



Eurofound

Restructuring in SMEs: Slovenia

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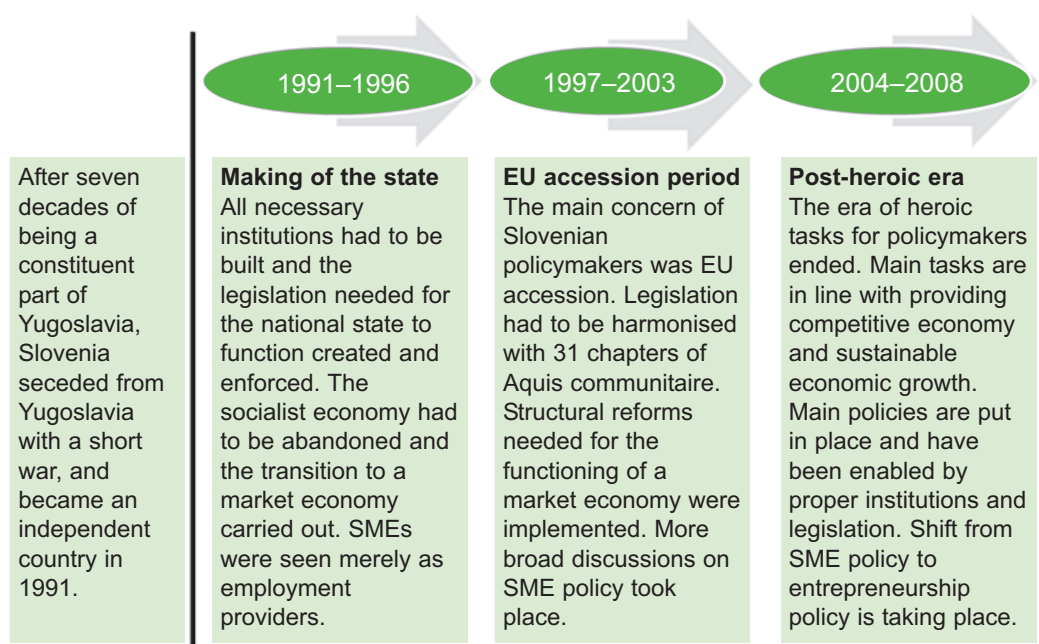
Introduction

As in many other countries, in Slovenia the majority of restructuring measures are targeted at companies experiencing serious performance problems – loss of markets, financial problems, reduced employment or being at the edge of bankruptcy. The majority of publicly discussed restructuring cases involve large companies and companies in difficulties. SMEs (small and medium-sized enterprises) are not the focus of public interest to the extent they deserve. Since SMEs face very diverse problems in dealing with different restructuring types (as described in this report), they need appropriate attention and support. Nevertheless, restructuring in SMEs is a permanent feature of the Slovenian economy.

To give an overview of restructuring processes in Slovenian SMEs, we identify important features of the political and economic context Slovenia has faced in the last two decades. The first part of the introduction describes macro-level restructuring processes as well as key economic indicators, helping to understand better the wider framework within which SME restructuring takes place. To provide insight into micro-level developments in SMEs, we present business statistics comparing Slovenia's SME sector with the EU27. Since family businesses constitute an important share of Slovenian SMEs and face specific restructuring issues regarding business succession, the introduction provides an estimate of family enterprise numbers by size class.

Since starting life as an independent state in 1991, Slovenia – with a population of two million people – has had to make two fundamental restructuring transitions: to an independent country and from socialism to capitalism. At the dawn of this new era, the economy was characterised as a 'socialist black hole' (Vahčič and Petrin, 1990: 69) because of the almost complete absence of small companies with 10–100 employees. By restructuring the Slovenian economy, this black hole was filled in two ways: from the top down with spin-offs and the remnants of bankrupt large companies; and from the bottom up with emerging start-ups and growing micro and small companies contributing to employment. Macro restructuring processes can be grouped into three characteristic periods (Rebernik and Bradač, 2011) (Figure 1). The first period, 1991–1996, involved establishing the necessary institutions and introducing legislation forming the national state and a fully fledged market economy. The second period, 1997–2003, was heavily characterised by the EU accession process and harmonising Slovenian legislation with the *Acquis communautaire*. The third period, after 2004, saw the establishment of a more coherent SME and entrepreneurship policy.

Figure 1: *Characteristic periods in the development of SME and entrepreneurship policy in Slovenia*



Source: Rebernik and Bradač, 2011, p.151

Economic indicators show that transition processes are still not complete, with the recent recession slowing them down further (Kedmenec et al., 2011) (Table 1). The global financial and economic crisis seriously affected the Slovenian labour market, with numbers in paid employment decreasing significantly. The employment rate in 2008 was 68.8% (Kresal, 2010). In 2010 the employment rate declined for the second year in a row but remains above the EU average. It was 66.5% in the second quarter of 2010. The female employment rate has always been higher than the EU average (63.7% in the second quarter of 2010, having declined by just over one percentage point since 2008), while the male employment rate has only caught up with the EU average in the last three years (69.1% in the second quarter of 2010, having declined by nearly four percentage points since 2008). Particularly, the employment rates of young people aged 15–24 and people aged 25–54 declined in 2009 and 2010, while the employment rate of those aged 55–64 is steadily increasing. Also in 2010, the employment rate mainly dropped due to the contraction of formal employment, which was most pronounced in manufacturing and construction (UMAR, 2011: 146).

Table 1: *Main economic indicators in Slovenia*

Main economic indicators	
Real GDP growth (%)*	-8.1
GDP (in € mil.)*	35,870
GDP per capita (€)*	17,657
Consumer price inflation (%)*	0.9
Unemployment rate (%)*	5.7
Total population (in millions)*	2.0

* Bank of Slovenia, Statistical Office of the Republic of Slovenia (data for the year 2009)

Source: *Kedmenec et al., 2011*

SBA (Small Business Act) fact sheets 2010–2011 show that Slovenia's SME sector closely resembles the EU's (Table 2). The most notable deviation from the European pattern is that, while employing fewer people – 64.2% of the workforce in the business economy compared to an average of 67% in the EU – Slovenian SMEs produce proportionately higher value added (63% vs. 58%). This means that the labour productivity differential between small and large businesses is smaller in Slovenia than in the EU.

