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*Managing  
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# *Managing Global Transitions*

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# *Managing Global Transitions*

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## *The Editor's Corner*

In the light of the events, symbolically marked by May 1st when the European Union was enlarged by accession countries, also our Journal acquired an additional meaning. When the title *Managing Global Transitions* was chosen by the Editorial team we had much discussion about what 'transitions' mean. Traditionally the word was associated with countries in transition, their efforts and attempts to change and adjust to European and global trends and movements, and also to embrace changes that have been noticed world-wide.

Today we can add broader meaning to the word 'transitions', as we can already notice that transition has not only been a process in former accession countries but also a required and needed process in the European Union. How the enlarged Union will influence global economies, education and other areas of social life is therefore a challenge for researchers to inquire into changes in local, European and global contexts and flows as well as for professionals and practitioners who will identify changes and will also have to respond to them in their everyday practice.

'Revolutions' seem to belong to the past, to what we might label modern societies, while transitions seem to be the way of living in the post-modern societies. Despite this quite strong distinction which could be contested and challenged by a simple question, asked by Bruno Latour (1993) 'have we ever been modern?' the clash of modern and postmodern world, globalization processes and what Beck (2003) labels 'glocalism' reveals transitions in all areas of social life.

Studying, researching and not lastly shaping these transitions presents a challenge, opportunity and choice that we, as researchers and professionals, take up in order to make the world a better place for living. This number already raises some issues and also provides some findings in the specific area of interest of the authors.

In this number, Boštjan Antončič and Otmar Zorn provide an empirical examination of the mediating role of corporate entrepreneurship in the organizational support performance; Pasi Sahlberg discusses educational policies, teaching, globalization and school reforms; and Milan Zver, Tjaša Živko, and Vito Bobek raise the question about the possible gap in economic cultures between EU countries and the transition economies. Igor Guardiancich raises issues about welfare state retrenchment in Central and Eastern Europe and focuses on the case of pen-

sion reforms in Poland and Slovenia. Also Zbigniew Pastuszak's article is devoted to economic questions and provides the philosophy of supply chain management in the new economy.

The next number of the Journal will be published in the fall of 2004. As the holidays are just about to start we hope that fruitful 'time off' from work will also result in articles that the Editorial Board will consider for publication.

Anita Trnavčević  
*Editor*

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- Beck, U. 2003. *Kaj je globalizacija?* Ljubljana: Krt.

# *The Mediating Role of Corporate Entrepreneurship in the Organizational Support–Performance Relationship: An Empirical Examination*

Boštjan Antončič  
Otmar Zorn

Corporate entrepreneurship has been recognized as an important element in organizational performance. Organizational support in terms of training and trusting individuals within the firm to detect opportunities and in terms of resource availability has been proposed to positively influence a firm's entrepreneurial activities. Despite the recognition of the organizational support–corporate entrepreneurship–performance linkage, this relationship has been approached in different ways from the theoretical and empirical perspective. Some unsolved mediation issues of past research are addressed in this study by testing three alternative hypotheses. The research design was a cross-sectional, mailed questionnaire. The findings indicate that corporate entrepreneurship (new firm formation, product/service and process innovation) can be considered a potent mediator in the organizational support–performance relationship.

## **Introduction**

Corporate entrepreneurship (i. e. entrepreneurial activities at the level of an established organization) has been recognized as an important element in organizational and economic development, performance and wealth creation. Organizational support in terms of training and trusting individuals within the firm to detect opportunities and in terms of resource availability has been proposed to positively influence a firm's entrepreneurial activities. Despite the recognition of the organizational support–corporate entrepreneurship–performance linkage, this relationship has been approached in different ways from the theoretical and empirical perspective. For example, first, organizational support

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has been seen as a part of the corporate entrepreneurship construct or the corporate entrepreneurship antecedent, and second, the mediating role of corporate entrepreneurship in the linkage has usually not been tested appropriately. These unsolved issues of past research are addressed in this study by testing alternative hypotheses.

### **Corporate Entrepreneurship**

Corporate entrepreneurship is defined as entrepreneurship activities within an existing organization. Corporate entrepreneurship refers not only to the creation of new business ventures, but also to other innovative activities and orientations such as development of new products, services, technologies, administrative techniques, strategies and competitive postures. The three most pronounced elements of organizational level entrepreneurial activities are: new venture formation, and product/service and process innovation. First, new venturing can include the formation of more formally autonomous or semi-autonomous units or firms, often labeled incubative entrepreneurship (Schollhammer 1981; 1982), internal venturing (Hisrich and Peters 1984), corporate start-ups (MacMillan, Block, and Narasimha 1984), autonomous business unit creation (Vesper 1984), venturing activities (Guth and Ginsberg 1990), newstreams (Kanter and Richardson 1991), and corporate venturing (Sharma and Chrisman 1999). Second and third, product/service and process innovation refer to product and service innovation, with the emphasis on development and innovation in technology. In the words of different researchers, corporate entrepreneurship includes the extensiveness and frequency of product innovation and the related tendency of technological leadership (Covin and Slevin 1991), new product development, product improvements, and new production methods and procedures (Schollhammer 1982), or development or enhancement of products and services as well as techniques and technologies in production (Knight 1997).

### **The Organizational Support–Corporate Entrepreneurship–Performance Relationship**

Corporate entrepreneurship is very likely related to improved organizational performance, usually in terms of growth and profitability (Covin and Slevin 1991). Past research has presented much evidence for the relationships of corporate entrepreneurship to organizational growth (Covin and Slevin 1986; Covin 1991; Zahra 1991; 1993; Zahra and Covin



1995; Morris and Sexton 1996; Stetz et al. 1998; Wiklund 1999; Antoncic and Hisrich 2001) and profitability (Covin and Slevin 1986; Zahra 1991; 1993; Zahra and Covin 1995; Wiklund 1999; Antoncic and Hisrich 2000; 2001).

One important organizational element that is beneficial for corporate entrepreneurship is organizational and management support for entrepreneurial activities. This support includes top management involvement (Merrifield 1993), encouragement (Hisrich and Peters 1984), support, commitment, and style, and the staffing and rewarding of venture activities (MacMillan 1986).

Organizational support has been seen as an important antecedent of corporate entrepreneurship. In particular, supports in terms of training and trusting individuals within the firm to detect opportunities (Stevenson and Jarillo 1990) and in terms of resource availability (Kanter 1984; Pinchot 1985) have been proposed to positively influence organizational entrepreneurial activities and behavior. Antoncic and Hisrich (2001) have provided empirical evidence for this linkage. They also found a positive relationship between intrapreneurship and performance (growth and profitability). This research suggests that corporate entrepreneurship would act as a mediator in the organizational support–performance relationship. In past research the exact mediation role of corporate entrepreneurship in the organizational support–performance relationship has not been appropriately empirically tested. In their structural equation model findings, Antoncic and Hisrich (2001) report neither a coefficient of a direct relationship between organizational support and performance elements nor an analysis on the nature of the mediation. Mediation could exist, but it may be in one of three alternative forms described by Baron and Kenny (1986). The first alternative form is a single, dominant mediator. In this case, the direct relationship between the independent variable and the outcome variable is zero, whereas the outcome variable is impacted through the mediator. The second alternative form is a potent mediator. In this case, the outcome variable is also impacted through the mediator but the direct relationship between the independent variable and the outcome variable is not zero, hence indicating the operation of multiple mediating factors. For a mediator to be considered potent, the path from the independent variable to the outcome variable should be significantly reduced by the introduction of the mediator. If the path is not significantly reduced the mediator can be considered non-potent (the third alternative). Research in corporate

entrepreneurship, as described above, would suggest that entrepreneurship can be considered an important mediator in the organizational support–performance relationship but does not indicate a preferred alternative between the dominant and the potent moderation form. For this reason two alternative hypotheses are formed:

*Hypothesis 1:* Corporate entrepreneurship activities (new ventures, product innovation, and process innovation) are dominant mediators in the organizational support–performance relationship.

*Hypothesis 2:* Corporate entrepreneurship activities (new ventures, product innovation, and process innovation) are potent mediators in the organizational support–performance relationship.

Alternatively to the mediation issue, organizational support has been considered a complement or an integral part of corporate entrepreneurship activities. Zahra (1993), for example, included organizational support activities (such as training and rewarding employees, and establishing procedures for dealing with new ideas) designated to foster creativity and innovation as a part of a corporate entrepreneurship construct, rather than considering them as antecedents of corporate entrepreneurship. This is the basis for a third alternative hypothesis:

*Hypothesis 3:* Corporate entrepreneurship activities (new ventures, product innovation, and process innovation) are neither dominant nor potent mediators in the organizational support–performance relationship.

## **Method**

The research design was a cross-sectional, mailed questionnaire, administered in Slovenia. All constructs were measured by multiple items. Corporate entrepreneurship was measured by items, which pertain to product/service innovativeness (8 items) from the corporate entrepreneurship scale (Zahra 1993), process innovativeness (6 items from Zahra 1993; two from Lumpkin 1998; and one from Covin and Slevin 1989 and Knight 1997), and by four items reflecting new venture formation in terms of new autonomous or semi-autonomous unit or firm formation. Organizational support was measured by items from Hornsby et al. (1993) and items reflecting support activities for creativity and innovation from Zahra (1993). Organizational support questions (12 items) refer to management encouragement, worker's discretion about their work-related decisions, designating idea champions, establishing procedures to solicit

and examine employee ideas, permeability of job boundaries, training, rewards and reinforcement, and availability of time and financial resources for pursuing new ideas or projects. Variables of performance, the dependent variables in the model, were measured in terms of absolute growth and profitability. Growth was assessed by two items. While the first asks about the average annual growth in number of employees in the last three years, the second asks about the average annual growth in sales in the last three years. Profitability was assessed by three items: average annual return on sales (ROS), average annual return on assets (ROA), and average annual return on equity (ROE) in the last three years. Control variables were also used. Respondents checked appropriate boxes for age, size and industry for their organization.

Questionnaires were sent to 2,086 established firms (477 responses were usable for analysis). All measurement scales were examined for their convergent and discriminant validity. The existence of mediations was tested with regression analyses by using a hierarchical procedure as proposed by Baron and Kenny (1986).

**Results**

The results of regression analyses are displayed in Tables 1, 2, and 3. Hypothesis 1 stated that corporate entrepreneurship activities would act as dominant mediators in the organizational support–performance relationship. The relationships between organizational support and all three corporate entrepreneurship elements were found positive and significant (unstandardized coefficients in prediction of new ventures 0.33, product innovation 0.40, and technological innovation 0.54, see Table 1). The relationships between two out of three corporate entrepreneurship activities and performance elements were found positive and significant (unst. coef. in prediction of growth: new ventures 0.13, prod-

Table 1: The organizational support–corporate entrepreneurship relationship (regression equations with unstandardized coefficients)

Dependent variable	New ventures	Product innovation	Technological innovation
Intercept	0.00	0.00	0.00
Organizational support	0.33*	0.40*	0.54*
R <sup>2</sup>	0.11	0.16	0.29

\*  $p < 0.05$ .

Table 2: Corporate entrepreneurship mediation in the organizational support–performance relationship (regression equations with unstandardized coefficients, dependent variable: growth)

	Model 1	Model 2
Intercept	0.00	0.00
Organizational support (OS)	0.12*	0.24*
New ventures (NV)	0.13*	
Product innovation (PI)	0.14*	
Technological innovation (TI)	0.08	
Interaction terms		
OS × NV	0.03	
OS × PI	0.15*	
OS × TI	0.02	
R <sup>2</sup>	0.14	0.06
Adjusted R <sup>2</sup>	0.12	0.06

Significant differences in coefficients ( $p < 0.05$ ) in *italics*. \*  $p < 0.05$ .

Table 3: Corporate entrepreneurship mediation in the organizational support–performance relationship (regression equations with unstandardized coefficients, dependent variable: profitability)

	Model 1	Model 2
Intercept	0.00	0.00
Organizational support (OS)	0.09	0.22*
New ventures (NV)	0.03	
Product innovation (PI)	0.16*	
Technological innovation (TI)	0.12*	
Interaction terms		
OS × NV	0.00	
OS × PI	0.07	
OS × TI	0.06	
R <sup>2</sup>	0.11	0.05
Adjusted R <sup>2</sup>	0.09	0.05

Significant differences in coefficients ( $p < 0.05$ ) in *italics*. \*  $p < 0.05$ .

uct innovation 0.14; unst. coef. in prediction of profitability: product innovation 0.16, technological innovation 0.12; see Tables 2 and 3). To-

gether with these findings, a non-significant or even zero relationship between organizational support and performance would indicate dominant mediation effects. However, the organizational support–growth relationship was found positive and significant in both models (unst. coef. 0.12 in Model 1, which includes organizational support and corporate entrepreneurship elements; unst. coef. 0.24 in Model 2, which includes organizational support only; see Table 2). The organizational support–profitability relationship was found positive in both models (unst. coef. 0.09, non-significant in Model 1; unst. coef. 0.22, significant in Model 2; see Table 3). On the basis of these findings Hypothesis 1 can be rejected.

The alternative Hypothesis 2 stated that corporate entrepreneurship activities would not act as dominant, but still as potent mediators in the organizational support–performance relationship. Findings presented in the previous paragraph indicate the presence of mediation of entrepreneurship elements in the organizational support–performance relationship, and the non-existence of dominant mediation effects. In support of Hypothesis 2 the path between organizational support and performance was found to be significantly reduced with the introduction of the mediation elements in both cases of prediction of growth (unst. coef. from 0.24 to 0.12) and profitability (unst. coef. from 0.22 to 0.09).

The alternative Hypothesis 3 stated that corporate entrepreneurship activities would neither act as dominant nor as potent mediators in the organizational support–performance relationship. Hypothesis 3 can be rejected on the basis of supporting evidence for Hypothesis 2. It needs to be noted, however, that a trace of moderated mediation was found in the organizational support–growth relationship (a positive and significant unst. coef. 0.15 for the organizational support–product innovation interaction term, see Table 2).

### **Conclusion**

The findings indicate that corporate entrepreneurship (new firm formation, product/service and process innovation) can be considered a potent mediator in the organizational support–performance relationship. Organizational support can be most properly viewed as an important antecedent, or even a necessary condition, for development of corporate entrepreneurship activities and subsequent improvement in firm growth and profitability. In addition to these two most important conclusions and research–related implications, some practical recommendations for managers can be proposed. Both corporate entrepreneurship

activities and organizational support for these activities are important for subsequent performance improvements. In order to foster corporate entrepreneurship, managers need to take good care to: encourage other members of the organization, enable worker's discretion about their work-related decisions, designate idea champions, establish procedures to solicit and examine employee ideas, assure permeability of job boundaries, training, rewards and reinforcement, and availability of time and financial resources for pursuing new ideas or projects. In addition to the management and organizational support, managers may need to select and pursue new firm formation, product and process innovation as primary strategic goals of the organization, in order to achieve goals of growth and profitability.

The findings of this research can be generalizable to some extent, despite the limitation of using one sample from Slovenia. Past research (Antončič and Hisrich 2000; 2001) indicated that corporate entrepreneurship research-related findings can be comparable to the United States and perhaps also to other economic contexts, especially to economies that have gone through transition from the social or state to the private ownership structure and from the state- to the market-oriented economy in the past decades. We are confident that corporate entrepreneurship activities and organizational support for these activities are particularly important for the performance of firms in Slovenia, in countries that followed similar transition patterns, and in other countries.

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# *The Philosophy of Supply Chain Management in the New Economy: Net Readiness in the Net Supply Chain*

Zbigniew Pastuszak

The internet has been described as *breakthrough technology*. Its use in business can drastically change the situation in the business sector leading traditional enterprise to collapse. In the era of the Digital Revolution, postindustrial society is evolving towards the information society creating the foundation of the New Economy. Its basic elements include globalization processes, massive implementation of Information Technology and the establishment of *virtual enterprises*. Implemented processes take the form of *pro-active business* that fosters *innovation* and *personification* of its market offer.

Enterprises that utilize Internet infrastructure in their activities carry out a specific *e-business model*. Their key commodity is *information*. It is based on changing the traditional SCM into e-SCM as well as on creating the so-called '*Internet value network*.' In order to be created, the enterprise has to be properly prepared for the new conditions, which is called *net readiness*. This article describes the characteristics of supply chains in the new economy, stresses the significance of information and effective business management in addition to a potential effect of the new economy on the market competitiveness of enterprises. Net readiness has been described here based on a study of a group of the biggest Polish businesses.

## **From Old to New Economy**

World economies function under the conditions that result from human evolution based on a continuous creation of added value<sup>1</sup> (Table 1). The 'virtuality' of our era has its roots in 'tough' historic solutions.

