of Slovenia were included in the category of firms with 1-9 employees. There were 43,567 such taxable entities in Slovenia in 2001. Thus, the 9,523 firms with no employees capture only companies whose balance sheet and income statement are collected by the Agency for Payments.

[29] **Added value for companies:** Gross profit from operating activities (net sales +/– changes in inventories of finished goods and work in progress + capitalised own products and services + other operating revenues) – raw materials and consumables used – other operating expenses; **Added value for autonomous entrepreneurs**: profit from operating activities + other revenues – cost of sales (purchases of consumables used +/– change in inventories of finished goods) – services costs – other costs and expenses.

[30] Source: For Slovenia, IPMMP based on Tax Administration and Agency for Payments data; for EU-19, *Observatory of European SMEs 2002/No. 2*, European Commission, pp. 11.

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