The sectoral distribution of Slovenian SMEs also resembles the European average, with only slightly higher concentrations of SMEs in manufacturing (15% vs. 11% in the EU) and construction (19% vs. 14%) and a lower share of small and medium-sized businesses in trade (22% in Slovenia and 33% in the European Union). Like all EU economies, Slovenia has been affected by the global financial crisis and is now gradually recovering, along with the rest of the EU. The crisis has taken its toll on Slovenian SMEs, temporary halting the positive long-term trend in their contribution to employment and to economic value added. The workforce employed by SMEs experienced a sudden drop from 2007 to 2008, but has since stabilised. Behind this aggregate picture, sectoral trends differ, with SMEs in manufacturing and trade being the worst hit, having laid off 16% and 14% of their employees respectively after the sharp drop in external demand.

Table 2: *SMEs in Slovenia and EU27 – basic figures*¹

	Number of enterprises			Employment			Value added		
	Slovenia		EU27	Slovenia		EU27	Slovenia		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	99,057	92.6%	92.1%	174,480	27.8%	29.8%	4	22.3%	21.6%
Small	6,381	6.0%	6.6%	110,816	17.7%	20.4%	4	19.1%	18.9%
Medium-sized	1,282	1.2%	1.1%	117,696	18.7%	16.8%	4	21.1%	17.9%
SMEs	106,720	99.8%	99.8%	402,991	64.2%	66.9%	11	63.2%	58.4%
Large	253	0.2%	0.2%	224,748	35.8%	33.1%	7	36.8%	41.6%
Total	106,973	100.0%	100.0%	627,739	100.0%	100.0%	18	100.0%	100.0%

Source: *EU, SBA Fact Sheet Slovenia, 2010–2011, p.1*

For more detailed insight into the Slovenian economy, Table 3 provides key data for all Slovenian enterprises and independent entrepreneurs in all NACE activities in 2010. Information is provided for various enterprise class sizes – enterprises with 0 (zero) employees, or 1–9 employees (both of which are called microenterprises), those with 10–49 employees (small businesses), those with 50–249 employees (medium-sized enterprises), and those with 250 or more employees (large enterprises). Information on employee numbers includes self-employed entrepreneurs in enterprises in which the legal status is a natural person.

 Table 3: *Key data by class size in 2010*

Key data for all Slovenian enterprises and independent entrepreneurs in all NACE activities that were doing business in 2008	Class sizes						Total
	SME					Large	
	Micro		Small	Medium	SME	More than 250	
	0	1–9	10–49	50–249			
Number of enterprises	19,900	100,074	5,571	1,192	126,737	228	126,965
Share of enterprises per class size (in %)	15.7	78.8	4.4	0.9	99.8	0.2	100.0
Number of employees	n/a	168,413	108,202	121,186	397,801	168,308	566,109
Share of employees in class size (in %)	n/a	29.7	19.1	21.4	70.3	29.7	100.0
Average number of employees per enterprise	n/a	1.7	19.4	101.7	3.1	738.2	4.5
Average turnover per enterprise (in €1,000)	77	148	2,874	15,721	403	116,362	611
Average added value per employee (in €)	n/a	23,226	35,318	35,460	30,854	42,044	34,181
Average gross profit per employee (in €)	n/a	-312	1,117	233	35	20	31
Average gross profitability of capital (in %)	3.3	-0.9	1.9	0.3	0.1	0.0	0.0
Average share of capital in financing (in %)	27.8	32.7	34.4	38.0	34.2	46.2	38.3
Average profitability (in %) [(Added value - labour costs)/Added value*100%]	94.6	46.5	37.8	36.6	41.3	42.8	41.9
Average share of labour costs in added value (%)	5.4	53.5	62.2	63.4	58.7	57.2	58.1

Source: *Močnik 2012 in Širec and Rebernik 2012. According to data collected by AJPES*²

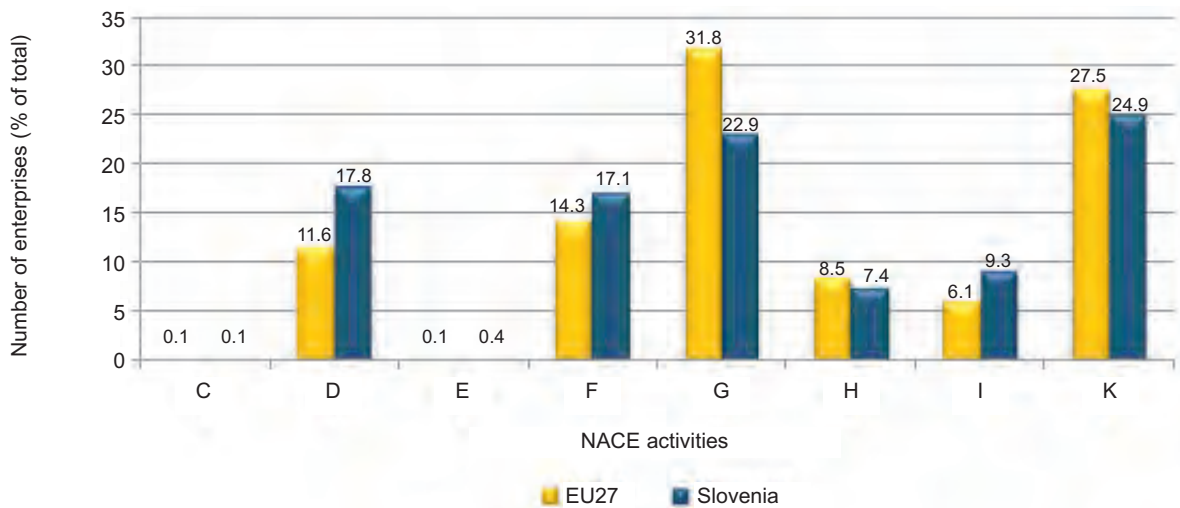
¹ Estimates for 2010, based on 2002–2007 figures from the Structural Business Statistics Database revised (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the ‘business economy’ which includes industry, construction, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data do not cover agriculture, forestry, fishing or largely non-market services such as education and health.

² AJPES – Agency for Public Legal Records and Related Services.

To obtain a more precise international comparison, we present Eurostat Structural Business data for the non-financial business economy for the EU27 and Slovenia, analysing the number of enterprises and the number of employed persons. The non-financial business economy, encompassing industry, trade, and services, excludes agriculture, public administration, and other non-market services as well as the financial sector. It includes NACE sections C to I and K. Data were aggregated for the EU27 and for Slovenia.

In Slovenia, more than 100,000 enterprises operated in 2007. The biggest share (around a quarter) was assigned to real estate, renting, and business services (NACE K) (25%) and trade, repair of motor vehicles, motorcycles, and personal and household goods (NACE G) (23%). In Slovenia, manufacturing (NACE D) was the third biggest activity, with almost one-fifth of all enterprises in 2007. Construction (NACE F) ranked fourth at 17%. As in the EU27, the smallest industry group operated in mining and quarrying (0.1% of enterprises) (see Figure 2).