*Digital Revolution* changing the post-industrial era society into the information society laid the foundations for *the New Economy* based on a massive implementation of *Information Technology* – IT. Here are 12 principles of the New Economy according to D. Tapscott (1998):

1. Information – departure from physical labor; 'information input' is an essential component of products.

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Table 1: Evolution of Old Economy (author's analysis based on Sadler 1988)

Degree of development (phase)	Period	Social systems	Significant technological inventions	Basic economic activity	Value added for the future of economy	Basic tools	Basic product	Value added for the client	Client's expectations
Pre-agrarian	Beginnings of civilization (2-4 mln. years)	Uncom- pleted society of nomads	—	Hunting, gathering	Simple tools operated by direct human force	Force of human muscles	Meat	Satisfying basic physiological needs	Lack of clients
Agrarian	Approx. 7000 years B. C.	Agrarian settlements	Metal- working	Agrarian economy	Tools operated by animal force	Force of human and animal muscles	Bread	Satisfying group physiological needs	Basic existence
Industrial	Approx. 1800 A. D.	Industrial towns	Steam engine	Production of goods	Mechani- zation	Force of human muscles, machine	Basic industrial goods	Self- sufficiency of local society	Industrial goods
Post-industrial	1965	Suburban communities	Computer	Services	Automation	Human brain, computer	Highly- processed goods	Simple information systems	High scale of production, high quality
Electronic	1983	Virtual communities	World Wide Web	E-business	Robotization	Human brain, hardware, Internet	Informa- tion (proces- sed)	Satisfying international economic needs	Variety of production, access to information
Post-electronic information	1999/2000	Virtual reality, information society	Mobile com- munications, cordless Internet	Information processing and management	Artificial intelligence based on information	Human brain, software, Internet	Informa- tion	Global security, self- realization	Acces- sibility of infor- mation

Table 2: New Economy and production processes

Business challenges before 2020	Ways of accomplishment
Reaching high level of competitiveness in all operations (on all levels of the process of production).	LEE – Lean, Effective Enterprises
Integration of human and technology resources in order to raise production effectiveness and customer satisfaction.	CRE – Customer Responsive Enterprises
Immediate transformation of information obtained from a wide network of various sources into useful knowledge which facilitates making effective decisions.	TCE – Totally Connected Enterprises
Reduction of production waste and influence on the natural environment to ‘almost nil’.	Environmental Sustainability
Fast reconfiguration among production businesses in response to changes in various needs and opportunities.	Knowledge Management
Quick innovations in production processes and products keeping in mind a constant reduction in their physical size.	Technology Exploitation

Source: Manufuture 2003.

2. Power of digital technology – departure from analogue technology.
3. Heading toward virtual reality by searching for virtual solutions corresponding to present ones.
4. Molecularization – departure from systems hierarchy toward ‘individual creators of values’.
5. Integration (work) on the Web.
6. Elimination of intermediaries and indirect functions.
7. Correlation of market areas – combining their organizational structures, areas and functions (e-content).
8. Innovation – key success factors.
9. Consumer-producer – consumers participate in production already on the level of product design.
10. Functioning in real time (real-time economy).
11. Globalization.
12. Era of anxiety and threat (for societies outside the ‘loop’).

These processes require a continuous process of adaptation on the part of businesses to meet evolving consumers’ needs (Table 2).

### **New Economy Enterprises – Virtual Organizations**

New economy enterprises apply new principles of operation. Traditional solutions based on the concepts of Total Quality Management

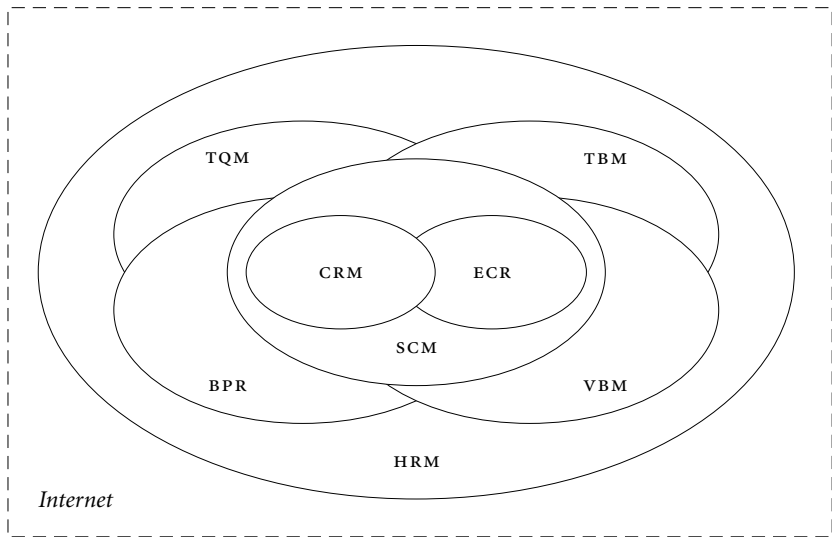


Figure 1: Sources of internet value network in the New Economy (author's analysis)

(TQM), Business Process Reengineering (BPR) or Value Based Management (VBM), see a comeback in popularity in the informational era. The implementation of the Internet guarantees an ever-increasing effectiveness within the Time Based Management (TBM). Capitalizing on the advantages of Human Resources Management (HRM), it creates a previously unthinkable synergy effect in the form of holistic (multi-aspect) management of an entire chain of cooperating enterprises in all areas (Figure 1). The logistics pipeline comprises physical, informational and financial flows.

The processes described lay real foundations for the development of the new economy through the creation of virtual organizations defined as:<sup>2</sup>

1. Temporary, goal-specific network of independent businesses joined by Internet Technology, based on synergy-effect cooperation (alliances, joint ventures, competition).<sup>3</sup>
2. New business that integrates processes previously implemented by different enterprises but now operates independently and creates added value due to the synergy of its combined functions.
3. A totally new creation offering totally new products and totally new functions.

Practically speaking, virtual organizations are treated as production systems, i. e. designed and organized economic unions (enterprises) used in order to create certain products and satisfy customers' needs. They utilize concrete supplies, i. e. input, (e. g. hardware, software) or information supplies (e. g. data base, graphics etc.) and output (e. g. Web page content, financial transactions, contacts with subcontractors) that satisfy the needs of the market and ensure expected profit.

### **Virtual Supply Chain – Internet Value Network**

#### eSCM

Enterprises that utilize Internet infrastructure in their operations can be divided into three groups: users, telecommunications businesses and suppliers. They offer both traditional and virtual enterprises a wide variety of services to access on-line resources and opportunities. This access is based on the '5c' (Afuah and Tucci 2003):

1. Coordination,
2. Commerce,
3. Community,
4. Content,
5. Communications.

In this way a virtual supply chain is created which is strictly connected with the traditional supply chain based on the flow of goods and services (Figure 2).

The synergy of Internet properties, wide use of Electronic Data Interchange (EDI), knowledge and intellectual capital of organizations as well as the effectiveness of traditional SCM system solutions all lead to management of the supply chain in the new economy, i. e. eSCM (electronic Supply Chain Management) and to the creation of the *Internet value network* (Afuah and Tucci 2003). Though it is based in many cases on the so-called *dynamic network*, utilizing the cooperation of the mother company with a network of specifically selected partners, it is generally based on a wide use of the Internet in the following processes: commerce, production, physical movement, planning, supply and product design (Figure 3). Knowledge and intellectual capital of new economy enterprises create, according to L. Edvinsson's rooted tree theory (Edvinsson and Malone 2001), the basis for their real sphere, i. e. physical and production flow, which stimulates the development of other spheres of their

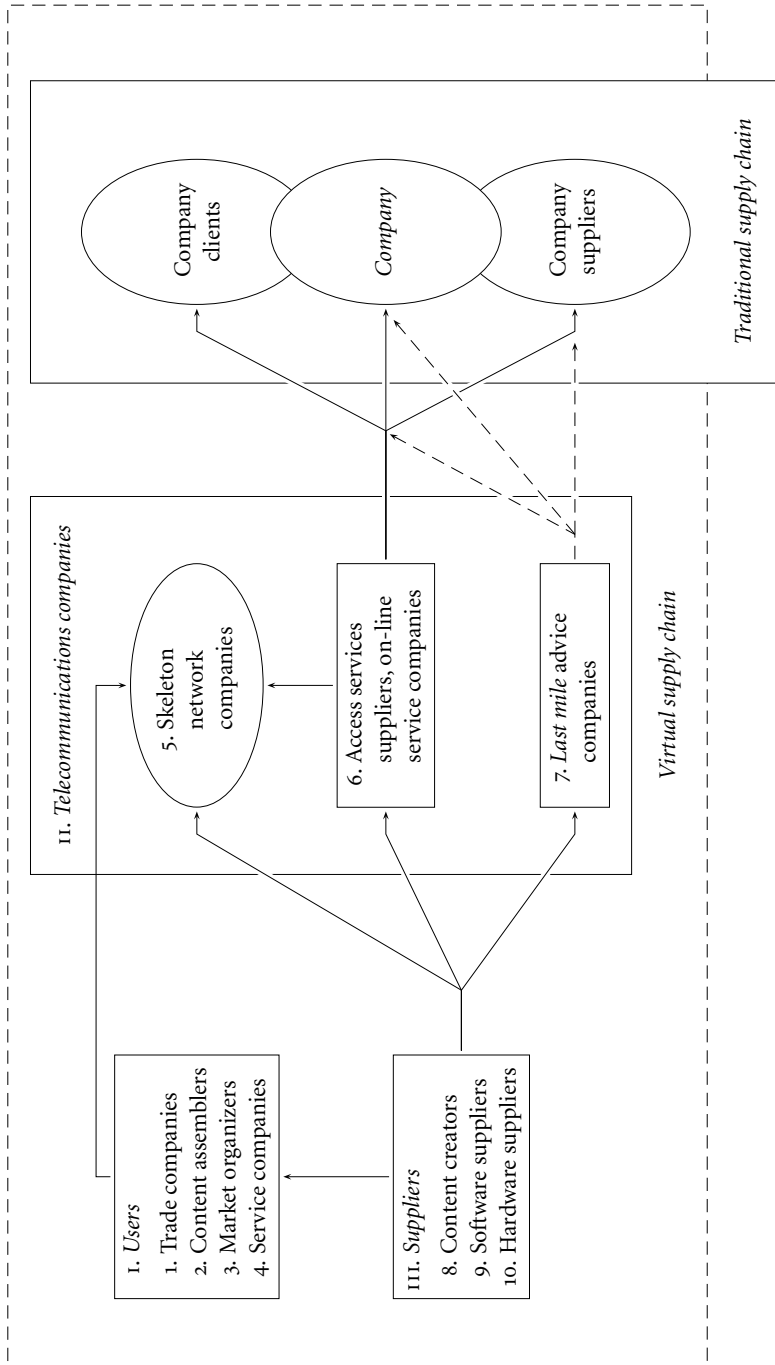


Figure 2: Virtual supply chain (author's analysis based on Afuah and Tucci 2003)

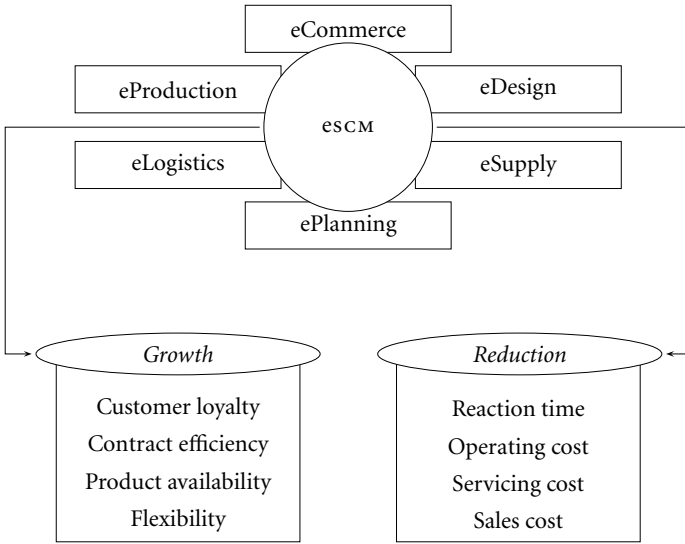


Figure 3: Elements of eSCM (author's analysis)<sup>4</sup>

activity in their close and global environment as well as contributing to their growing competitiveness.

CHARACTERISTICS OF THE SUPPLY CHAIN  
IN THE NEW ECONOMY

The specific characteristics of the supply chain functioning in the new economy are mainly based on the synergy effect of traditional business solutions and Internet technology applications. The comparison of the characteristics of the chains in the old and new economies is presented in Table 3.

**Net Readiness of Polish Enterprises**

RESEARCH METHODOLOGY

The utilization of evident advantages of supply chains in the new economy is conditioned by a number of factors that are chiefly related to the internal characteristics of a business. They are referred to as *Net Readiness* (NR), i. e. the degree to which an enterprise is ready to conduct its business activity using the Web.

Employees of Cisco Systems (Hartman, Sifonis, and Kador 2001) are the authors of the Net Readiness methodology used to research Polish

Table 3: Internet value network: characteristics of supply chains in the Old and New Economies<sup>5</sup>

Sphere of activity		New economy – information economy	
Old economy (description)		Characteristics	
		Subsystems eSCM Sources of synergy	
<i>Basic Processes</i>			
Production preparation and internal logistics	Production preparation is based on demand analysis and collecting orders sent traditionally from sales network.	Client communications is done on-line. <sup>6</sup> Information comes directly from consumers, mostly through Websites. It reduces the time for demand analysis and the process of production preparation.	ePlanning, ECR, CRM, TQM, BPR.
Production	Scale Economy decides about the position of a competing business.	Wide variety of production, high quality of goods and high level of logistic customer service.	eProduction, BPR, ECR, TQM, CRM.
External logistics – supplying of products to consumers	Products reach their final consumer mostly through a company's distribution network using own means of transportation. It extends the time of customer service.	Sales takes place through an Internet store. Sales documents are transmitted electronically. Goods are delivered by delivery companies which results in lowering costs and prices, reduction in order fulfillment time, expanding credibility of exchange through the Internet due to the so-called 'third-party transactions.'	eCommerce, eLogistics, ECR, TQM, CRM.
Marketing and sales	Limited scope of marketing and advertising. A brand is promoted in sporadic advertising campaigns. Sales are conducted through traditional channels, usually agreements with chain stores.	The image of a business is strengthened through electronic marketing methods such as its own Websites or actions directed at specific consumers. Sales are usually conducted electronically on line and take place mainly on the B2B, B2C or B2G markets.	ePlanning, eCom- merce, eLogistics, ECR, HRM, TQM.



Supporting Processes	
Human Resources Management	<p>Employee is usually the supplier of work force. Work is organized on the basis of strictly defined lists of duties and limited competencies.</p> <p>Employees are the most important business resource (knowledge). They create its <i>know-how</i> and generate its innovations. The company adopts features of a virtual organization. Work is organized on the basis of wide competencies and limited formalization.</p>
Supply	<p>Supply costs are reduced by the <i>just-in-time</i> methods. Their amount is the result of searching for suppliers using traditional, low-effectiveness, time-consuming methods.</p> <p>Markets B2B and <i>e-marketplaces</i> contribute to lower supply cost. Information technologies speed up the process of searching for profitable market offers, reduce the time of setting up cooperation agreements and add to the flexibility of supplier selection process.</p>
Services (excluding service enterprises)	<p>Enterprise is not prepared to perform services not directly related to its product.</p> <p>Services are treated as an integral part of the enterprise operation. In addition to basic services, information and entertainment services are offered among others.</p>
Infrastructure	<p>Infrastructure is very developed; it includes production and social functions. Investment is related to production assets expanding production capabilities.</p> <p>Infrastructure of the enterprise is adapted to the range of e-commerce it conducts. IT investment is the most important. The main asset of the enterprise is knowledge and information. Investment is related to technical and organizational aspects of accessing data base.</p>
Technology development	<p>Technology development is mainly related to the production sphere and aims at increasing production scale.</p> <p>Modern technologies development is top priority. They reduce the time of filling orders, increase effectiveness and competitiveness of the enterprise.</p>

enterprises. They refer to Net Readiness as a subjective combination of ‘(…) four factors that enable enterprises to activate highly effective business processes utilizing Internet technologies and having a real, concentrated and measurable character.’ They include: leadership, management, competencies and technology. Cisco research proves it is very unlikely for any company to be successful in e-business if either of these factors malfunction.

The main NR research tool is the NR evaluation chart. It describes the level of involvement of an enterprise in e-business solutions. It also enables the position of the enterprise to be determined in relation to the best representative in its group. The authors of the methodology divide enterprises into five groups:

1. *Internet visionary* – enterprises displaying best preparation to operate in the Net,
2. *Internet expert* – Net Readiness of the enterprise is impressive but certain significant elements are missing,
3. *Internet savvy* – enterprises showing ‘higher than average distance from the concept and language of Net Readiness’,
4. *Internet aware* – enterprises that are more conscious of than ready for the Net economy challenges,
5. *Internet agnostic* – e-business remains outside of the enterprise’s range of interest.