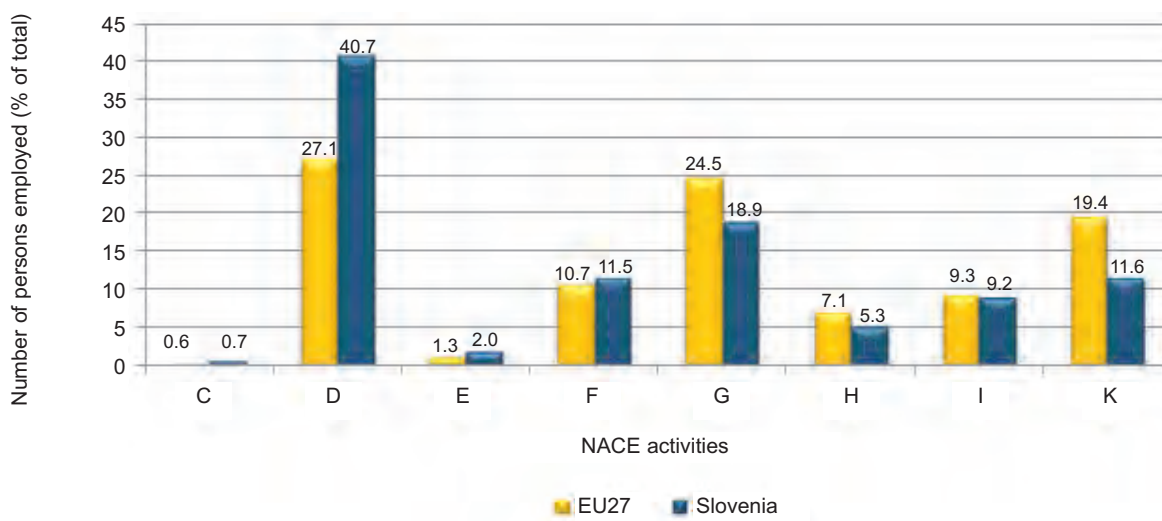
Figure 2: Number of enterprises in NACE activities in EU27 and Slovenia, 2007



Source: Močnik 2010b. According to data collected by Eurostat

In 2007, 131 million people were employed in the EU27, to which Slovenia contributed 572,200. In the EU27, most were employed in manufacturing (27.1%), whereas in Slovenia the figure was much higher at 40.7%. Second, with 108,000 people (18.9%), was trade, repair of motor vehicles, and personal and household goods. Real estate, renting, and business services – the third biggest employer in Slovenia – employed 11.6% of the people, a similar share (11.5%) as construction (Figure 3).

Figure 3: Number of persons employed in EU27 and Slovenia, 2007



Source: Močnik 2010b. According to data collected by Eurostat

Depending on definition and sampling methods, estimates of the share of family enterprises in Slovenia vary. Nevertheless, studies confirm the economic importance of family businesses in the Slovenian economy. Duh and Tominc (2006) estimated the number of family enterprises in different size classes based on business size data and the size structure of family enterprises in the sample. Micro family enterprises prevail in Slovenia (Table 4). The sample consists only of SMEs; therefore, no data or estimation for large family enterprises is available. Nor is data available on changes in family enterprise size over time.

Table 4: Estimated number of family enterprises in Slovenia ⁴

Size class (number of employees)	Number of enterprises in Slovenia	Number of enterprises in the sample	Number of family enterprises in the sample (in %)	Estimated number of family enterprises in Slovenia
Micro enterprise: 0–9 employees	87,143	290	134 (46.2%)	40,260
Small enterprise: 10–49 employees	4,641	22	14 (63.6%)	2,952
Medium-sized enterprise: 50–249 employees	1,149	3	2 (66.7%)	766 ⁵
Total	92,933	315	150	

Source: Duh and Tominc, 2006

⁴ The number of enterprises in Slovenia is based on official statistical data published in Slovenian Entrepreneurship Observatory (Rebernik et al., 2004, 9).

⁵ The estimation of the number and share of medium-sized family enterprises in Slovenia should be considered carefully because of the small number of medium-sized enterprises in the sample. More detailed research of medium-sized enterprises is needed in order to find out the share of medium-sized family enterprises.

Family businesses are mainly sole proprietors or limited liability companies; other legal forms are rare. Family enterprises are mostly micro or small enterprises (with up to 49 employees) (Duh and Tominc, 2006; Glas et al., 2005), even though employment estimates in family enterprises vary due to sampling methods. Duh and Tominc (2005) show that family SMEs have, on average, more employees (24.79 employees) than non-family enterprises (18.85 employees), but the difference is not statistically significant ($p > 0.05$).

The report proceeds as follows. Section one presents research on six types of restructuring. Section two describes drivers of restructuring, focusing mainly on internationalisation and outsourcing. Section three deals with anticipation, planning and preparation of restructuring, presenting statistical data relevant to restructuring and preparing forecasts on economic, sectoral and unemployment trends. Special attention is given to planning and preparing family business succession, and the factors influencing merger and acquisition processes as well as problems related to succession. Section four summarises the main challenges and constraints SMEs face in restructuring. Section five presents data on business support from public and private sources. Section six describes organisational effects with special emphasis on businesses receiving state aid support for restructuring and provides insights into the contrasting performance of Slovenian exporters and non-exporting companies of different sizes. Employment effects are presented on the basis of cases reported by the European Restructuring Monitor (ERM). The final section summarises the findings and policy issues.

Relevance of different types of restructuring for SMEs

Overview

Available data sources cover different types of SME restructuring in Slovenia very unevenly. We find two reasons for this: first, as a small country, Slovenia has smaller sets of these different kinds of restructuring, and second, few Slovenian researchers have investigated restructuring systematically. We have not found any evidence on relocation. For some types of restructuring data can be found but it is not SME-specific (for example, offshoring/localisation, government restructuring programme). Solid evidence, however, was found for outsourcing, bankruptcy and closure, internal restructuring and, partially, for mergers/acquisition.

Relocation

No evidence has been found for SME relocation.

Outsourcing

According to studied sources, research on outsourcing in Slovenia occurred later than in other countries. Slovenian authors have discussed SME outsourcing of certain functions, for example, finance and accounting (Bergant, 2004; Kavčič and Slapničar, 1998; Horvat, 2003), logistics (Ogorelc, 2001; Ogorelc, 2002; Jakomin, 2006; Veselko and Jakomin, 2004; Logožar, 2004) and information systems (Pustatičnik, 2001; Peljhan, 1999; Werber, 2005), although mainly on a conceptual level.