#### RESEARCH RESULTS

NR research of Polish enterprises was conducted between October 2002 and November 2003. It was funded through a grant from the Polish Scientific Research Committee and was entitled ‘Adaptation of Polish Enterprises to E-Business Competition’. 71 enterprises were researched that had been selected from the year 2001 list of 500 biggest Polish enterprises. The stock exchange and non-stock exchange companies that were studied gained profit in 2001 in the 60 million–2,9 billion USD range (1 USD = 3,5 PLN). They employed between 100 and 100,000 employees while their investment reached from 290,000 to 1,5 billion USD. Managers of the enterprises that took part in the study answered questions regarding the use of information technology, application of the Internet while contacting main customers and suppliers, opportunities for individualization and virtualization of products and processes, speed of services as well as the clients’ attitudes to accepting new means of product delivery.

The Net Readiness Evaluation Chart that was used in this research consisted of 20 questions concerning the following: leadership, management style, competencies and technologies (Table 4). Survey participants rated respective areas on a 1–5 point scale.

A comparison of overall results achieved in the group of researched companies to the ideal model and Cisco research population (Table 5) confirms the broad technological opportunities of Polish enterprises. However, with lack of e-business orientation (Table 4, question no. 20 – minimum value – 2.67), the results point out, at the same time, that the IT infrastructure is sufficient to conduct e-business (question no. 17 – highest average – 4.42). The discrepancy among these answers clearly shows deficiencies of the largest Polish companies in developing e-business. This has been observed mainly in e-business management. Admittedly, the bosses of researched companies seem to notice some opportunities in e-business, but they lack ideas on how to utilize them, e. g. lack of development strategy, administrative procedures and e-project evaluation.

Marked disproportions can also be noticed between production- and non-production companies as well as between companies with high as opposed to low levels of sensitivity to e-business competition (Table 6). Researched companies generally reached a relatively high level of readiness ('Internet sense'). However, the leading group of the 'Net experts' includes non-production companies in addition to companies with a high level of sensitivity to the risk of e-competition.

On the level of leadership and management, the majority of companies are highly sensitive to competition's e-business. They also show a relatively high level of e-business competencies and technological advancement. This group can only be compared to the non-production companies that dominate as far as technology and competencies are concerned. This fact confirms a general observation that it is relatively easy for these companies to undertake activities leading to the use of the Internet. It is obvious that production companies with low sensitivity to e-business competition, on the other hand, rate much lower. This results from a low susceptibility of their products to virtualization processes.

### **Summary**

Business solutions used in supply chains of the new economy lead to time savings, contribute to value creation for cooperating businesses and enable maximum adjustment of business offer to the needs of the market.

Table 4: Polish enterprises net readiness evaluation chart (median,  $N = 71$ )

No.	Net readiness factor	Mean
	<i>Leadership</i>	3.68*
1	Top leadership keeps in mind opportunities/threats resulting from Internet economy.	4.12
2	Internet projects under implementation are well integrated with the overall business strategy of the company.	4.09
3	There is a culture of information sharing within the entire organization.	3.97
4	Company has a clearly defined and accepted 12- to 18-month development strategy regarding e-business.	3.21
5	Company's e-business efforts stress more the strategic significance of value creation rather than concentrate on its operational effectiveness.	3.00
	<i>Management</i>	3.32*
6	Company has standard principles of work organization of e-business projects.	3.36
7	We have stable indices rating the effects of e-project implementation.	3.00
8	Company has clearly specified functions, range of duties, responsibilities and control in relation to e-business projects.	3.39
9	E-business projects are implemented by the right people who are properly motivated to achieve expected goals.	3.33
10	IT Department sees itself as a business partner and consultant in utilizing Internet services by the company's business units.	3.48
	<i>Competencies</i>	3.62*
11	Company is able to function in the face of rapid and constant change.	4.18
12	E-business projects are implemented quickly and efficiently, i. e. by 3 to 6 people in less than 3 months.	3.15
13	Business managers have IT knowledge while IT managers have business knowledge.	3.70
14	Company is experienced in simultaneous management of internal and external relations.	3.79
15	Company can quickly start and develop cooperation with business partners.	3.30
	<i>Technology</i>	3.90*
16	Entire company is covered by a stable and standard IT infrastructure.	4.27
17	Company has an indispensable technical infrastructure such as the networks, hardware etc.	4.42
18	Company's solutions are flexible enough in response to changes in the environment.	4.15
19	Company's solutions can be easily adapted to changing needs of its customers.	3.97
20	Majority of company's solutions is e-business oriented.	2.67

\* Arithmetic mean of the rating obtained from all answers regarding the specific NR factor. Source: Author's analysis based on Cisco methodology and results of research.

Table 5: Researched companies net readiness

	Leadership	Management	Competencies	Technology
Ideal model	5	5	5	5
Cisco population	4,4	3,9	4,1	4,2
Polish companies	3,7	3,3	3,6	3,9

Source: Based on Cisco methodology and results of research.

Table 6: Net readiness of enterprises according to type of activity and sensitivity to competition

	Leadership	Management	Competencies	Technology
Productive	3,56	3,32	3,57	3,73
Non-productive	3,71	3,19	3,9	4,2
Low sensitivity	3,39	3,13	3,46	3,74
High sensitivity	3,91	3,47	3,65	3,93

Source: Results of research.

Modern supply chains do have a number of advantages; however, they are not free from threats resulting from the characteristics of e-economy (Table 7).

Generally, these threats lie in low net readiness to operate in the e-business environment as well as in the necessity to make broad investments in IT solutions. Limits in new opportunities that can also be noticed are due to a world-wide economic stratification and a clear division into digital civilization and *outsiders*. Additionally, there are difficulties in a free flow of information connected with specific persons or companies (e. g. problems with infrastructure) or problems with a revolutionary transition from the old to the new economy omitting intermediate stages such as the technological gap, social factors, mentality, level and features of consumer needs. Nevertheless, it can be stated that the correlations generally taking place in many aspects of economy will have a growing influence on its basic processes. Economic evolution in different countries, on the other hand, will be wider and more intense, which, in turn, will be conducive to the transition into the new economy of more countries. In this process, the only companies to reach a high level of competitiveness will be the ones effectively managed and ready to function in the Net, showing this readiness by participating in modern, highly flexible, virtual supply chains.

Table 7: Elements of SWOT analysis for eSCM (vs. traditional SCM capabilities)

<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> <li>• High flexibility of action</li> <li>• High speed of processes</li> <li>• Very high integration of chain members</li> <li>• Great influence of needs on offer creation</li> <li>• Lower cost of transaction completion</li> <li>• Lower cost of investment in development of cooperation within supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>• Low level of <i>net readiness</i></li> <li>• Necessity of wide IT solutions implementation, especially integrated software</li> <li>• Necessity of purchasing (creating) and constant updating of data base</li> <li>• Necessity to trust all members of e-supply chain</li> <li>• Lack of examples to follow</li> </ul>
<i>Opportunities</i>	<i>Threats</i>
<ul style="list-style-type: none"> <li>• Opportunity for quick action in case of a market niche</li> <li>• Globalization of business activities and consumer expectations</li> <li>• Diversified consumer expectations</li> <li>• Opportunity to use latest technical innovations, e. g. cordless Internet, micro payments</li> <li>• Synergy of opportunities and experiences of supply chain members</li> <li>• Lack of barriers to the flow of information</li> </ul>	<ul style="list-style-type: none"> <li>• Failure of IT systems</li> <li>• Lack of generally accepted legal regulations</li> <li>• Lack of preparation of supply chain members for operating in the new supply chains</li> <li>• Lack of interest on the part of the new supply chain consumers (and potential cooperating firms) resulting from delays related to infrastructure, local culture, mentality or organization</li> </ul>

Adapted from Kisielnicki 2002.

### **Opportunities for Future Research**

A diagnosis of the current degree of enterprises' readiness to function in the new economy creates new directions for research. Questions ahead are related to, among other things:

1. Possibility and potential scope of process and product virtualization in enterprises with varied levels of technological advancement.
2. Rate of achieving new competitive positions within e-business solutions.
3. Influence of companies' countries of origin, basic activity markets and international connections on effectiveness of e-business solutions.
4. Influence of the past on the functioning of enterprises in the former 'Eastern Bloc' countries in comparison with enterprises from Western Europe, Japan and the us.

## Notes

1. The term 'added value' refers, in this case, to an additional input in the development of civilization at a specific phase of world economy.
2. Author's elaboration based on Grudzewski and Hejduk 2002, 93–7 and 164–5.
3. Coopetition is a tool and a form of competition. It consists in making unions among businesses in order to serve the client and compete more effectively on the market (Pastuszak 2002a).
4. Author's analysis based on Korff and Knak (2001) and author's study of 53 Polish production enterprises (Pastuszak 2002b).
5. When characterizing supply chains in the new economy, the classification of business activities within the supply chain was based on an article by M. E. Porter and V. E. Millar (1985).
6. A lot of attention is paid in this process to the concept of the Virtual Customer, who influences, through the Internet, product development in all stages of its production (see Dahan and Hauser 2001).

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# *Is There a Gap in Economic Culture Between EU Countries and the Transition Economies?*

Milan Zver  
Tjaša Živko  
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The process of EU enlargement is in its final stage, the CEECS have more or less adapted to the western standards, which is not yet sufficient for successful completion of the transition process successfully. We have learned from the failed communism that the imported norms, institutions and practices can cause entropy, unless they reflect the prevailing cultural orientation in the society. People should believe that what they are presented as right (norms) is also good (values). For this reason the system of norms and values should be developed simultaneously. The research results show that the symptoms of economic cultures are less evident in the CEECS than in the selected EU countries, thus the democratic socialization (stimulated from outside) is the key issue. For this reason the CEECS should be included in the network of the Euro-Atlantic integrations as soon as possible in order to ensure the democratic stability and economic efficiency of Europe.

## **Introduction**

The process of EU enlargement has reached its final stage. The most advanced accession countries have closed almost every negotiation chapter.<sup>1</sup> In the process of transition the post-communist CEECS<sup>2</sup> are becoming more similar to the democratic societies<sup>3</sup> and to the modern economic systems from the structural and cultural<sup>4</sup> point of view.

Structural adaptation requires the adoption of basic institutional, juridical and behavioural standards in force in the developed western societies. This process depends on the socio-economic resources, human

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capital, skills, willingness and the interest of the social elites for implementing structural reforms. These resources differ from case to case; some transition states are more successful than others.

While normative and behavioural patterns, as also the organisation and institutional structure, can be 'standardised' relatively quickly in favourable conditions, the problem is more complex at the level of the core of culture, i. e. the value systems.

The process of structural and cultural synchronisation should not be understood as a general cultural standardisation in the sense of unification and assimilation of different cultures, or as a one-way adoption of certain cultural patterns of Western Europe. However, the rich cultural plurality of Europe should be provided with a core module of mutual democratic and modern political and economic values, which would ensure the political and economic stability of the European Union in the long run. Such a core of values was already created in Western Europe after World War II.

The purpose of our analysis is to find out whether there are significant differences in the economic cultures of the CEECS in comparison to selected EU countries. These will be compared on the basis of selected variables, which will mark the cultural economic value orientations.<sup>5</sup>

### **Premises and Hypothesis**

The specific cultural traits of the states are conditioned by the rate of the general social development, the concrete historical experience, the religious orientation, the persistence of traditionalism, etc. The economic culture is correlated with values and principles of the modern market economy. We presume that:

*Hypothesis 1:* The selected European countries have developed a high level of economic culture.

*Hypothesis 2:* In CEECS the symptoms of economic culture are less developed than in selected EU countries.

*Hypothesis 3:* The CEECS, which are more successful in the structural adaptation to the western European standards, show similar patterns in the phenomenon of the economic culture.

### **Research Model**

The theoretical concept of the political culture is resumed after Almond and Verba,<sup>6</sup> the concept of economic culture after P. L. Berger.<sup>7</sup> The no-

tion of economic culture, inspired by Almond's notion of political culture, was developed by Peter L. Berger, director of the Institute for the Study of Economic Culture (ISEC)<sup>8</sup> at Boston University, in the mid 80's. The notion of economic culture after Berger cannot be confined to the frame of economic science, but can be investigated as a 'global', non-economic phenomenon (1986, 3–30). In conceiving the empirical model Hofstede,<sup>9</sup> Trompenaars<sup>10</sup> and Inglehart's<sup>11</sup> approaches to modern empirical researches were used, which consider values to play the central role in determining cultural orientations.

Professor Inglehart's ongoing research focuses on cultural change and its consequences. To explore this, he is coordinating a worldwide survey of mass values and attitudes, the World Values survey. This database reveals astonishingly strong linkages between the values and beliefs of mass publics and the presence or absence of democratic institutions, supporting the thesis that political culture plays a crucial role in the emergence and survival of democracy. The findings indicate that the evolution of industrial society tends to make democratic political institutions more likely, partly because the publics of these societies are becoming increasingly likely to want democratic institutions, and increasingly adept at getting them. This transformation does not come easily or automatically. Determined elites, in control of the army and police, can resist pressures for democratisation. But as they mature, industrial societies develop increasingly specialized and educated labour forces, which become relatively adept at exerting political pressure. Moreover, the emergence of economically advanced welfare states leads to gradual value changes in which mass publics give increasingly high priority to autonomy and self-expression in a sphere of life, including politics. As these things happen, it becomes increasingly difficult and costly to repress demands for political liberalization. These cultural changes are also transforming people's motivation to work, sexual and religious norms, and a number of other central society and political orientations. In order to investigate these changes, Professor Inglehart is analysing data from the three waves of the World Values survey (carried out in 1981, 1990 and 1996 in 60 countries containing over 70% of the world's population<sup>12</sup>), and the 1970–1996 Euro-Barometer surveys.

Culture<sup>13</sup> in a narrower, operational sense, can therefore be defined as the system of values, which orientate people's behaviour and approach to the environment. In the empirical researches particular attention is paid to the analysis of the values which constitute the core of a culture.

The economic culture, which is defined as a combination of economic value beliefs, which orientate the economic behavior, can also be measured by the value indexes of the following variables:

- EDS – the ‘economic democratic syndrome’, which measures the share of agreement with the statement that ‘democracy has a bad influence on the economy’.<sup>14</sup>
- STA – the ‘statist syndrome’ measures the share of those who believe that ‘the state should own industry and business’, i. e. the opposite of the belief that ‘industry and business should be private ownership’.<sup>15</sup>
- MK – the ‘Martin Krpan’s’<sup>16</sup> syndrome’ measures the share of those who think that ‘taking the opportunity of tax evasion can always be justified’, i. e. the opposite of believing that ‘taking the opportunity of tax evasion can never be justified’.<sup>17</sup>
- RAS – the ‘rivals syndrome’ measures the share of those who believe that ‘competition is harmful and it brings out the worst in people’, i. e. the opposite belief to ‘competition is good and it stimulates people to work hard and develop new ideas’.<sup>18</sup>
- PTS – the ‘paternalistic syndrome’ measures the share of those who believe that ‘the government should take more responsibility to ensure that everyone is provided for’, i. e. the opposite belief to ‘people should take more responsibility to provide for themselves’.<sup>19</sup>

The symptoms of the economic culture are variables, by which similarities and differences in national cultural orientations will be measured (units being the single states). The following units (states) have been included in the research: Great Britain, Germany, the Netherlands, Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, and Slovenia, i. e. a combination of selected Western states with more or less stable democracies and successful market economies (three EU members) and the CEECS (10 transition economies and at the same time EU potential accession countries).

All deductions are based on the presumption that the higher the indexes, the more difficult the compatibility with the standards of democracy and market economy in Western democracies.

### **The Creation of the Database and the Results**

We used the database from the EVS 1999, which is kept in the Archives of Sociologic Data of the Faculty of Social Sciences at the University of Ljubljana. The European Values Survey includes 31 European countries,<sup>20</sup>

Table 1: Syndromes of economic culture (indexes)

State	EPS	STA	MK	RAS	PTS
Great Britain	4.68	4.77	2.41	4.00	4.43
The Netherlands	4.56	5.48	2.68	4.70	4.64
Germany	4.00	4.62	2.36	3.80	4.23
Estonia	5.81	6.10	3.15	4.39	6.09
Latvia	6.41	7.35	2.35	3.42	6.66
Lithuania	6.09	4.59	3.78	3.99	5.39
Poland	6.33	6.64	2.22	3.99	5.76
The Czech Republic	5.95	6.03	2.08	3.25	4.90
Slovakia	6.26	7.12	2.16	3.59	6.38
Hungary	5.81	6.65	2.11	3.76	6.12
Romania	6.52	6.20	2.79	2.73	4.81
Bulgaria	5.86	5.40	2.00	3.50	5.22
Slovenia	6.31	5.53	2.34	3.24	6.53

and interviews have been made on samples of approximately 1,000 people in each country (all together 38,759 interviews). The 114 questions posed to the interviewees were about relationship to the environment, personal happiness, social distance, work and employment, fair pay, discrimination at the workplace, religion, democracy, and many more. As far as STA, MK, RAS and PTS syndromes are concerned, the interviewees in EVS 1999 could answer with grades 1 to 10. When answering the question about EDS, the interviewees had to choose the answer on a four-level scale. The calculations of indexes for the observed states were explained in the previous chapter and are given in Table 1. We have also performed a cluster analysis from all variables, which is represented as a dendrogram in Figure 1 (discussed in conclusion).

Values of EPS are highest in Romania, Latvia, Poland, Slovenia and Slovakia, which means that these countries recognize a weak connection between democracy and economy, while in Great Britain, Germany and the Netherlands we can observe the opposite opinion. Greater differences between countries can be seen in STA values. The meaning of the entrepreneur's initiative is more important in Great Britain, Germany and – perhaps surprisingly – in Lithuania, while in Latvia, Slovakia, Poland and Hungary they believe, that the state should have more control over the SMES. Tax evasion is understood in Europe as something negative, it

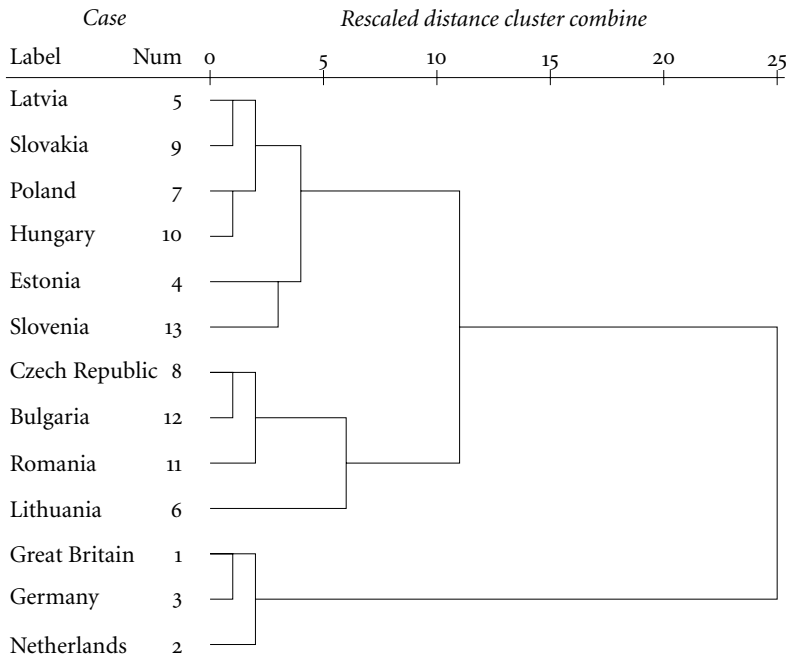


Figure 1: Dendrogram using Ward Method

is not an economic value (differences in  $MK$  values are small). The competition is also not a defining factor for differentiation of economic culture in the European countries (the differentials in  $RAS$  values are small and atypical). The  $PTS$  values are lowest in the western European countries (Great Britain, Germany and the Netherlands). In these countries dominates the ethics of individual responsibility. By contrast, there is a prevailing belief in the transition economies that the state is responsible, that everyone is provided for. This syndrome is most present in the value orientation of Latvians, Slovaks, Slovenes and Estonians.

### Conclusions

The transformation process from a centrally planned economy to a market one is a very complex issue in which normative and behavioural patterns, as also the organisation and institutional structure, can be 'standardised' relatively quickly in favourable conditions. The problem is more complex at the level of the core of culture, i. e. the value systems. If a critical mass of the appropriate political-democratic and modern economic values is not reached, this will present additional obstacles to

the process of transition in the long run. This problem has been often neglected both in theory, as well as in practice.

The theoretical concept of the political culture has been resumed after Almond and Verba, the concept of economic culture after P. L. Berger. The database from the EVS-99, which is kept in the Archives of Sociologic Data at the University of Ljubljana has been used. Various variables of the economic culture had been taken into account, by which similarities and differences in national cultural orientations have been measured in 13 countries, representing a combination of selected Western states with more or less stable democracies and successful market economies (three EU members) and the CEECS (10 transition economies and at the same time EU potential accession countries).

In the dendrogram the two branches join relatively late, which means that differences between the EU countries and CEECS are significant. Two basic groups of countries were formed, which differ by the presence of the symptoms of economic culture.<sup>21</sup> Great Britain, Germany and the Netherlands represent the first, and the second is formed out of CEECS. This proves the first (higher degree of economic culture in selected EU countries) and the second hypothesis (the existence of the basic gap economic culture in Europe). The differences among the other subgroups in the CEECS, show too little evidence to allow any valid conclusion, a part from the fact that we can detect similarities among the subgroup Latvia–Slovakia–Poland–Hungary, followed by a subgroup Czech Republic–Bulgaria–Romania–Lithuania.<sup>22</sup>

How can the CEECS overcome the gap between the pre-modern and modern economic values among national cultures in Europe? Experience shows that the transition states do not have a sufficient amount of inner energy for a democratic cultivation, while the elites in power often show little interest in it. The help needed can be achieved with an accelerated integration of CEECS into Euro-Atlantic integration, which will have a benign influence on a faster implementation of democratic political and economic values, thus firmly guaranteeing a stable, democratic and peaceful Europe, able to express itself as a specific cultural entity in the world in the political-cultural and economic sense.

## Notes

1. This paper has been written a few months before the enlargement of the EU took place.
2. Central and Eastern European Countries.

3. The transition process in CEECS has been quicker due to desired membership of the EU.
4. No culture is superior or inferior to another. We are accepting Inglehart's concept of modernization, which means that cultural values change from pre-modern (distinctive for transition countries), modern to post-modern. These changes are never linear.
5. EVS (European Values Survey) provides an opportunity to learn about the attitudes of citizens of different nations towards selected issues. In the research model of culture we selected issues we believed to be accepted in the economic culture of the EU as politically democratic and modern from the socio-economic point of view. The symptoms of economic culture are therefore expressed in the degree of the acceptance of democracy, acceptance of market economy, of free initiative, and no justification of tax evasion and self-responsibility.
6. The first to base the term of political culture was Gabriel A. Almond (1956). In the 60's he and Sidney Verba empirically based the notion of political culture on a comparative international opinion poll (Almond and Verba 1965). They confirmed a close relation between democratic political culture and democratic political systems.
7. Professor Berger previously taught at the New School for Social Research, at Rutgers University, and at Boston College. We are taking the concept of economic culture from his book *The capitalist revolution: Fifty propositions about prosperity, equality and liberty* (Berger 1986).
8. ISEC was founded at Boston University in 1985. Its purpose was to do research on the relations between socio-economic change and culture, the latter term understood in its usual social-scientific sense – that is, as the belief, values and lifestyles of different human groups. Essentially, the idea of establishing the ISEC was very simple: Economists do not like to deal with culture, because it does not easily lend itself to their methods; when they do deal with it, they do so by applying concepts that tend to distort it. Those in the human sciences who do deal with culture, on the other hand, shy away from the economic issues, because economics appears to be a forbiddingly difficult discipline. Consequently, there is a certain lacuna when it comes to our understanding of this particular relationship. Yet it is an important one. Thus, to take a very important example, it has become amply clear that the successful establishment of a market economy has certain cultural prerequisites, without which even the most sophisticated economic strategies are likely to falter (see <http://www.bu.edu/cura/about/introduction.html>).
9. According to Hofstede culture is the 'software of mind', which orients human behavior, is acquired by socialization, and has the following



- essential qualities: it is shared, collective and allows group distinction (1997, 411).
10. Trompenaars and Hampden-Turner, who created a highly useful model of intercultural researches, distinguish three levels of cultural manifestation: the highest is related to the national scale, the middle one refers to the sense for corporation and organization, and the lowest one to professional culture (1993).
  11. For more than twenty years Ronald Inglehart has been studying cultural, economic and political changes in 43 states worldwide, which have been developing in the sense of modernism or postmodernism (1997). He extended the EVS project to other parts of the world (WVS). In exchange for providing the data from interviews with a representative national sample of at least 1,000 people in their own society, each participating group gains immediate access to the data from all of other participating societies. Thus, they are able to compare the basic values and beliefs of the people of their own society with those of more than 60 other societies. In addition, they are invited to international meetings at which they can compare findings and interpretations with other members of the WVS network. This deals with interdependence of cultural, economic and political subsystems, which develop together and in a coherent way (see <http://wvs.isr.umich.edu/ringlehart/research.html>)
  12. See <http://wvs.isr.umich.edu/index.html>.
  13. In the broadest sociological sense culture can be understood as a complex of material, institutional and spiritual organisms (Giddens 1998, 582).
  14. The possible answers were 'agree strongly', 'agree', 'neither agree nor disagree', and 'disagree' that the democracy has a bad influence on the economy; to be able to compare EDS index to the other ones, we had to find a way to make them compatible. The percentages of the answer 'agree strongly' were multiplied by 10, 'agree' by 8, 'agree nor disagree' by 5 and 'disagree' by 1. The sum of these was divided by 100, in order to get the average value.
  15. The two extremes were: 1 – 'private ownership of business and industry should be increased', and 10 – 'government ownership of business and industry should be increased'; the percentage of the chosen answer was multiplied by the grade of the choice, and their sum was divided by 100, in order to get an average value.
  16. The terms refer to a popular Slovene story (novel) figure who smuggled English salt around the Austrian Empire. In nowadays terms, he evaded taxes.
  17. The same procedure as STA.

18. The same procedure as STA.
19. The same procedure as STA.
20. France, UK, Germany, Austria, Italy, Spain, Portugal, Netherlands, Belgium, Denmark, Sweden, Iceland, Northern Ireland, Ireland, Estonia, Latvia, Lithuania, Poland, Czech republic, Slovakia, Hungary, Romania, Bulgaria, Croatia, Greece, Russia, Malta, Luxembourg, Slovenia, Belarus.
21. We should bear in mind the limits of the results achieved. If a larger number of states and variables were included, economic cultural distribution of 5 types would be much more valid. So let us stress once more, that this research aimed in the first place at the demonstration of a research model.
22. The exceptions are Estonia and Slovenia, which together with Latvia–Slovakia–Poland–Hungary form the first sub-cluster of the CEECS.

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# *Welfare State Retrenchment in Central and Eastern Europe: the Case of Pension Reforms in Poland and Slovenia*

Igor Guardiancich

This paper endeavours to shed some light on the mechanisms that led to the divergence of welfare state arrangements across Central and Eastern Europe (CEE). In particular, pension system reforms displayed a great deal of variance, which surprised both institutionalists and convergence theorists. The Polish and Slovenian cases are thus presented and compared in a political economy perspective. Theories of retrenchment, recent studies on the dynamics of CEE pension reforms and consultations with some of the relevant actors, were employed in order to account for the divergence of reform outcomes in the two countries. The study focused on three main explanations: partisan competition, the interaction between relevant external (World Bank) and internal actors (Minister of Labour and Minister of Finance) and the trade-off between power concentration and accountability concentration. The latter yielded the best explanation. While Polish reformers managed to internalise most veto actors' reservations, Slovenian politicians excluded from consultation the country's main trade union. Its opposition determined the rejection of radical reforms recommended by the World Bank.

## **Introduction**

After the collapse of Communism in 1989, most CEE countries embraced the neo-liberal strategy of stabilisation, liberalisation and privatisation. Although the inherited socialist premature welfare state was intellectually bankrupt, mismatched with the objectives and principles of a market economy and illegitimate in the eyes of the public (Rueschemeyer 1999, 15), its reform was not seen as a priority, and it was postponed until the second wave of reforms. Local politicians were afraid of social unrest, were still convinced that the socialist system could cope with the fiscal pressures, and they used social security to mitigate the worst strains

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engendered by the transition. Price liberalisation (ending the implicit subsidies), privatisation of firms (establishing hard budget constraints and shifting the responsibility for welfare provision from the firm to the state), rising unemployment, increasing absolute poverty and the output decline, which entailed a collapse in state revenues, made social security reforms unavoidable from both the social and fiscal standpoints (Wagener 2002, 156–7).

Most institutionalists expected from CEE countries the creation of a corporatist-conservative (Esping-Andersen 1990, 26–9) welfare arrangement, because the socialist and pre-war systems were employment-based and because continental Western Europe was seen as a powerful influencing factor. However, they overlooked the persisting instability of CEE institutions and the fact that both the European Agreements and the *acquis communautaire* say precious little in the welfare state realm, since the details of social policy are delegated to single Member States (Wagener 2002, 153–4). In contrast, neoclassical convergence theorists predicted that CEE countries would heed the World Bank's (WB) recommendations and end up with a liberal welfare state, forgetting that path-dependence plays a crucial role where policy feedback and high fixed costs, determined by large, inherited Pay-As-You-Go Defined Benefit (PAYG-DB) schemes, prevent radical policy shifts (Myles and Pierson 2000, 312). The comparison of pension reforms in Poland and Slovenia proves that both camps were wrong.<sup>1</sup> If fundamental reform of the pension system means its (partial) privatisation, which is what the WB recommends, then Poland introduced radical changes, while Slovenia ended up with patching-up measures (Chłoń et al. 1999, 6; Müller 1999, 37).

While this essay will employ the literature on retrenchment in post-communist CEE, it will not directly address its dynamics.<sup>2</sup> Instead it will try to explain, through a comparison of the political economy of reforms in Poland and Slovenia, the factors accounting for the divergence of their pension systems and to discuss the problems associated with passing a politically and economically unattractive reform, such as a radical departure from the Bismarckian-Beveridgean paradigm (Müller 1999, 107) in old age security. This study will be structured as follows. In the first part, *Pension reforms in premature welfare states*, the problems associated with the privatisation of CEE pension systems will be addressed. In the second, *Pension reforms in Poland and Slovenia*, a brief political economy account on the evolution of the socialist pension system up to the present schemes will be presented. The last section, *Hypotheses on divergence*, will

analyse the institutional and political factors accounting for the lack of convergence between the two countries' reform paths.

### **Pension Reform in Premature Welfare States**

#### THE SOCIALIST PENSION SYSTEM

The socialist welfare state roughly matched the continental European Bismarckian system. In fact, benefits were a worker's privilege and not a social citizenship right. The difference was not straightforward since socialism maximised labour participation, and unemployment was practically absent (Wagener 2002, 154). Most socialist countries had a unified pension scheme, which was included into the state budget, thereby cross-subsidising other expenditure items. Employees' contributions were largely abolished, leaving employers' contributions as the only source of financing. The coverage was expanded to the majority of the population. Therefore the system guaranteed horizontal equity, but could not prevent vertical efficiency problems, i. e. leakages in targeting, and rising expenditures (Barr 2001, 245–52). The low pensionable age was seen as a victory for socialism. The scheme was managed by trade unions. The contribution-benefit link was weak, as benefits were usually based on best-earnings formulae (cfr. Myles and Pierson 2000, 324). Benefits were low and hardly differentiated, but universalism was breached by the privileges granted to employees who held risky or unhealthy jobs, classified as important for the advancement of socialism. Unsystematic indexation produced trans-generational inequity, since older pensions were continuously losing purchasing power (cfr. Müller 1999, 94–6).

During the early transition these problems degenerated. The access to benefits became even easier after the relaxation of early retirement and disability criteria, intended to alleviate the pressure on the overstrained labour markets by pushing the unemployed out of the labour force altogether, and to buy social peace by granting privileges to the most endangered groups (miners, heavy industry workers etc.; Gomulka 2000, 1–2). The falling revenues associated with the output decline, tax evasion and the informalisation of the economy rendered the pension systems fiscally unaffordable and in need of deep reforms. In Table 1 the main indicators of the Polish and Slovenian pension systems are presented.

Barr (2001, 252–3) uses EBRD data to calculate the ratio between system dependency and age dependency. The results (175 for Poland, 186 for Slovenia) show that the leakages (people below the retirement age receiving a pension, compared to those above the age) are respectively 75%

Table 1: Pension system selected indicators

	Poland		Slovenia	
System dependency ratio (1996)	61.2%		60.6%	
Age dependency ratio*	22.33%–23.77%		16.1%–20.3%	
Replacement rate (1995–1996)	65%		75.8%	
Social contributions (old-age and non old-age)	19.52%	15.85%– 23.57%	24.35%	13.65%
	1990	1996	1991	1996
Public pension spending†	8.6%	15.2%	10.9%	14.5%
State budget transfers†	0.0%	4.1%	–1.8%	3.3%
Implicit debt†	220–251%		200–260%	
No reform scenario	2050		2044	
Public pension spending†	27.1–34.5%		27.3%	
Contribution rate needed in 2050	54–93		n. a.	