Bradač (2009) studied 154 SMEs with 10–249 employees in 2007 in two industries – manufacturing (NACE D) and real estate, renting, and business (NACE K), in accordance with the standard classification of activities from 2002. The sample comprised 69% of manufacturing respondents (NACE D) and 31% from the K classification. Most businesses (79%) were small (10–49 employees) and 21% were medium-sized (50–249 employees). Outsourcing most commonly involves legal (79.9%) and other services (73.4%); the least outsourced activities are purchasing (10.4%) and administration (3.3%) (Figure 4).

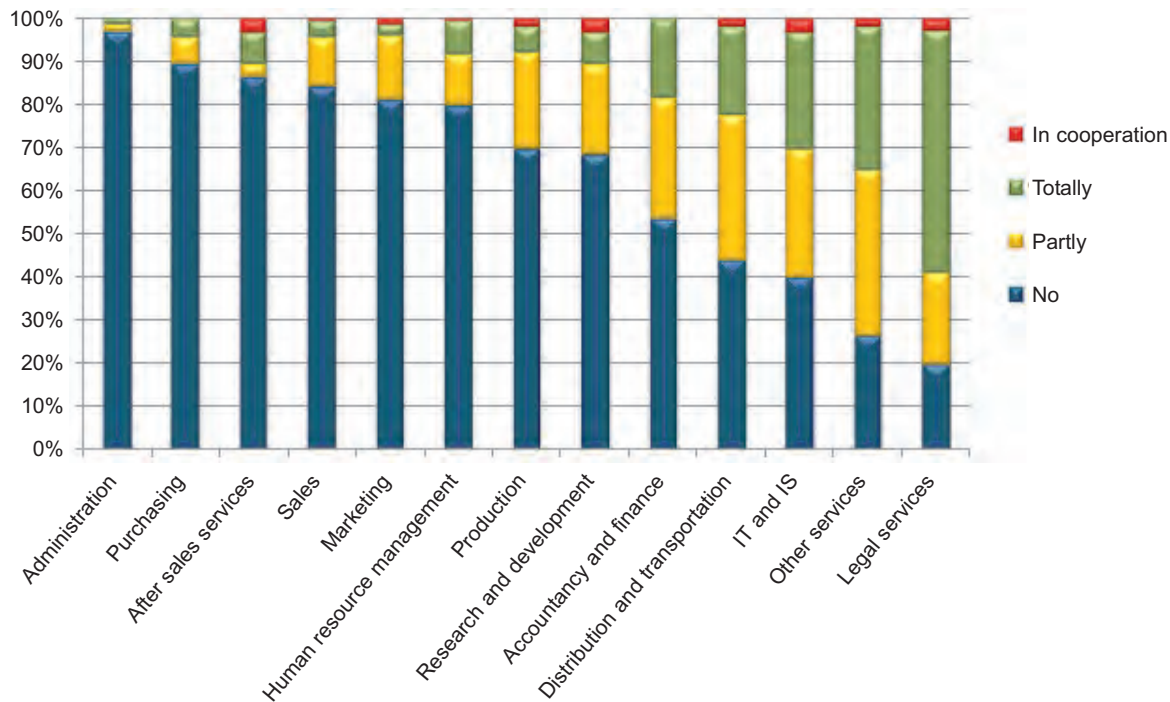
Bradač and Širec (2009) stated that Slovenian SMEs outsource activities partially⁶ and totally – much less in cooperation.⁷ Core activities tend to be outsourced partially and in cooperation more often than support activities, which tend to be outsourced totally. Slovenian SMEs mostly outsource activities to micro and small companies, a consequence of negotiating power dependent on company size. Remarkably, SMEs outsource core activities to large companies more often than support activities. Large companies have more accumulated knowledge and resources than small companies, and offer access to new knowledge and faster development of key business areas, which enables them to achieve

⁶ Partial outsourcing means that the outsourcing partner performs only parts of certain activities, and is intended to complement internal SME resources which are often over-utilised or utilised unevenly. SMEs partially outsource activities rather than acquire new resources.

⁷ Outsourcing activities in cooperation refers to activities carried out jointly, normally with joint resources. Participating companies must be strongly engaged, so it is more characteristic of complex activities, which are also more risky, and the results are often not specified in advance.

competitive advantages. For the same reason, companies outsource core activities to two or more service providers more often than support activities. With a greater number of outsourcing providers for one core activity, companies ensure the undisturbed implementation of these activities while greater competition between providers improves service quality. Moreover, the duration of outsourcing varies between support and core activities. Support activities are commonly outsourced long-term, while core activities tend to be outsourced short- and medium-term.

Figure 4: *Outsourcing of particular activities by Slovenian SMEs*



Source: *Bradač and Širec, 2009: 67*

The main weakness of SME outsourcing arises from using providers from Slovenia. This finding, however, is consistent with the low degree of internationalisation of Slovenian SMEs. Arguably, this has a negative impact on competitiveness and innovation, which are still at a low level. More detailed investigation of drivers of restructuring with respect to outsourcing activities is provided in section 2 where we present reasons for, and benefits of, SME outsourcing activity.

Offshoring/delocalisation

No specific evidence was found of SME offshoring/delocalisation. However, we did find sources that incorporate large as well as medium-sized Slovenian companies. The first part of this section gives an insight into the 2001–2009 period; the second part presents plans for international sourcing in Europe for the period 2007–2009. Some of these findings can be generalised and are relevant for SMEs.

Eurostat (2009) argues that globalisation has pushed many enterprises to adopt international sourcing as a business model. Data on international sourcing shows increasing dynamics of this operation mode in Slovenia from 2001 to 2009 in the number of enterprises, host countries involved and activities sourced. Eurostat (2009) revealed a sequential pattern following the Uppsala model predictions, showing the importance of previous internationalisation experience, like export or foreign direct investment (Burger et al., 2010).

The most frequently used host destinations were Serbia and Croatia, followed by Bosnia and Herzegovina, Germany and Austria. The geographical distribution of international sourcing activity is influenced by proximity (cultural and physical) and historical ties. Čirjakovič (2009) showed that the main motivations for international sourcing were improved competitiveness, access to new markets, market position and reduction of costs. Slovenian firms estimated that international sourcing had a positive impact on their operation and contributed to their competitive advantages.

The magnitude and impact of international sourcing are difficult to measure as no harmonised, comparable statistics are available. Twelve European countries⁸ have launched an ad-hoc survey to establish statistical evidence of the international sourcing of both core and support business functions. According to the Eurostat survey on plans for international sourcing in Europe in 2007–2009, a significant share of Slovenian enterprises (5.5%) reported plans for international sourcing. It needs to be emphasised that the study refers to enterprises with no international sourcing but with plans to do so during 2007–2009. Manufacturing enterprises are more willing and prepared to source internationally than firms in other sectors. Slovenia reported relatively big differences in planned international sourcing between manufacturing (9%) and other sectors (1.8%). While enterprises from the most (investigated) countries plan to source their manufacturing activities internationally within the EU27, Slovenia is giving priority to other European countries.