\* Poland: old-age population/working population in 1990–2000 (*Security* 1997, 24); Slovenia: 64+/15–64 in 1991–2001 (Stanovnik 2002, 30). † As percentage of GDP. Sources: Gomulka 2000; Hausner 2001; Lindeman et al. 2000; Orenstein 2000; *Security* 1997; Stanovnik 2002.

and 86%, among highest in the world. This similarity, and the fact that after the failed early attempts at stabilisation both countries increased payroll taxes to cover the soaring expenditures, makes the two systems well suited for a comparison focused on institutional and political, rather than on structural or economic factors.<sup>3</sup>

#### THE WORLD BANK'S PRIVATISATION RECIPE

The WB became a major external actor in post-communist social policy reorganisation (Orenstein 2000, 13) after it included specific pension reforms into the neoliberal 'Washington Consensus' package, following the positive developments in Chile and Argentina (Müller 1999, 25). WB's 1994 publication 'Averting the Old Age Crisis' supported the introduction of private elements into existing PAYG schemes. According to the Bank, these not only render the schemes fiscally sustainable when confronted with mounting demographic problems, but also promote growth through the expansion of capital markets, savings and investments. In this framework the state retains a residual role of poverty alleviation and pension fund supervision, mainly because state-run PAYG systems had

Table 2: The three wB pillars<sup>4</sup>

Redistributive plus coinsurance	Savings plus coinsurance	Savings plus coinsurance	Objectives
Means-tested, minimum pension guarantee, or flat	Personal savings plan or occupational plan	Personal savings plan or occupational plan	Form
Tax-financed	Regulated fully funded	Fully funded	Financing
Mandatory publicly managed (1st) pillar	Mandatory privately managed (2nd) pillar	Voluntary (3rd) pillar	

Source: World Bank 1994, 15

financially spun out of control in middle- and high-income countries, becoming neither efficient, nor equitable, nor sustainable (wB 1994, 1, 13–4). ‘Averting the Old Age Crisis’ became a catalyst for intellectual confrontation, which generated a global social policy debate between various international organisations (cfr. Deacon 1997, 91–152), and it even triggered a wide diversification of views within the wB (Stanovnik 2002, 64). wB’s approach was termed by Lo Vuolo the ‘new pension orthodoxy’ (Müller 1999, 26) and it is schematically summarised in Table 2.

This paper’s main assumption is that the introduction of a privately managed mandatory fully funded second pillar might be politically feasible, but it is economically hardly desirable in CEE. In fact the institutional prerequisites of private pension funds are more demanding than those of public systems, because they call for developed financial markets, regulatory capacity and political stability to function effectively. These are often missing in CEE. In addition, the only available financial assets might be high risk and low yield (Barr 2001, 103). Finally, and more convincingly, the transition costs are gigantic, due to the implicit debts inherited from the socialist era.<sup>5</sup> The set up of even a modest wB inspired second pillar renders part of the implicit debt explicit, which causes the double payment problem. Myles and Pierson (2000, 312–20) make a clear distinction between mature PAYG systems and latecomers, claiming that the former cannot heed the wB’s recommendation and should instead opt for a rationalisation (i. e. parametric reform) of the existing PAYG arrangement. CEE schemes can be assimilated with these. Fixing a PAYG is probably less costly than resorting to funding.

Following this wave of disapproval, the wB conceded that an uncritical acceptance of its recommendations should be avoided. In fact Von Gers-

dorff, a WB official, recently admitted that too heavy a load had been placed on CEE pension systems, in terms of using them to simultaneously promote savings, capital markets, economic growth and address social problems (Report 2003).

### **Pension reforms in Poland and Slovenia**

#### THE EXISTING LITERATURE

In contrast to the political economy of retrenchment, authors who explicitly deal with pension reforms in CEE are relatively few. The account of the political economy of pension reforms in Poland and Slovenia will be based upon the research by Müller (1999) and Orenstein (2000) for Poland and by Stanovnik (2002) for Slovenia.

Orenstein's framework will be used. It is based on Weir and Skocpol's (cfr. Orenstein 2000, 9–10) seminal work, which laid the foundations for the new institutionalism, stressing the importance of both the state as an autonomous actor and policy feedback leading to path-dependence. Orenstein adds the international organisations (especially the WB and IMF), which influence decision making through:

- contributions to the global social policy discourse, conferences and publications which constrain national policy, and
- direct intervention, which includes all forms of technical assistance (sending of missions, financial assistance, the secondment of WB employees; Orenstein 2000, 11–4).

WB conditionalities are used as blame avoidance mechanisms for unpopular policy measures by radical reformers, whose commitment to reforms is a signalling mechanism, which is highly appreciated by financial markets (Müller 2002, 130). Specifically for pension reforms, the WB exerted its influence through the agenda setting role in local debates (Müller 1999, 54) and by spreading intellectual innovations within the global social policy discourse.

Despite this focus on institutions and international actors, both Müller and Orenstein (Stanovnik follows his logic) emphasise the interaction between domestic actors, thereby taking on a more pluralistic approach. Since negotiated reform of the welfare state is the norm, as compared to governmental unilateralism (cfr. Rhodes 2000, 165–94), these interactions are present in both actor-centred (Müller 1999, 49–52) and rational choice institutionalism. In the former the constellation of available actors is given by the institutional setting. The actors display determined pref-



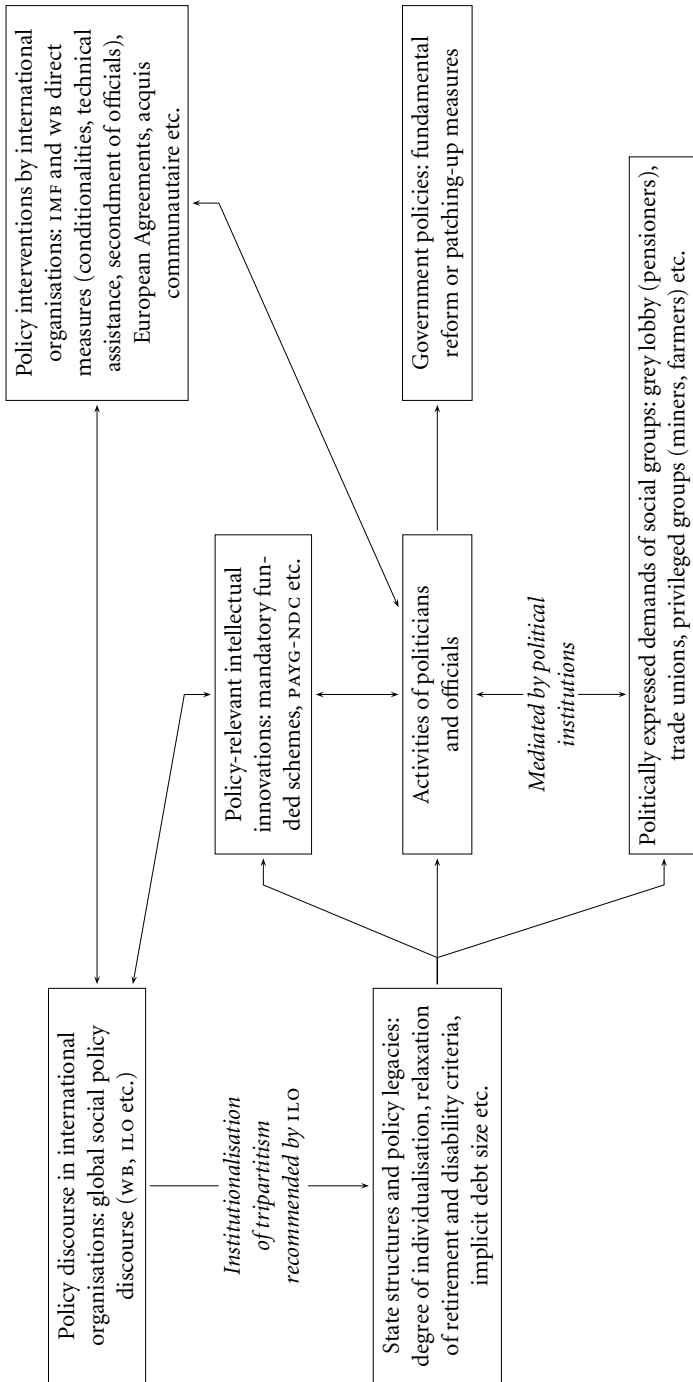


Figure 1: Modified Weir and Skocpol's Model of Policy Reform<sup>6</sup>

erences and their interaction decides the final policy outcomes (Müller 1999, 49–52). The latter interprets the institutional setting as a constraint for the available policy options (especially the size of the implicit debt, i. e. the maturity of a pension system), but it also focuses on the power concentration of the executive (veto actors and veto points, cfr. Tsebelis 1995), which enhances its ability to pass unpopular legislation.

The description of the four phases of pension reforms in Poland and Slovenia will follow Orenstein's (2000, 16–9) timeline. *From socialism to transition economics* describes the inherited system and the initial reforms. *Commitment-building* starts when political actors become aware that reform is necessary (usually following the advice of external actors, cfr. Cashu 2003, 5) and ends with the government's adoption of a single reform programme. During *coalition-building* final legislation is passed and reformers try to prevent anti-reform mobilisation. *Implementation* instead poses new problems and introduces new actors (private pension funds). The outcomes can be eventually evaluated. Since relevant actors were not excluded from earlier reform phases in Poland and Slovenia, probably only further fine-tuning measures are to be expected (Orenstein 2000, 19–20; Stanovnik 2002, 66–7).

#### POLAND

##### *From Socialism to Transition Economics*

During the interwar period two unified Bismarckian pension schemes covered white- and blue-collar workers. In 1954 a PAYG-DB system with Soviet features replaced the fully funded schemes. It continued to be managed by the Social Insurance Institute (ZUS) (Müller 1999, 93–4). Pensions were financed by employers' contributions and benefits were relatively high, but the 'old pension portfolio' problem, stemming from unsystematic indexation, implied that older pensions were losing purchasing power. Therefore 40% of those who reached their pensionable age continued to be employed (Müller 1999, 94–6).

After 1989 high unemployment and relaxation of retirement and disability requirements brought the system into open crisis.<sup>7</sup> Stabilisation was attempted through *ad hoc* measures (Orenstein 2000, 46) which, despite their excessive support of benefit adequacy, were fiercely opposed by the 'grey lobby' (Müller 1999, 103). The latter was eventually responsible for post-Solidarity's electoral defeat against the Democratic Left Alliance (SLD) and Polish Peasant Party coalition in 1993 (Chłóń et al. 1999, 11).

### *Commitment-Building*

Even before the SLD-PSL coalition stepped into office the debate around pension reforms was heated. There were three camps: 'rationalisers', reformers and non-reformers (Chłóń et al. 1999, 11). The non-reformers enacted the early *ad hoc* measures, which were stopped by the Constitutional Tribunal in 1995. The reformers proposed different radical plans. The Ministry of Finance (MOF) under Kołodko published 'Strategy for Poland' in June 1994 and suggested the introduction of a mandatory second pillar. Solidarity advocated a similar arrangement. The Minister of Labour and Social Affairs (MOL) Miller was a 'rationaliser'. He supported voluntary savings and a parametric reform of the first pillar, but the public found his plan too timid (Hausner 2001, 216). The stalemate which ensued between Kołodko and Miller was broken only by the appointment of a new MOL, Bączkowski, who was an independent and a former Solidarity activist. From 1994 he was chairman of the Tripartite Commission for Socio-Economic Affairs. He managed to create a link with the opposing Solidarity Electoral Action (AWS) and established the Office of the Plenipotentiary for Social Security Reform (OPS) in April 1996 (Orenstein 2000, 47–8). The WB reinforced its position by financing the creation of the OPS and by letting the Polish WB official Rutkowski advise it (Müller 1999, 107).

### *Coalition-Building*

MOL Bączkowski died in November 1996, putting the whole reform at risk. Hausner became the plenipotentiary and he won independence from the new MOL Zieliński, who opposed radical reforms. (Orenstein 2000, 49). 'Security through Diversity' was approved in April 1997 and advocated a multi-pillar system, including a Notional Defined Contribution (NDC) PAYG first, a mandatory funded private second<sup>8</sup> and a private voluntary funded third pillar. The Tripartite Commission approved the proposal in April 1997 without opposition from the social partners, and the government supported the proposal with a massive information campaign (Chłóń 2002, 160). The Sejm approved the easy laws (especially the regulation of the second and third pillars) swiftly and with high cross-parliamentary support (Orenstein 2000, 51) in September 1997, because these introduced new elements into the system, leaving unchanged the existing ones (Chłóń et al. 1999, 14).

The AWS-UW coalition won the 1997 general elections. The second phase of coalition-building started. Although rare in Polish politics,

a cross-coalition consensus was reached (Müller 1999, 112). The newly appointed plenipotentiary Lewicka, a senior Solidarity pension expert, wholeheartedly embraced the reforms (Chłoń et al. 1999, 14). The Freedom Union (uw) did not oppose ‘Security through Diversity’ as it was involved in its preparation, but AWS was sceptical. After the government’s formal approval of reforms in April 1998, AWS and uw entered a stalemate (resolved with the support of SLD) in the all-parliament Extraordinary Commission. Solidarity and OPZZ raised a number of issues, but they preferred to reach an agreement, rather than mobilise against reforms (Orenstein 2000, 53). The whole debate took much longer, because the laws (the reform of the first pillar and the reorganisation of ZUS) remodelled the existing schemes (Chłoń et al. 1999, 16). In December 1998 both laws were adopted.

### *Implementation*

The hasty approval was achieved at the expense of many details, whose determination was postponed (the law on annuities) (Chłoń 2002, 120). The KRUS (the farmers’ fund) and disability pensions were left untouched. The Polish reform achieved a double individualisation through the mandatory second pillar and the first PAYG-NDC scheme, thereby granting more transparency, fiscal stability and less redistribution. Lower indexation will eventually lead to a surplus after 2025. These savings, along with explicit debt and privatisation revenues will be used to finance the transition. According to Chłoń (2002, 122–4), OPS’s forecasts are overoptimistic (cfr. Security 1997, 9–10, 85). Falling replacement rates will give rise to benefit adequacy and poverty alleviation concerns (Geroldi and Merano 2001, 14). Implementation was extremely problematic: the participation rate in the mandatory scheme exceeded all expectations (Chłoń 2000, 34–6; Fultz 2002, 18–9), the ZUS was technically unprepared and fraud coupled with high administration costs, determined negative rates of return for all the funds. Not surprisingly, the public became increasingly disillusioned with the enacted reforms (Chłoń 2002, 183–91).

## SLOVENIA

### *From Socialism to Transition Economics*

The Bismarckian welfare state inherited from the Austro-Hungarian empire (Müller 2002, 114) was perpetuated during the Yugoslav kingdom

(Stanovnik 2002, 19–20). After WWII the pension funds were nationalised and a Soviet PAYG system was introduced. The Yugoslav-Soviet rift put the system in flux (Müller 2002, 114), and not until Kardelj's 1974 Constitution did federalisation and contribution financing become definitive. Thereafter guidelines were set at federal level, while at lower levels 'self-managed communities of interest' had extensive regulatory rights (Stanovnik 2002, 21). The pension system preserved some integrity, since the organisation of the Institute for Pension and Disability Insurance (IPDI) was never broken down to sub-republic levels (Böhm 2003). The 1983 Slovene Pension and Disability Insurance Act (PDIA) included farmers and the self-employed into the scheme. Pensioning criteria were generous and early retirement was only temporarily penalised (Stanovnik 2002, 22–4). Due to insufficient indexation, benefits were anchored to wage growth in 1986, instantly worsening the looming crisis.

The Yugoslav recession hit Slovenia, but the pension system resisted and the population was sufficiently satisfied with it (Böhm 2003). After independence the system became unsustainable due to the relaxation of eligibility criteria, unfavourable demographic prospects (Geroldi and Marano 2001, 2) and structural unemployment. The 1992 PDIA was a timid attempt to tighten eligibility criteria and a simple adaptation of the 1983 PDIA. Stabilisation failed and the IPDI became dependent on state budget transfers (Stanovnik 2002, 25–9). Reforms became unavoidable.