Enterprises in most countries investigated plan to source their core business functions internationally outside the EU27 while for their support functions international sourcing is planned within the EU27. Slovenian enterprises on the other hand plan to engage in international sourcing for both core (65.8%) and support (45.8%) business functions outside the EU27.

Bankruptcy/closure

When a company isn't creating value for the owner or shareholders any more, either because of changed economic circumstances (new competition, a reduction of demand, increase of costs) or because of a personal decision by the owner (restructuring, retirement, disinterest for further business), companies often decide to cease operations. In the normal economic cycle, companies with no business opportunities exit the market.

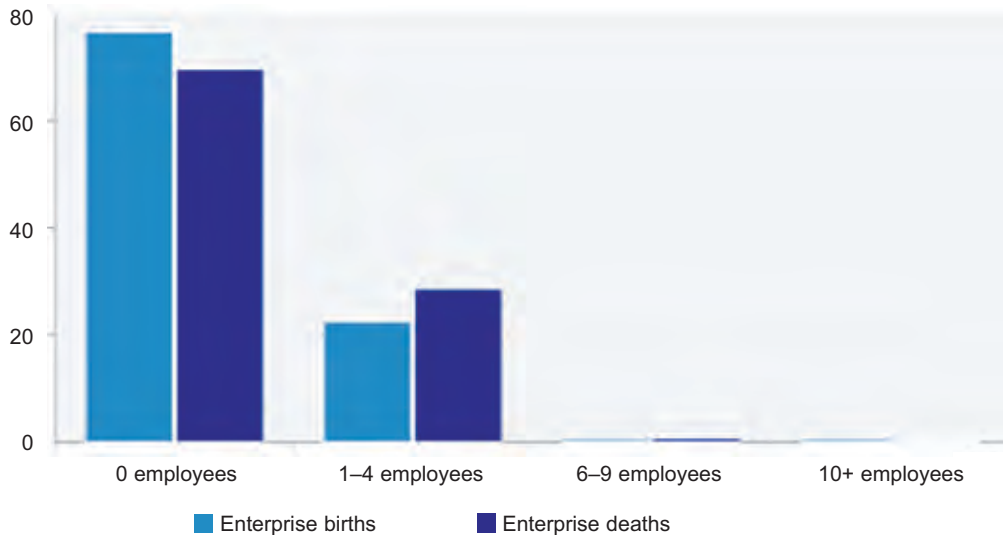
Business demography data show that in 2009, 16,228 enterprise 'births' and 9,034 enterprise 'deaths' were registered in NACE activities B–S⁹ in Slovenia. Most births took place in professional, scientific and technical activities (18.4%), followed by construction (15.8%) and wholesale and retail trade, repair of motor vehicles and motorcycles (15.8%). Most deaths were recorded in construction, wholesale and retail trade, repair of motor vehicles and motorcycles and professional, scientific and technical activities (Matek, 2011).

Looking at enterprise birth/death by size class, enterprises without employees were the largest group: 76.3% of births were in this class, with 22.6% of enterprises with 1–4 employees. Among enterprise deaths, slightly more enterprises with 1–4 employees than among enterprise births have been identified. On the other hand, the ratio within the size classes among enterprise deaths was slightly different. The share of enterprises with 1 to 4 employees was slightly higher (28.9%) and the share of those without employees was slightly lower (69.6%) than among enterprise births (Matek, 2011).

⁸ Data cover 12 EU Member States (Czech Republic, Denmark, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Finland, Sweden, the United Kingdom) and Norway.

⁹ The data refer to NACE Rev.2.

Figure 5: Percentage share of enterprise 'births' and enterprise 'deaths'* in section of activities B–S** by size class of employees, Slovenia, 2009



* Provisional data.

** Industry, construction and services (except activities of holding companies).

Source: *Matek, 2011*

Around 90% of enterprises born in 2008 and 60% of enterprises born in 2004 survived to 2009 (Matek, 2011).

Merger/acquisition

We could not find any empirical studies investigating SME merger/acquisition (M&A) activity in Slovenia. This is one of the reasons we have identified the case study dealing with this type of restructuring, to gain first-hand information regarding the difficulties and success factors influencing the merger/acquisition decision in one of Slovenia's medium-sized companies (see case study: Blažič, robin trakovi l.l.c.).

However, we have identified a few studies investigating the networking activities of Slovenian SMEs, which is sometimes the first step on the road to merger or acquisition. Networking can be defined differently in different contexts, depending on the specific purpose of the study. In the case of restructuring events we present findings regarding Slovenian SMEs' organisational networking (that is, inter-organisational level networking between organisations and enterprises) (Širec and Crnogaj, 2009). For SMEs, cooperation with different partners is of the utmost importance, as they lack expertise, knowledge, experience, etc. The study of 193 companies revealed few statistically significant differences ($p < 0.05$) between micro, small and medium-sized enterprises. The latter were more often involved with final users, finance providers and supportive institutions. This finding is consistent with the EU survey (EC, 2004: 27). The larger the company, the more advanced its business is (growth of the company more often occurs with companies employing more than 20 employees, requiring the acquisition of additional financial resources for investment and expansion activities). This results in the need for finding additional financial resources and the intensification of cooperation with supporting institutions (Širec and Crnogaj, 2009).

Širec and Bradač (2009) investigated networking in 201 SMEs and its contribution to growth. The study revealed that different types of networking activity result in different kinds of growth pattern.

Svetličič (2004) concluded that during 2001–2004 the number of acquisitions in Slovenia increased (no special data regarding SMEs' M&A was found). Larger acquisitions were notable in the financial, pharmaceuticals, retail trade, electrical appliances and food industries. Such results partly reflect the enhanced consolidation process (domestic mergers and acquisitions) in the Slovenian economy since it became an EU member. Larger firms tend to undertake acquisition more often than smaller ones (Burger and Svetličič, 2004: 7). Svetličič (2004) found reasons for rapid growth of M&As by Slovenian firms in privatisation in major destination countries, such as Serbia and Montenegro, in accumulated knowledge of Slovenian firms in mastering this form of entering overseas markets, and strategic choice to exploit first-mover advantages and take advantage of low prices of firms in less advanced transition economies.

Internal restructuring

Internal restructuring takes many different forms, some of which are tied to the development phase of entrepreneurship in the particular country, such as family business transfer. For Slovenian SMEs we found evidence on business expansion, internationalisation and business transfer in family-owned and -managed companies. These three areas of restructuring will be discussed in more detail.

Business expansion

Company growth is critical to economic development and the creation of wealth and employment. According to the Global Entrepreneurship Monitor (GEM) (Rebernik et al., 2010) and the Slovenian Entrepreneurship Observatory (Širec and Rebernik, 2010), entrepreneurial potential in Slovenia is not fully utilised. Indeed, small firm growth is neither a self-evident phenomenon nor a matter of chance. Rather, it is the result of owners/entrepreneurs motivated business intentions and actions, driven by the belief that they can produce the desired outcomes (Gray, 2000; Maki and Pukkinen, 2000).

Research has demonstrated that growth intentions and likely eventual growth impact are not evenly distributed across entrepreneurial firms' populations. GEM research on high-expectation entrepreneurship (Autio, 2005) indicated that high-aspiration entrepreneurs,¹⁰ representing on average less than 10% of the population of nascent and new entrepreneurs in GEM countries, were responsible for up to 80% of total expected job creation by all entrepreneurs. In the United Kingdom, Storey (1994) found that a mere 4% of new firms established in any given year accounted for 50% of all the jobs created by surviving firms after ten years had elapsed. Thus, it appears that the capability of an economy to grow and employ is significantly dependent on the capability of that economy to create 'gazelles' (that is, fast-growing firms). Autio (2005) reported that in the United States gazelles represented only about 3% of the firm population, but accounted for more than 70% of employment growth between 1992 and 1996. Similarly, in Finland, approximately 1% of top-growing firms created about 40% of sales and employment growth over four years.

Slovenia's 500 gazelles in 2003 created 7,940 new jobs from 1998–2002; in 1998, the average gazelle employed 24 workers and, by 2002, this number had risen to 40. Meanwhile, sales increased four times on average, while exports increased 5.5 times in four years. Slovenian gazelles created 22,514 new jobs from 2003–2007 (Pšeničny, 2008), accounting for 60% of all new jobs created during this period, thereby increasing the value added per employee by almost 70%. Širec and Crnogaj's (2010) profile analysis of 500 fastest growing companies in Slovenia found that growth patterns exhibited by companies are highly heterogeneous.

¹⁰ High-aspiration entrepreneurs are nascent and first time business entrepreneurs expecting to employ at least 20 employees within five years (Autio, 2005: 14).

The comparison of size classes showed a rather lower percentage of micro-companies among high-growth Slovenian enterprises (see Table 5). It can be concluded that companies need to achieve a certain size to be able to implement high-growth strategies. These findings correspond to Ireland et al.'s (2003) claim that smaller firms identify opportunities more effectively, which enables them to grow.

Table 5: Comparison of companies' size structure (Slovenian enterprises in 2007 vs. high-growth companies)

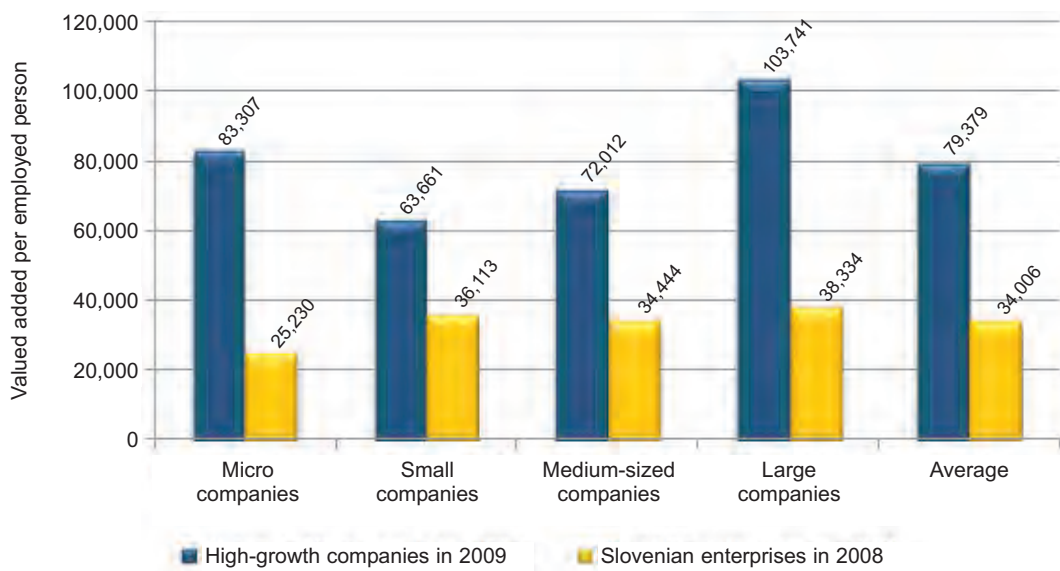
Class sizes	Slovenian enterprises in 2007	High-growth companies
Micro companies (0–9)	93.4%	67.3%
Small companies (10–49)	5.4%	22.4%
Medium-sized companies (50–249)	1.2%	6.1%
Large companies (250 and more)	0.2%	4.2%
Total	100%	100%

Source: Širec and Crnogaj, 2010: 50

Larger companies possess the resources to develop competitive advantages and to implement high-growth strategies successfully. Furthermore, this study confirmed the hypothesis that growth is not industry dependent. Dynamic, entrepreneurial, growth-focused companies can exist in any business sector. It is the commitment to growth that facilitates rapid growth. These findings underscore Delmar et al.'s (2003) conclusion that industry affiliation is not assumed to be related to firm growth per se, but to the nature of the growth process. Furthermore, high-tech companies grow faster than low-tech companies; and finally, 10% of companies in the current analysis were identified as sustainable growers. This result presents a rather good indicator, but it is important to bear in mind that the time horizon used (a three-year period) is limited. Society needs to stimulate potential growers to become sustainable ones as they present a healthy potential for future growth and development of the Slovenian economy.

The essence of entrepreneurship is not only profit but also added value. In 2007, there was €18,369 million value added created in the Slovenian economy. The average value added in Slovenian companies (an indicator of labour productivity) in 2007 amounted to €29,513 per employee (Rus and Rebernik, 2009: 17–18). Figure 6 compares value added per employee in Slovenian fast-growing companies (gazelles) in 2009 with value added per employee by size class in 2008. The average value added per employee in gazelles is 3.2 times higher than in all companies. It is interesting that microenterprise gazelles show the greatest difference, with an average value added per employee being 3.3 times higher than other micro companies. Large gazelles achieve 2.7 times higher average value added per employee than other large companies.