### *Commitment-Building*

The IMF and WB were active in Slovenia and suggested a two-stage multi-pillar reform plan. The 1995 IMF-WB report influenced all subsequent reform drafts (Stanovnik 2002, 41–3). The new Minister of Labour, Family and Social Affairs (MOL) Rop was appointed after ZLSD (United League of Social Democrats) exited the LDS-led (Liberal Democrats) government coalition. Rop invested his entire political career in the pension reform (Böhm 2003), and (almost) unilaterally published the 'Starting Points for the Reform of the Pension and Disability System of Slovenia', which advocated the introduction of a WB inspired second pillar. A PHARE team criticised the 'Starting Points', asserting that the transition costs would be unbearable. In 1996 the general elections produced a new coalition between LDS, Desus (Pensioners' Party) and SLS (Slovenian People's Party). Desus and SLS were included into the team preparing the 'White Paper on the Reform of the Pension and Disability Insurance in Slovenia' (WP) and subsequently neutralised. The WP was published in

November 1997. It envisaged many parametric reforms to the first pillar, the introduction of a mandatory funded privately managed second pillar and the expansion of the (nonexistent) voluntary private third pillar (cfr. Stanovnik 2002, 39–46). The WP was the only official reform proposal, because all potential opponents were deliberately excluded, especially the Association of Free Trade Unions of Slovenia (FTUS).

### *Coalition-Building*

Due to the concertation character of Slovenian decision-making (Geroldi and Marano 2001, 15) this phase started with the appointment of the tripartite negotiating working group for pension reform, which included the MOL, the trade unions (and thus the previously excluded FTUS) and the business associations. The FTUS opposed the WP and was backed up by the opposition party ZLSD. It protracted negotiations from January 1998 until April 1999 (Stanovnik 2002, 47, 64) and started a counter-information campaign in favour of rationalisation (Böhm 2003). In March 1998 it organised the largest protest march ever in independent Slovenia, claiming that the second pillar would undermine the inter-generational solidarity and create poverty among pensioners. During commitment-building MOF Gaspari delegated the design of reforms to Rop, but now he opposed the mandatory funded pillar on fiscal grounds. The combined action of the FTUS, a critical evaluation of the WP by the economist Bole in a paper commissioned by the WB and the negative opinion of influential economists determined the quiet demise of the second pillar in April 1998 and the final WB's forfeit. The government acknowledged FTUS's veto role, and gave Rop a full mandate in order to overcome the persisting stalemate (Stanovnik 2002, 49). The 1999 PDIA contained deep amendments to the first pillar and very generous tax treatments for the voluntary funded privately-managed third pillar. The new PDIA was approved in Parliament in June 1999.

### *Implementation*

The ILO praised the Slovenian parametric reform for cutting 25% of future benefits, without introducing a second pillar (Fultz and Ruck 2001, 40), thereby enabling the use of public pillar savings for other social security purposes. The WB instead calculated that high replacement rates and (quasi) wage indexation would still engender fiscal unsustainability (Geroldi and Marano 2001, 8–11), forgetting to include the newly introduced trans-generational solidarity indexation element, which reduces

the yearly adjustments of the stock of pensions in function of the eligibility and accrual criteria of new pensioners (Kidrič 2002, 4–6). This index yielded encouraging results: both the replacement rate and overall pension spending fell. In addition, the recent agreement on public employee collective schemes is transforming the third pillar into a quasi-mandatory private pillar of considerable proportions (Stanovnik 2003), and there is still some leeway for further parametric reforms.

### **Hypotheses on Divergence**

Summing up, both Slovenia and Poland achieved significant retrenchment in their pension schemes through parametric reforms, but they chose a fundamentally different stance towards redistribution and risk. The structural factors which could account for this divergence are the inherited socialist pension system, the economic crisis in early transition and the demographic prospects.

The latter two hinge on the ‘benefit of crisis’ argument, which holds that radical reforms are feasible under critical conditions, when the opposing interest groups can easily be broken (Müller 1999, 46). In contrast Pierson (1996, 156) contends that while retrenchment might be feasible, radical reforms would still meet with considerable resistance. Other authors (Orenstein 2000, 11; Brooks and James 2001, 140–6) suggest that faced with high implicit debts reformers tend to be more moderate and retain larger public PAYG pillars.

Neither fiscal nor demographic crises can alone explain the final outcomes. In fact the large implicit debts, the early measures cushioning the labour market and the use of higher contributions to match the expenditures were common to both countries. The lags in tax collection (the Olivera-Tanzi effect) also played a significant role (Kidrič 2003). The demographic prospects were worse in Slovenia (cfr. Stanovnik 2002, 30; Geroldi and Marano 2001, 3–4; Chłoń 2002, 96–100), but its reforms were milder.

With regard to the inherited systems, it is renowned that Bismarckian schemes are resistant to changes, due to the powerful networks of social support generated by welfare state expansion (Müller 1999, 41–2; Pierson 1996, 150–1). In fact early reforms were a clear reflection of the existing systems in both countries. The subsequent developments can be (partially) attributed to the fact that Poland had just earnings-related benefits, while in Slovenia both contributions and benefits were individualised already during the 1970s (employers’ contributions reflected the

wages of individual employees). Therefore, the Slovenian system was not perceived as unfair by the population. Fiscal sustainability became the major concern. In Poland pensions were seen as opaque and discriminatory, thus both fiscal sustainability and individualisation were required. Therefore the introduction of a new instrument, such as a mandatory private funded scheme, would have proved more difficult in Slovenia and necessitated a better-designed governmental strategy (Kidrič 2003).

Since structural factors are not sufficient to explain the divergence, the paper will try to apply three (overlapping) political economy theories of retrenchment.

#### PARTISAN COMPETITION

According to Kitschelt (2000, 265–6) the dynamics of party competition directly affect retrenchment policies. If the median voter opposes unpopular policies, the rational ruling party will not enact them. Thus even large but weakly organised groups, such as pensioners, gain much electoral power. Nonetheless multiparty politics offer other options, among which the policy appeal of an alternative government coalition is worth emphasizing.

Some authors (Müller 1999, 41; Pierson 1996, 150–1) include social-democratic parties among the potential opponents to radical pension reforms, due to their commitment to existing welfare states. Kitschelt (2000, 281–2) instead argues that it is not the strength of labour or social-democratic parties *per se*, which impedes retrenchment, but a partisan alignment of government and opposition parties, where competition is based on socio-cultural issues and all parties claim to be defenders of the welfare state. Similarly, Ross (1997, 188–9) emphasises the electoral strategy of the left as a means of covering the policy ground of the right: the ‘Nixon in China’ argument permits retrenchment, the refusal of neoliberalism retains the state in charge, i. e. pension cutbacks without privatisation.

Ross’ and Kitschelt’s approaches are maybe only partially suited for post-communist politics. Various authors (cfr. Innes 2001) stress the instability of CEE party systems, especially the lack of programmatic alternatives on the economic front (dictated by external constraints). Notwithstanding, former national-accommodative communist regimes (cfr. Kitschelt et al. 1999, 1–92) such as Slovenia and Poland have the best chances to develop party competition not exclusively focused on valence



issues. Until then the *locus* of alternative economic views should maybe be sought outside the party system.

In Poland the sDRP (Social-democracy of the Republic of Poland), a communist successor party with a social-liberal, secular inclination, represented the SLD-PSL coalition's core and had to compete against AWS (national, religious and anti-communist) and UW (radical, pro free-market, secular). Party competition developed over radical reforms (treated as valence issues, due to the conformity of views) with cultural values (religion) at the core and was probably conducive to a pre-emptive move by SLD in old age security, because no alternative or credible party was defending the welfare state's *status quo* (cfr. Kitschelt 2000). Similarly, in Slovenia the parties identified themselves through cultural values and agreed on the direction of economic reforms, transforming them into valence issues (Ioniță 1997, 36, 56). The LDS (civic-liberal) almost never lost power during the country's brief history, opting for various coalition arrangements. The reformed communists, ZLSD (mildly social-democratic), exited the government in January 1996, because they opposed outright retrenchment, and remained until 2000 in quasi-opposition. When LDS proposed a radical reform no alternative party could have blocked its policies, which were staunchly opposed only by the FTUS, probably the only credible supporter of social-democracy in Slovenia.<sup>9</sup> Thus, while *elitisation* of politics attributable to the weakness of non-political actors is representative of Polish decision-making (Ioniță 1997, 28–9), Slovenia displays a stronger civil society – party system interaction, which contrasts with the 'associational wasteland' scenario supported by authors like Offe and Bönker.

#### INTERACTION AND PREFERENCES OF EXTERNAL AND INTERNAL ACTORS

The MOL, MOF and WB play crucial roles in CEE pension reforms. During the second wave of reforms 'extraordinary politics' had already given way to 'politics as usual' (cfr. Balcerowicz 1994, 176–7). Müller (1999, 52–3) goes very far in that she claims that the MOL and MOF display diverging preferences, in order to benefit their constituencies. The former favours a parametric reform within the Beveridge-Bismarckian paradigm and the latter advocates radical reforms for fiscal stability. Thus the MOF and WB usually agree, but again, according to Müller (1999, 53–4) their very presence is contingent on structural factors: fiscal imbalances of the pension

system for the MOF, external indebtedness for the WB. Their mutual involvement should guarantee privatisation. Orenstein (2000, 14) is more cautious and only argues that greater exposure to the WB translates itself into more fundamental pension reforms. All of these conjectures are either theoretically or empirically (within this comparison) at least partially unfounded.

Although MOL Miller was staunchly opposed to radical reforms, the opposite must be said about MOL Rop in Slovenia. While Miller was substituted by Bączkowski, in order to diminish the distance between veto actors (Orenstein 2000, 12), Rop was given, right after the departure of ZLSD from government, an exclusive mandate in order to enact the needed reforms after years of immobility and stalemate. This same immobility probably dictated his preference for radical reforms. The other governmental actor, the MOF, may also have an ambiguous stance towards radical reforms, since he faces various trade-offs. The implicit debt puts reforms on the agenda, but may render the MOF ambivalent towards privatisation. With high explicit debt, the MOF prefers reforms, which reduce future fiscal obligations, but the implicit debt conversion may become impossible. Underdeveloped capital markets make reforms which increase savings very palatable, but they also give rise to concerns about the funds' performance (Brooks and James 2001, 138–42; Müller 2002, 137). In Poland MOF Kołodko was consistently pro reform. In Slovenia MOF Gaspari was not. At first he was absent, due to the decision-making procedures in Slovenia (the exclusive delegation of reforms to the relevant Ministry); subsequently he became passive, as he did not participate in the drafting of the WP and he *de facto* delegated the responsibility of transition financing to Rop. Gaspari intervened only when the stalemate between Rop and FTUS was harshest, and opposed the second pillar only after Bole's publication (Stanovnik 2002, 49, 58–60). Thus the standard roles of the MOF and MOL, as they are envisaged by Müller, were in Slovenia inverted.

Since the WB was not operating in a political vacuum it had to use both direct and indirect interventions to overcome opposition (Orenstein 2000, 73). In both countries the WB was active and it influenced the political debate from the beginning. Interestingly, its proposals were at first met with greater reservations in Poland than in Slovenia (Golinska 1999, 181), and both countries homogenised their views on the funded element with the establishment of a single governmental special office (the OPS in Poland) or working group (for the WP in Slovenia).

However, the outcomes were different: 'Security through Diversity' was better designed than the White Paper. Nonetheless, it cannot be *a priori* said that the WB had less leverage in Slovenia than in Poland. While direct assistance was greater in the latter, the WB sponsored trips and conferences, allocated funds and relied on Milan Vodopivec, a former WB official, for advising MOL Rop (Stanovnik 2002, 42). The reaction to Bole's paper (which claimed that transition costs would be unsustainable) demonstrates the WB's consistent pursuance of a specific plan for Slovenia. The Bank's 'top brass' was aghast and ceased sponsoring the country's pension reforms from the very moment the paper was presented, refusing even to publish it (Stanovnik 2002, 62–4; Stanovnik 2003).

POWER CONCENTRATION AND ACCOUNTABILITY  
CONCENTRATION

Retrenchment policies are essentially unpopular, resulting in a political exercise in blame avoidance (Müller 1999, 40–1), since their advocates face a trade-off between their policy preferences and electoral ambitions (Pierson 1996, 146). Therefore pension reforms must minimise anti-reform mobilisation from concentrated interest groups (Orenstein 2000, 60) using obfuscation, division and compensation tactics (Pierson 1996, 147; Brooks and James 2001, 159–61). In order to spread the blame, as many veto actors as possible have to be included in the reforms' design, otherwise their exclusion from an early phase may result in harsher opposition at a later stage (Orenstein 2000, 72–5). In this respect some authors (Bonoli 2000, 239; Orenstein 2000, 12–3) contend that fewer veto points are equalled with more radical reforms and retrenchment. The number of veto points depends on institutional factors, electoral results and the strength of the pro-welfare coalition (Bonoli 2000, 240–1). Thus minority governments and grand coalitions will have to accommodate more demands than bare majority governments, and the strength of trade unions will diminish the executive's room for manoeuvre. On the other hand power concentration poses accountability problems: competitive political systems, electoral rules and the political cycle all play a role (Bonoli 2000, 244–5). In fact Ross (1997, 192) demonstrates that grand coalitions, where blame is spread among the coalition partners, were in the 1980s more conducive to retrenchment than less diffuse executives.

The task is now to explain why Slovenia did reject radical reforms despite the fact that its institutions and politics constantly produced fewer

veto points than the Polish counterparts. In addition to institutional factors, such as a quasi-unicameral parliamentary system in Slovenia and a semi-presidential bicameral one in Poland, Slovenia had even greater power concentration, because Rop was given a full mandate for the reform of pensions (which is a distinctive feature of Slovenian decision-making). On the other hand the strength of the pro-welfare coalition was much underestimated in Slovenia.

The analysis of CEE pro-welfare coalitions shows that pensioners were considered unanimous voters, while trade unions appeared too fragmented to be threatening (Böhm 2003 ; Chłoń 2002, 110). Radical reforms have therefore an advantage over rationalisation, in that they can be designed to minimise the resistance of pensioners by excluding them from structural changes (Nelson 2001, 246). In Poland the new system was precluded to the population older than 50 and in both countries pensioner parties were effectively neutralised.

However, exclusionary compensation is not sufficient to win trade unions over. Rop made a double *faux pas* in that he excluded the FTUS from both a stage of reforms (commitment-building) and a deliberative forum (the working group for the White Paper). In addition, he probably did not believe the FTUS could reverse the large public support built around the WP. In any case Poland had an easier task than Slovenia. Polish unions are weak and divided along ideological lines, while union density and collective agreements' coverage is in Slovenia the highest among CEE countries. In addition FTUS was constantly affiliated to the opposition party ZLSD and has considerable institutional power over legislation on labour relations in the Economic and Social Council of Slovenia (Stanovnik 2002, 64). Therefore the FTUS could effectively act as a veto actor by threatening the government with social conflict. FTUS's uncompromising opposition against the mandatory second pillar can be attributed to its conviction that the government pursued a 'hidden agenda' (Müller 1999, 28), which implied the slashing of first pillar benefits, when the transition costs would become unsustainable. Rop understood that further pursuance of partial privatisation would have put his whole political career at risk and therefore the proposal was quietly withdrawn. This confirms that concentration of accountability may outweigh concentration of power effects.

After presenting the three approaches, it is now clear that the most important actors in both reforms were the WB, MOF, MOL and the trade unions. Their systematic comparison shows evidently the veto

Table 3: Comparison of Polish and Slovenian actors and policy legacies<sup>10</sup>

	Poland	Slovenia
Policy legacies	Only benefits were individualised. Need for further individualisation and for fiscal stability.	Both benefits and contributions were individualised under socialism. Fiscal stability was paramount.
World Bank	Great leverage due to external indebtedness. Both direct and indirect intervention.	General political and public acceptance of the 'new pension orthodoxy'. More indirect than direct intervention.
MOL	Miller – rationaliser. Bączkowski – appointed to diminish the distance between veto actors. OPS – pro-reform, independent.	Rop – consistently pro-reform.
MOF	Kołodko and his successors – consistently pro-reform.	Gaspari – first absent due to the delegation of responsibility to Rop. Not participating in or opposing reforms until Bole's paper.
Trade unions	Solidarity and OPZZ – numerically weak, ideologically divided, little institutional power. Either pro-reform or accepted side-payments.	FTUS – numerically strong, ideologically committed to ZLSD, great institutional power. Consistently against reforms and did not accept side-payments.

role played by FTUS, as compared to Solidarity or OPZZ. Additionally FTUS's role was crucially reinforced by the policy legacies, which prevented Slovenian decision-makers from acting unilaterally.

### Conclusions

This paper demonstrates how politics and institutions affected pension reforms in Poland and Slovenia and clearly points out that the divergence of CEE welfare states is contingent on a multitude of factors, among which the trade-off between power concentration and accountability concentration is paramount. However it is worth stressing that, after substantial accommodation of special interest groups' demands, high cross-parliamentary consensus was reached on the reform programmes in both Poland and Slovenia (Böhm 2003; Orenstein 2000, 51). This confirms that while there was overall agreement on the need for retrenchment the inclusion of neoliberal prescriptions was animatedly debated.

Therefore the actor-centred institutionalist framework is very suitable for studying CEE welfare state retrenchment. Both reforms that have been analysed display path-dependent elements, while the political ac-

tors' leeway is testified by the fact that both radical and incremental reform possibilities have been carefully taken into account. Despite this indisputable general framework, the rest of Müller's early theories cannot be systematically applied to Slovenia. Both the wb's approach and the ambiguous stance of MoF Gaspari are telling of the 'small n' problem which affects Müller's research.

On the other hand Orenstein's skilful adaptation of Tsebelis' veto actors methodology is fully applicable to the Polish and Slovenian cases. Nonetheless its limitations are straightforward. The dependent variable in Tsebelis' work is the capacity for policy change (in this study the adoption of a mandatory fully-funded second pillar). Due to the dichotomous nature of this variable, its use is somehow restricted to the comparisons of cases when the executive struggles for the adoption or rejection of a specific policy. In this respect the approach does not explain much of the complex exchange and interaction between the involved actors, such as the government and the social partners, which characterised all CEE welfare state reforms. In order to fill in these lacunae, a whole new theory should be developed. A good basis to start from could be the recent research on the reform of Bismarckian pension systems carried out by Natali and Rhodes (2003). Poland and Slovenia show enough similarities in order not to exclude its applicability. However, even the most sophisticated approaches developed for Western Europe have to be adjusted in order to account for the patronage, which has been exerted by international organisations on CEE politics.

## Notes

1. Pension reforms in the Czech Republic and Hungary confirm the lack of convergence. The former retained its PAYG scheme, the latter introduced a fairly large privately managed fully funded second pillar.
2. Pierson (2001, 422–55) mentions three types of retrenchment. Privatisation falls under recommodification, rationalisation under recalibration and other cutbacks under cost containment. He associates each type of retrenchment with one of Esping-Andresen's three worlds of welfare capitalism (liberal, corporatist-conservative and social-democratic). In contrast, Natali and Rhodes (2003, 5–6) contend that a mix of the three is used in any reform of Bismarckian welfare states.
3. The trilateral comparison featured in Orenstein (2000) cannot count on such striking similarities.
4. The wb terminology will be used throughout the paper.

5. See Table 1. Poland and Slovenia display greater implicit debts than most OECD countries, excepted Italy.
6. Weir and Skocpol's approach differs from the previous ones in that it stresses the two dimensions generating the state's autonomy and influence: a) the autonomy of its bureaucrats; b) its organisational configuration, which influences all other societal aspects – the interaction of political actors, the demands of interest groups and the inclusion of intellectual innovations in national policies.
7. See Table 1.
8. The second pillar was gradually phased-in for implicit debt and tactical sequencing concerns. The population over 50 was excluded to avoid pensioners' opposition (Müller 1999, 115).
9. Orenstein (2000, 65) rightly predicted that a right government supporting neoliberal arrangements would meet with greater resistance by 'old' trade unions. Nevertheless this idealistic role should not be overemphasized. Natali and Rhodes (2003, 5, 7–8) contend that retrenchment politics are not only about blame avoidance, but also involve credit claiming. Political parties and trade unions alike act as vote-, office- and policy-seekers. In fact even in Slovenia the FTUS approved some reforms, which were detrimental to the outsiders.
10. For details refer to Guardiancich 2003.

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# *Teaching and Globalization*

Pasi Sahlberg

Globalization is typically understood as an economic, political and cultural process that is reshaping the role of many nation-states in relation to global markets, agreements, and traditions. Recently it has become frequently analyzed in the context of education. However, there is surprisingly little work done on the pedagogical implications of globalization on teaching and learning other than shifting the emphasis from traditional subjects to information and communication technology and English as a foreign language. This article argues that globalization is having an effect on teaching and learning in three ways: educational development is often based on a global unified agenda, standardized teaching and learning are being used as vehicles to improvement of quality, and emphasis on competition is increasingly evident among individuals and schools. The article concludes that recent development of standardization and competition-based education will become increasingly counter-productive to preparing students for meaningful lives for and beyond knowledge economy. Furthermore, as a response to globalization, educators need to rethink the ways teaching and learning are organized in schools, promote appropriate flexibility at school level, creativity in classrooms and risk-taking among students and teachers as part of their daily work in school.

## **Education Systems in the Global Context**

Globalization has typically been interpreted using economic, political and cultural terms. Depending on the perspective, it has been seen as a transition from a Fordist workplace orientation to internationalized trade and consumption. Globalization is also leading to a diminishing role of nation-states, loss of their sovereignty, and the emergence of global hegemony of transnational media and entertainment corporations. As a consequence, standardization in economies, policies and culture has become a new norm for competitive corporations, ideas, and media. As Burbules and Torres (2000) write, changes in global culture

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deeply affect educational policies, practices, and institutions. From recent attempts to analyze and understand the multiple and complex effects of globalization on education it is obvious that there is no single straightforward view of the consequences of the globalization process on teaching and learning in schools and other education institutions (Carnoy 1999; Burbules and Torres 2000; OECD 2001; Stromquist 2002; Hargreaves 2003; World Bank 2003). Although globalization has also created new opportunities to transform education, this article focuses on some counterproductive implications that are becoming evident in recent education reforms.

Globalization has two macro-level paradoxical effects on our daily lives. First, it simultaneously both integrates and segregates. It integrates world cultures through the global communication networks and less restricted movement of individuals. At the same time it creates a tension between those who are benefiting more and those who may be marginalized by the market values and consumer cultures that are typical to many societies, especially in the areas that suffer from poverty or slower development. The challenge for future public education is to give priority to teaching ethics and a sense of global responsibility that go beyond the bounds of the knowledge economy. Second, globalization promotes competition although strategic alliances between competing parties are becoming a condition of success. Economic markets have become more open and flexible because of diminishing barriers of trade and lowering of labor and trade regulations. The mobility of goods, services, money and intellectual capital has increased due to sub-regional and global agreements. Competition to expand markets, promote innovations, and develop highly skilled workforces is shifting the focus of work from quantities to qualities and from mastery of facts to professional flexibility and continuous renewal of personal capacities. Globalization increases competition because productivity and efficiency have become key descriptors of successful economies. Corporations and service organizations are regularly using quality assurance policies and committing themselves to management strategies that are based on assessment of performance of both staff and managers.

As a consequence, similar doctrines have emerged in education. Standards, testing and alternative forms of financing have come to challenge conventional public education in many countries. In the name of accountability and transparency, schools, teachers and students are more often than before measured, tested and asked to perform under the ob-

serving eyes of external inspectors. Even ministers of education today compete to determine whose students can perform the best in international student assessment programs. Indeed, introduction of international test comparisons, such as PISA (Program for International Student Assessment) and TIMSS (Trends in International Mathematics and Science Study), has been one of the strongest pretexts for school reforms in many countries including many of the transition economies (Hargreaves 2003). The emerging perception seems to be that making schools, teachers and students compete will itself improve the quality of education, as it has vitalized corporations in market economies. Various forms of educational standards have been created to help these competitions to become fairer and more comparable.

Education systems are reacting differently to the changes in the world's new economic, political and cultural orders. Globalization has become an influence in nation-states' social reforms as education sectors adjust to the new global environments that are characterized by flexibility, diversity, increased competition and unpredictable change. Understanding the effects of globalization on teaching and learning is essential for any policy maker, reform designer and educational leader. According to Carnoy (1999), the approach which governments take in reforming their education sector and its responses to globalization depends on three key factors:

- the government's objective financial situation,
- its interpretation of that situation,
- its political-ideological position regarding the public sector in education.

These three factors are normally spelled out in the macro-economic *structural adjustment policies* and related large-scale education reform strategies through which countries adjust not only their economies but also their education systems to the new realities.

The key purpose of structural adjustment policies in the education sector has been a transition towards 'global educational standards'. This is often done by benchmarking the entire systems of less-developed countries to those of economically more advanced ones. Unfortunately, governments often think that there is one correct approach to adjustment of education and that certain 'global education standards' need to be met if the system is to perform in an internationally competitive way. Research on education reforms and experiences on structural adjust-

ment suggest that governments need to realize that there is more than one way of proceeding on the way to improvement. The major condition for sustainable evolution of public education and cultivation of democratically functioning nation-states is the kind of reform that is based on the principle of *development* rather than *creation*. In creation, according to Sarason (2002), new externally designed solutions are being introduced to solve the existing local problems. In development, on the other hand, the key questions are:

- What is the past of the system?
- What kind of institutions do we want the schools to become?
- What capabilities do individuals and the system need to implement the expected reform?

This tension between development and creation is visible in most education system reforms in Europe and Central Asia region today. More specifically, there are three education policy directions within the more general structural adjustment of state economy and public service that are typical of today's large-scale education reforms. Each of these policies is often implemented in the spirit of creation rather than development in developing and transition countries. Moreover, the following policies are often used to promote market-based reforms and hence characterize the essence of globalization of education: *decentralization*, *privatization*, and *increasing efficiency* of education. *Decentralization* is based on an assumption that stronger self-management allows schools to find optimal ways of responding to local needs and becoming more accountable for outcomes. A recent analysis of decentralization in Central and Eastern Europe show how complicated the concept of delegating power can be in practice (World Bank 2000). *Decentralization per se* can neither improve the quality of education nor increase the productivity of schooling. Evidence shows that for example school autonomy alone, as a form of decentralized education management, has produced no significant gains in student achievement (Hannaway and Carnoy 1993). Indeed, the rationale for decentralizing education is not to increase the autonomy of municipalities or schools, but to reduce the central government's responsibility for financing of compulsory education and to aggregate the responsibility of financing of education to local taxpayers and governments. Similarly, the cost-efficiency, competition and impact of private schools have been constant topics of debate among educators. Evidence from the research literature is, however, controversial

(Riddell 1993; Lockheed and Jimenez 1996; Ladd and Fiske 2003). Although cost-effectiveness in private schools may be greater than in public schools, private provision of education through vouchers does not itself improve student learning. For example, data from recent education reforms in Chile show that a large-scale and systematic privatization of public school management has not made a significant contribution to school improvement in general (Carnoy 1997; Mizala et al. 2002; Hsieh and Urquiola 2003). Furthermore, research evidence from New Zealand, Chile and even United States indicate that the common belief that increased competition among schools due to parental choice and related financing structures leads to improved teaching and learning is either unclear, or is simply not true (Belfield and Levin 2002; Ladd and Fiske 2003).

### **A Tentative Typology of Global Education Reforms**

Countries in transition often redesign their policies to align education systems to what they believe to be current international practice. Demand for technological literacy, flexibility of knowledge and skills, and ability to adjust to new labor market needs require teachers to teach new things in new ways. Globalization is hence catalyzing education reforms around the world. However, the thinking behind these reforms varies greatly from one system to another. First and foremost, there is no one common denominator for these reforms, but a closer analysis identifies some typical trends. Looking at the basic values, assumptions, and purposes of various education reforms, four different reform categories can be identified. They constitute a tentative typology of education reforms during the process of globalization that I have designed based on recent thinking on education reforms (see for example Carnoy 1999; Sahlberg 2002; Fullan 2003). Some aspects of types of reforms may overlap and this categorization is not necessarily comprehensive. The four education reform categories are (see Table 1): equity-oriented reforms, restructuring-oriented reforms, financing-oriented reforms, and standardization-oriented reforms.

The main intention of *equity-oriented education reforms* that were typical in the 1960s and 1970s is to promote social equity and increase economic opportunity. In most countries educational attainment determines individuals' social status as well as their capital earnings, which makes the equalizing of access to good education an important factor in closing the gap between the socio-economic groups in society (Carnoy

Table 11: Tentative typology of education reforms

Type of reform	Purposes	Focus of change	Elements
<i>Equity.</i> Reforming to strengthen education's political role in building democratic and social mobility, social equalization, and equal opportunity.	Increase equity of economic and social opportunities by focusing on equal access for all students at least to good basic education.	Shifting public spending from higher to lower levels of education. Expanding the conception of quality of education beyond the knowledge and skills in core subjects. Moving towards integrated curriculum. Emphasizing teacher professionalism.	Extending high-quality basic education to the lowest-income groups, including youth and adults who do not have the basic knowledge and skills. Reaching girls and rural populations, children with special needs, at-risk children, marginalized groups and refugees.
<i>Restructuring.</i> Reforming education as a globally normalized social and political system based on internationally shared core values and assumptions.	Improve education service delivery by adjusting current system's structures to the requirements of global economic standards and socio-political climate.	Decentralizing education management by providing schools with more decision-making authority. Privatizing education management through private schools, vouchers and other solutions.	Realigning the length of compulsory education and secondary education to international norms. Reforming curricula to reflect changes in society (mainly ICT and foreign languages) and establish new agencies for quality assurance and control.
<i>Financing.</i> Reforming education system to adjust to public sector budget cuts and reducing resources available for financing education.	Increase educational cost-effectiveness by reducing public spending on education and improve the efficiency of resource use and the quality of education.	Reforming education through increasing pupil-teacher ratio, optimizing the school network and rationalizing education management.	Decentralization of education management, increasing school choice and privately managed education provision through vouchers and charters. Introducing local level accountability structures to improve cost-effectiveness.
<i>Standardization.</i> Reforming education by setting unified standards for teaching and learning and conducting related external monitoring and testing to justify the achievement of these standards.	Improve the quality of education through setting higher standards and closer standardized monitoring and evaluation of student achievement, and teacher performance.	Reforming education through tightening inspection, performance-related pay, pre-determined performance standards and publicly made test results.	Creating performance standards for students and teachers and indicators that help to assess the achievement of these standards. Closely scripted curricula and regular testing of students often characterize the outcomes of this reform category.



1999). Equity-oriented reforms often emphasize strengthening the political role of education in building democratic justice, social mobility and equal opportunities for all citizens. These reforms typically focus on shifting public spending from higher to lower levels of education, rural/urban balance, gender issues, broadening the conception of educational quality beyond knowledge and skills in core subjects and moving towards a more integrated curriculum and inclusive organization of teaching. Consequently, the popularity of equity-oriented education reforms has decreased recently because of the perceptions that investing in equity may not show an increase in test scores and, hence, may not give sufficient attention to economic growth. Instead, market-based solutions have often been seen as potential alternatives to conventional public education in improving the quality and cost-effectiveness of educational provision. Some fear, among them many teachers, that in this race for higher standards only the fastest and strongest will succeed while the weak either fail or lose their hope when being left behind.

*Restructuring-oriented education reforms* that emerged in 1980s are based on structural alignments that aim to 'normalize' the current system with international practice. The basic assumption of such reforms is that all education systems that function effectively and produce high quality learning should share the same core values, assumptions and operational principles. The most typical indicators of economically and administratively adjusted education systems are pupil-teacher ratio, class-size, school-size, time allocation per subject, education expenditure per capita and length of compulsory education. Recently, as a consequence of restructuring reforms especially in transition economies, several institutional rearrangements have occurred, such as the emergence of independent assessment and examination centers, privately managed education institutions and accreditation agencies.

*Financing-oriented education reforms* typically aim at reducing the share of public financing of education by looking for ways of users to pay for their education. As globalization increases competition among nations, national economies have to adjust themselves to the new global economic structural reality. In practice, since education is a significant proportion of public sector spending, reducing public spending inevitably means also shrinking education budgets financed from public funding. This, in turn, leads governments to seek financing outside public budgets or to reduce the unit costs within the education sector, or both of these. Financing-oriented reforms have had three direct implica-

tions for education. First, shifting public funding from higher to lower levels of education. Higher education is typically high-cost, and basic education is relatively low cost in terms of student expenditures. The shift of spending from higher to basic education would therefore enhance opportunities for large numbers of primary students at the expense of subsidizing a relatively elite group of families who could bear the costs of university education privately anyway (Carnoy 1999). Second, this leads to privatization of secondary and higher education. Many governments in the Central and Eastern European regions increase privately financed education in order to overcome the problems of low education financing portfolios in the State budgets. Third, reduction of the cost per student is most often done by increases in class-sizes at all levels of education. According to the economists' estimates, countries that have fewer than 45 students in a class could save significant public resources by increasing class sizes over time (World Bank 1995). In the New Independent States, for example, the pupil-teacher ratio is typically around 10 : 1, whereas the OECD average is 15 : 1.