Figure 6: Value added per person (in euros) according to class size



Source: Širec and Crnogaj, 2011

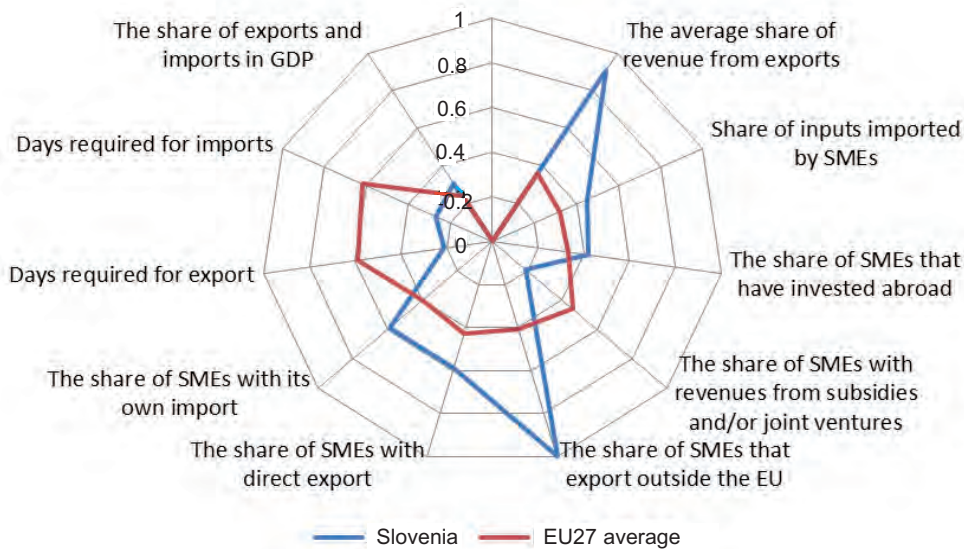
SME internationalisation

Taking into account companies of all sizes, exports represent 70% of Slovenian GDP and of these 68.98% consist of exports to EU countries (18.86% Germany, Italy 12.06%, Austria 7.85%, France 6.52%), 17.25% to the countries of former Yugoslavia (Croatia 8.56%, Serbia 3.58%) and 6.26% to former Soviet Union countries (Russian Federation 4.05%, Ukraine 1.08%) (SURS, March 2009, cited in Prašnikar et al., 2009). The Slovenian economy is therefore highly dependent on the EU economy. Because industrial production, and production of durable goods specifically, is a key part of exports, Slovenia is among those EU countries that have experienced the biggest falls in industrial production during the recession. Industrial production fell 21.1% in the year to February 2009, more than the 17.5% fall in the EU27 (Eurostat, 2009, cited in Prašnikar et al., 2009). Internationalisation still, however, has a low priority in firms' strategies (Čater and Pučko, 2005: 11). Efficiency-seeking foreign direct investment (FDI) has only begun to pick up during the past few years, indicating that firms have perhaps been slow in responding to rapid changes in the global economy. Svetličič (2007), citing a survey-based study by Ruzzier (2005), argued that of the top 25 non-financial transnational corporations (TNCs) from the central and eastern European countries (CEECs), seven were Slovenian (UNCTAD 2004: 317). Medium- and large-sized Slovenian firms account for a large part of outward FDI in terms of volume, while SMEs dominate in terms of the number of outward investors. Only 16 of 257 small-sized Slovenian firms (10–250 employees) interviewed invested abroad (Ruzzier, 2005; cited in Svetličič, 2007).

Internationalisation is closely related to SMEs' growth and competitiveness. Stamenčič and Širec (2010) present internationalisation indicators, developed by a European Commission consortium, which can (directly or indirectly) measure the degree of internationalisation in each country. All indicators are an integral part of the 10th Small Business Act principle: 'It is necessary to encourage and support SMEs to exploit the benefits of markets growth.' Slovenian SMEs' shares of exports, and export revenues, are significantly larger than the EU27. Administrative and infrastructure barriers to import/export (number of documents and time needed) are much higher in Slovenia than in the EU.

An accurate comparison of indicators of internationalisation of SMEs in Slovenia and the EU27 was made by the Slovenian Entrepreneurship Observatory (Stamenčič and Širec, 2010).

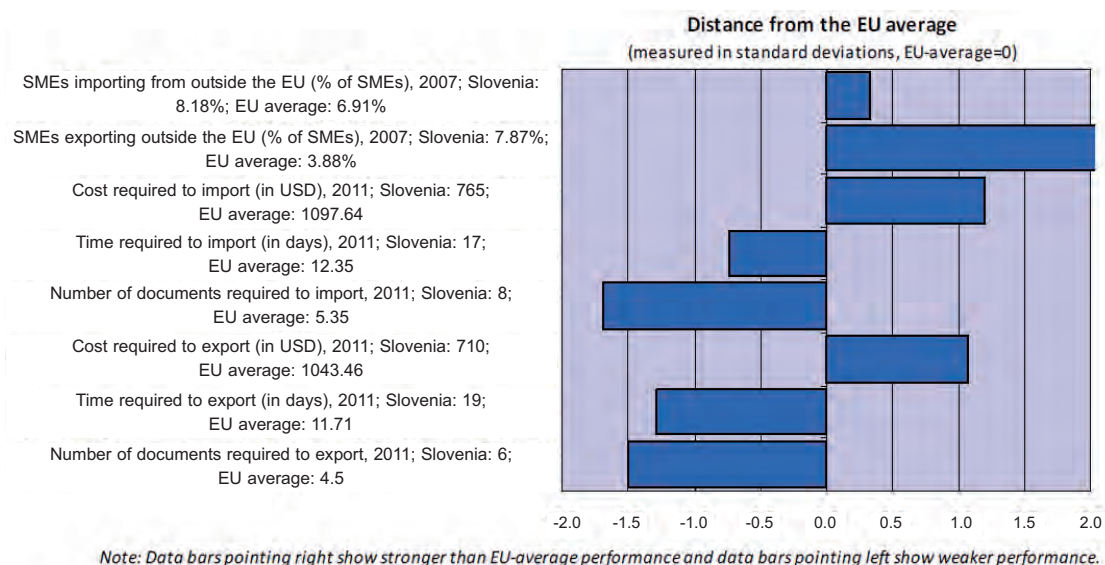
Figure 7: SMEs internationalisation indicators for Slovenia and EU (normalised values)



Note: normalised values are calculated using the formula: (Actual value of the indicator of internationalisation in Slovenia (average EU27) -smallest value of all countries) / (maximum value of all countries -the minimum value of all countries).
 Source: European Commission, 2007; World Bank, 2009; Stamenčič and Širec, 2010

Slovenia scores are on par with the EU average for indicators measuring internationalisation (SBA Fact Sheet Slovenia 2010/11). The balanced aggregate picture however hides some patchy performance. On the one hand, the general framework conditions for trading indicate that Slovenia is more bureaucratic than its EU peers, for example, the number of documents and the time needed to import and export are much higher than average. Only the cost of trading seems to be advantageous for businesses involved in internationalisation. On the other hand, the actual internationalisation performance of Slovenian SMEs is above average, even significantly so for the share of SMEs exporting to other third countries.