*Standardization-oriented reforms* that have appeared since the 1990s are based on the assumption that in the competitive economic and social contexts the quality of education and productivity of labor can best be improved by setting high performance standards for teaching and learning and then measuring whether these standards have been met. Standardization-driven reforms were a catalyst for the introduction of international test comparisons. Students' test scores in TIMSS and PISA have raised public interest in the performance of education systems globally. A consequence is that the complex interconnections between educational achievement and economic success are oversimplified. In competition-intensive global markets, schools have been urged to reach higher standards. This has led to focusing on education reforms that are based on greater standardization and related micro-management of teaching and learning. As Hargreaves (2003) has argued, the most commonly used reform strategy is:

- a closely scripted curriculum with predetermined attainment targets or learning standards,
- aligned testing mechanisms that measure the extent to which these standards have been achieved,
- tightened external inspection to control teachers' and schools' performance,

- performance-related compensation among other reward-sanction structures.

The types of education reforms described in Table 1 rarely occur independently from each other. The internal logic of that typology indicates increased market-orientation of education reform as one moves top-down in Table 1. Therefore, it is normal that two or more of these reforms are implemented simultaneously in large-scale, system-wide efforts to align education to new economic or political situations and thereby improve the quality of education and increase the productivity of labor. Moreover, similar changes may occur within each of these reform categories but for different reasons. For example, changing the curriculum has been almost a fit-for-all cure in education reforms of any type, teacher in-service training is proposed as a means in most reforms, and resource implications of reforms have often impacted on the financial arrangements of education.

Has globalization catalyzed one or some of these education reforms more than others? A Canadian research team presented a synthesis of efforts to reform education systems during the era of globalization. They refer to 'a new official orthodoxy of educational reform' occurring primarily in predominantly Anglo-Saxon countries (Hargeraves et al. 2001). This strategy is rapidly being adopted also in developing parts of the world due to development aid offered by industrialized countries. In many cases, especially in the Europe and Central Asian region, policy, strategies and models of educational reforms created in developed countries are exported to the less-developed transition countries. The new educational orthodoxy is to a large extent a market-based offspring of globalization and, according to Hargreaves et al. (2001), has the following major components:

- *Higher standards* of learning for all students, except for those who have the most severe mental or physical dysfunctions.
- *Deeper learning*, which shifts the focus of teaching away from a presentation-recitation mode of instruction towards teaching for conceptual understanding, problem solving, and shared intelligence that are all essential for successful participation in the knowledge society or knowledge economy.
- *Centralized curricula* that ensure common and consistent coverage of what every student should know and be able to do, often in the form of standards or pre-scripted attainment targets.

- *Literacy and numeracy* as prime targets of reform and which also determine the success or failure of pupils, teachers, schools, and entire education systems.
- *Indicators and attainment targets* of student achievement and curriculum planning that enable teachers and others to be clear whether these standards have been reached or not.
- *Aligned assessments* that are tightly linked to the prescribed curriculum, learning standards, and indicators making sure that teachers focus on high learning achievements for all students.
- *Consequential accountability* where the school performance and especially raising the quality of education, are closely tied to the processes of accreditation, promotion, inspection and ultimately funding and rewarding (or punishing).

This educational reform ideology has been widely accepted, both politically and professionally. In principle these elements of education reform, when implemented successfully, promise significant progress of education, especially in improved quality of education and better opportunities for all students to learn in school. In many cases, as a consequence of this new global education reform movement, the introduction of various educational standards has become common in modern education development. What has followed is an emergence of learning standards for students, teaching standards for teachers, assessment and curriculum standards for educators, with related indicators, criteria and attainment targets. Although some early gains have been recorded, the standardization movement in schools has not-welcomed backwash effects as well that are discussed in the next paragraphs (Fullan 2003).

### **Globalization as Standardization**

A clear impact of globalization is increased competition, not only in economy and trade, but also in other sectors, including education. The fundamental assumption is that boundless business opportunities and the free movement of labor are promoting efficiency and effectiveness in private production as well as among basic public services. Previous education policies have adopted values, principles and management models of market economy, for example, curriculum models in the early 20th century based on scientific management by Frederick W. Taylor. Today again, as a response to the economic, political and cultural globalization process, education systems are seeking governance and operational

models from the business world. As a result, the number of privately managed education institutions has increased, school choice within public education has been made possible, local management and decision making are becoming common due to decentralization, and schools and teachers have been made accountable for teaching and learning. In some instances these neo-liberal and sometimes even market fundamentalist education policies have created what could be described as 'schooling apartheid' in which good schools get better and poor schools get worse or are even abolished due to their failure to perform according to externally set standards. Many good schools have gained their reputation by having a better intake of students and by simple raw student test result data that have been used in comparing schools in the media in the name of accountability.

Focusing on higher economic productivity in national economies is one cause of increased competitiveness in our societies. In the environment where results matter the most, standards are commonly used to determine the quality of these results. Outcomes-based education reform became popular in the 1980s, followed by standards-based education policies in the 1990s first in Anglo-Saxon countries. These reforms shifted the focus of attention from educational inputs, i. e. regulation of teaching, to educational outcomes, i. e. monitoring of learning. As a result, a widely accepted belief among policy-makers and education reformers is that by emphasizing competition among schools and setting clear and high enough performance standards for schools, teachers and students will improve the quality of education, and hence students' learning outcomes. Enforcement of external testing systems to assess how these standards have been achieved has resulted from standards-oriented education reforms. Since the late 1980s, as Hargreaves (2003) writes, 'centrally prescribed curricula, with detailed and pressing performance targets, aligned assessments, and high stake accountability have defined a "new orthodoxy" of educational reform worldwide, providing standardized solutions at low cost for a voting public keen on accountability'. It is easy to see the linkages between what has happened in global economies, politics and societies in general and the mainstream market-based education reform agendas mentioned above.

Efforts to enhance quality, increase productivity and improve cost-effectiveness, have brought standardization in various forms to the world of education. The financing and standardization-oriented education reforms mentioned in Table 1 have dominated education policy discourses

and reform agendas more than have equity- and restructuring-oriented educational development during the last two decades. Schools and teachers have been asked to improve the quality of teaching and learning at a time of increased requirements to spend their time on non-teaching activities in their schools, shrinking education budgets and restricted access to necessary resources. Students' test scores in standardized academic achievement tests have been used as a sole justification for personal success or failure. Student assessment has become a global business in education as schools and local education authorities are forced to spend considerable shares of their education budgets on testing students. What is even more worrying is the shift of teachers' and students' attention from teaching and learning for understanding towards being successful in high stake tests and exams.

Recent research on large-scale standards-driven education reforms seems to suggest that there is a need for a change of course (Fullan 2000). In England and Wales, New Zealand, some provinces of Australia, Japan, Singapore, and even in the United States there are growing concerns about the appropriateness of standardized reform and its real contributions to educate for citizenship and prepare youth for democratic societies and knowledge economies (Oakes et al. 2000; Cuban 2001; Popham 2002; Fullan 2003; Hargreaves 2003). There are indications that over-standardization while resources (both time and money) remain the same are leading to de-professionalization of teachers' work and narrowing curriculum and learning to basic skills in core academic subjects. If that is true, then our standardized schools are not likely to be of much help in developing information societies and helping young people in learning the necessary knowledge, skills and habits of mind that they need in knowledge economies.

Knowledge societies are based on the capacities to share information, build knowledge and create innovations, in other words, to learn. The development of knowledge economies depends on how flexibly the society is able to react to unpredictable changes. Economies that are based on rigid structures and inert minds are not able to succeed and grow. However, many school systems and particularly their secondary schools have become rational, factory-type institutions that impose standardized knowledge on students rather than promote curiosity, creativity and self-actualization. Hargreaves (2003) says that 'the rightful pursuit of higher standards has degenerated into a counter-productive obsession with soulless standardization'. Instead of extending the space for innova-

tive teaching and creative learning in schools, the opportunities for flexibility and risk-taking that are essential in a knowledge economy have been taken away from teachers and students. Education reforms in many countries go under the label 'the way to a knowledge society' but what students, teachers and schools are forced to do often creates new problems rather than solves existing ones.

Education is paramount in helping young people to learn to live together in a secure globalized world. But what kind of education? The Organization for Economic Cooperation and Development (OECD) has envisaged six possible scenarios for the future public education in the knowledge society (OECD 2001). Two 'Status Quo' scenarios of these possible futures of public education presume a strengthening of current arrangements that will result in either more entrenched bureaucracy in school systems or a growing emphasis on market and choice-based models as students and their parents become more dissatisfied with public education. Two other scenarios termed 'De-Schooling' scenarios presume that public schooling will simply diminish because of the lack of enough good teachers, and that the proliferation of innovations will create panic and 'meltdown' in education policies. Alternative solutions, such as non-formal education, distance education and e-learning will gradually replace formal public schooling. Only two scenarios labeled as 'Re-Schooling' assume that public education can be saved and improved. One scenario sees schools developing as learning organizations that will focus on learning and development for the knowledge society. The other scenario sees the school as an activity center in its community that networks with other human development entities, promotes the development of social capital and learning for a good life as well as for productivity in the knowledge society.

### **Teaching and the Knowledge Society**

Two decades of education reforms, as Hargreaves (2003) observes, have led to rigid standardization, commercialized teaching, learning for tests and external control that has casualized teachers in many countries rather than empowered them to teach better. How can our schools then become learning organizations and caring communities? One potential way is to re-think teaching and learning by challenging conventional beliefs of what the knowledge society and knowledge economy require from schools. This re-thinking could constitute three dimensions:

- teaching *in* the knowledge society,

- teaching *for* the knowledge society,
- teaching *beyond* the knowledge society.

As teaching *in* the knowledge society (or economy) is self-evident, let us look at the dimensions of teaching *for* and *beyond* it.

*Teaching for the knowledge economy* is concerned primarily with cognitive learning and is based on three necessary elements. First, schools need to step back to becoming flexible institutions where *carpe diem* is the guiding principle of teaching and learning. Knowledge economies need individuals who can use knowledge, know how to adapt to new situations and be ready to explore the unknown. Second, a creative atmosphere in classroom is a key condition for the emergence of innovations and new ideas during the teaching and learning process. The knowledge economy as a learning system is dependent on innovations. Innovations require creativity and there is no creativity without risk-taking. Across the curriculum, students should learn to develop attitudes and skills that are necessary in social interaction, problem-solving and continuous self-development and learning. Third, individuals should be encouraged to develop collective intelligence and ingenuity. Rarely can only one person master all the knowledge and skills that are required. Successful corporations and communities build on shared knowledge and competences, not only individual mastery.

*Teaching beyond the knowledge economy* means teaching ethics, dispositions and a sense of global responsibility. It is based on four elements that go beyond the bounds of the knowledge economy. First, schools should help young people to develop values and emotions as part of their character development. Second, teaching in school should focus on learning the principles of democracy. Thirdly, students should be guided to commit themselves to group life and become active members of various communities instead of only learning to cope with short-term teamwork. And fourthly, as Giddens (2000) proposes, teaching should cultivate a cosmopolitan identity that means genuine interest in and understanding of other cultures, humanitarian responsibility of self and others and caring for excluded groups within and beyond one's own society.

Teaching in the era of globalization is a challenge to teachers and to education systems. I argue that public education will play an even more important role in social and economic development in the coming years. Reactions to these challenges have remained so far ineffective. Education vouchers, standardizing teaching and learning, intensifying testing, and



making schools more accountable to the public, have not raised the quality of education as expected. If governments want to narrow the learning gap between the more advanced and those who lag behind, to expand educational opportunities for all people and to improve student learning in general, systemic efforts that are backed up by coherent education policies are required. At the time of globalization this means stronger role of education, more public spending on education as well as more effective use of resources allocated for schooling. The evidence shows that those education systems that have strong public education are likely to be more successful in terms of efficiency and quality (Carnoy 1999; OECD 2002).

### Concluding Discussion

The need for new thinking about educational reforms and school improvement is worldwide. The rhythm of change remains fast and unpredictable. Insecurity and uncertainty, that are typical by-products of globalization, create new challenges for schools to prepare pupils for new world realities such as sustainable ecologies or knowledge economies. Schools, when governed and managed well, may provide hope for better security and well being for many more than they do now. As described above, schools have faced the following global phenomena:

*Increased standardization of teaching and learning.* The new global educational orthodoxy together with competition-based education policies has led to *over-standardization* of teaching and learning (Hargreaves 2003). Standardization-oriented reforms that set unified and predetermined expectations in the form of performance standards underestimate the complexity and dynamics of knowledge economies. Standards are by definition static. Testing and measurement systems that are integral elements of standardized education systems diminish the curriculum and limit teaching to cover the core subjects and specific content areas that are tested (Popham 2002). As experience from highly standardized school systems suggests, teaching becomes technical implementation of predetermined sequences and learning a game of memorizing what was taught until it is externally tested.

*Public resources for education are not likely to increase.* Globalization increases international economic competition, which automatically puts pressure on decreasing public spending in state budgets (OECD 2003). As a consequence, education ministries have been forced to look for more efficient and cost-saving arrangements for delivering mandatory edu-

cational services. Teachers' salaries remain lower than salaries of similarly educated professionals in society. Class-sizes and school-sizes are increasing and financing of teacher professional development is shifting from public authorities to schools and teachers. At the same time, the development of modern teaching and learning tools requires larger budgets than before. Finally, cultural diversity in schools and the widening spectrum of children with various special needs call for intensified human development and appropriate provision of support to these individuals.

*Demoralization among teachers and decreasing motivation for schooling among pupils.* According to recent studies, teacher burn-out, dissatisfaction with work, lower morale and increasing early retirements have been consequences of tightening central control over teachers' work, expanding competitiveness within and among schools and weakening teacher autonomy (Perie et al. 1997). It may not be fair to blame globalization for all these illnesses in the teaching profession but, as a consequence of the adopted educational reform models – especially 'the new educational orthodoxy' and thus increased competition among schools – *de-professionalization* of teaching has become an increasingly global illness in education systems that will have serious future effects in medium and long term perspectives (Hargreaves 2003; Law 2003).

In order to cope with these impacts of globalization on schools, alternative directions are needed. Often inconsistent education reforms are due to the misinterpretation of the essence of globalization and its impact on education. Some of the proposed educational responses to globalization, such as standardization of teaching and learning, privatization through alternative education provision mechanisms and promotion of open competition between schools, have only recently been more widely questioned. Education policies and reform designers need to pay closer attention to the issues that have been suggested by many of the leading thinkers of educational development (Cuban 2001; Sarason 2002; Hargreaves 2003; Fullan 2003).

There are three different dimensions that schools have to consider when planning their roles in the globalizing world. Schools need to find the most effective ways to teach their pupils *in* the knowledge society. Then they have to design their curricula and pedagogical arrangements to help pupils to learn *for* the knowledge society. Finally, school should help young people to protect themselves from the negative side of globalization, such as marginalization and inequality between rich and poor,

by educating them *beyond* the knowledge society. This entails developing the values and emotions of young people's character, building understanding and commitments to families, communities and group life and cultivating a cosmopolitan identity.

Furthermore, school improvement should make better use of teachers' professional communities. Instead of standardizing teaching by creating more barriers to teachers' genuine creativity, emotional involvement in their students' development and collegial professionalism, teachers should be helped by providing them with time and resources to learn, plan and reflect together about their work in school. Some governments are now shifting the focus of their policies and education reforms from standardization of teaching and learning towards developing professional learning communities of teachers and towards emancipating the professional potential of teachers and principals who are able to find new solutions to maintaining the quality of learning. Promotion of such professional communities is based on four elements (Hargreaves 2003):

- collaborative work and discussion among the teachers and principals in school;
- focus on teaching and learning within that professional collegiality;
- collecting data from classrooms and schools to evaluate the progress and challenges in the educational process;
- rearranging time in schools.

It is obvious that globalization provides new opportunities to solve world-wide problems and at the same time it creates new challenges that needs to recognized. One visible trend within education is homogenization of the content of teaching and standardization of the expected learning in schools. Many governments are currently searching for optimal ways to respond to these challenges. According to the experts the future scenarios are not promising. It seems that public education is still the most powerful means to secure the development of democratic civil societies, productive knowledge economy and sustainable global security. Each of these national and global educational goals can be achieved only when education truly serves the public good and provides learning opportunities for all students. Teaching and learning that are based on the values of democracy, common good and equal opportunities can cultivate these features of our societies. The evidence from large-scale education reforms suggests that improving student learning or expanding opportunities to good education requires systematic efforts and coherent

policies by the public sector. According to these experiences, to do that means not only bigger but also more effective public education spending. To do this successfully, flexibility, creativity and risk-taking will be the key qualities of both institutions and their individuals.

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## *Intellectual Capital and Knowledge Management*

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- Knowledge and people management
- Measuring intellectual capital and its economic effects
- Intellectual capital and informatics

### *Conference Aims*

- To discuss the role and importance of education, as well as its impact on creating the intellectual capital of individuals and the society
- To analyse different approaches to managing intellectual capital (of the society, undertakings and individuals)
- To analyse models for measuring intellectual capital and to discuss the economic effects of intellectual capital
- To analyse diverse aspects of intellectual capital and informatics

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