Figure 8: SMEs internationalisation indicators for Slovenia and EU (normalised values)



Source: EU, SBA Fact Sheet Slovenia, 2010/2011: 12

Business transfer

The majority of family (76%) as well as non-family enterprises (74.8%) have a single owner. The average family enterprise has 1.33 owners; non-family enterprises have on average 1.81 owners, but the difference is not statistically significant ($p>0.05$) (Duh and Tominc, 2006).

Similar to many European countries, family owned and managed companies prevail among SMEs in Slovenia. What makes them different in the light of restructuring processes is that family businesses in Slovenia are relatively young in comparison to family enterprises in other market economies. This is due to the fact that the entrepreneurial tradition was broken after the Second World War and therefore the majority of companies were established after 1990 (Duh and Tominc, 2006). More than 80% of family enterprises are owned by the founders (Glas, 2003; Glas et al., 2004; Duh and Tominc, 2006). Second and third generation owners are much less common.

Since the majority of family businesses are still run by the founding generation, there is limited experience of successful transition to the next generation (Glas and Vadnjal, 2005; Duh and Tominc, 2005; Duh et al., 2007). This could lead us to the conclusion that business owners may lack sufficient knowledge, as well as motivation, to internally restructure the company. Further research is needed in this area.

Drivers of restructuring

Drivers of restructuring are many: globalisation, reorganisation of value chains and increasing competition; privatisation, liberalisation of markets and public sector restructuring, technological progress and changed supply and demand markets; demographic change; and management. The following section presents drivers of restructuring processes regarding Slovenian SMEs' internationalisation and outsourcing activities.

Jaklič and Svetličič (2003: 114) estimated that during the early stages of enterprise internationalisation Slovenian firms invested abroad to facilitate trade (strengthening imports or exports) and to escape from the socialist system. They were motivated by market-seeking, seeking strategic assets, efficiency-seeking and resource-seeking. Cost efficiency for outward FDI was not the main reason at that time but is now gaining in importance (Svetličič, 2007).

The small domestic market and high labour costs in Slovenia are key drivers of outward FDI (Svetličič, 2007). Influences on outward FDI include: maintaining and expanding foreign market share, which has been a priority for Slovenian enterprises; excess production capacity, previously utilised to service the large Yugoslav market; and the need to operate close to customers.

Motivations for international sourcing differ according to the level of internationalisation (Burger et al., 2010). Exporters are significantly more motivated than non-exporters by access to resources and labour-cost and other cost reductions. Multinational enterprises (MNEs), compared to non-MNEs, are significantly more motivated in regard to improving logistics, competitiveness and a number of strategic positions (defending market share, value chain optimisation and following competitors). Motivations also differ by location and mode of sourcing. Improving logistics, better market position, more flexible business environment and tax optimisation are significantly more important motives for sourcing on foreign markets (compared to domestic sourcing). Less significant are differences in motives between captive offshoring and arms-length sourcing (offshore outsourcing). Arms-length international sourcing is significantly more driven by increasing competitiveness and reducing other costs compared to captive offshoring (within enterprise group) (Burger et al., 2010).

The Eurostat survey on plans for international sourcing for the period 2007–2009 cited reduction of labour costs and access to new markets as motivations for Slovenian companies for future international sourcing. Tax or other financial benefits and access to specialised knowledge or technologies are also motivators.

Cirman et al. (2009) underlined that the economic crisis strongly affected Slovenian export companies. In September 2009, exporters expected their total revenues for 2009 would drop by 16% compared to 2008. A substantial group of firms (36% of the sample) was heavily affected by the drop in international demand since September 2009; they expected a reduction in export revenues of almost 30% on 2008 figures. This was a 10-percentage point decrease of export expectations compared to their expectations from March 2009 (Cirman et al., 2009).

The Bradač (2009) study cited previously reports the three most important reasons to outsource as the need to focus on core activities, insufficient scope of certain activities or the occasional need for them, and company development. Of these, two are strategic reasons and one is traditional. Most companies with 10–249 employees pursue outsourcing to focus on core activities, meaning that companies are aware they must develop their skills and outsource those not the most important to them or in which they are not well-developed. The second reason for outsourcing, insufficient scope of activities or occasional need, refers to outsourcing to supplement their own resources. However, companies do not outsource activities because of the significant initial investment required to do so. This implies that companies have adequate financial resources and/or implementation does not require significant investment.

Thus, it can be concluded that Slovenian SMEs have already surpassed the first phase of outsourcing, where business activities are primarily outsourced for cost and other reasons in traditional forms of outsourcing. Of course, these reasons

still exist, but they are no longer the most important. The form of outsourcing depends on the conditions in which businesses operate and, in particular, on the business environment, competitiveness and innovation of other companies, and national economic conditions. As indicated in the Bradač study (2009), strategic reasons prevail in Slovenian SMEs; thus, they are comparable to other companies in developed economies.

Kavčič and Prevodnik (2009), in a study of 75 companies and nine personal interviews in 2006, found that cost reduction is still the most common reason for, and benefit of, outsourcing decisions. Even though the sample included large companies, the study showed that outsourcing involves dealing with support activities, such as cleaning, security, transportation and legal matters rather than strategic ones (such as production, R&D, training, etc.). Organisations can concentrate more on their core activities, which results in increased competitive advantage. The study also showed that companies that insource activities are usually small companies, highly specialised and adaptable firms that can easily satisfy customers' needs. Taking into account the expected increase of the importance of outsourcing, this can be considered an opportunity for the future development of Slovenian enterprises (Kavčič and Prevodnik, 2009: 353).

Kavčič and Prevodnik (2009) stated that companies are forced to outsource because of global competition, the development in information and telecommunication technology and as a result of the concentration on the organisation's core activities. They believe that increased internationalisation of Slovenian companies will further encourage companies to outsource and will, consequently, lead to an increase in the number of opportunities for the development of small enterprises.

In the normal economic cycle, companies constantly exit the market. However, it is important to know the reason for exit: internal disadvantages, poor conditions for continuing the business or voluntary personal decision. GEM data detects individuals who have discontinued their business in the past 12 months. Together with the total entrepreneurial activity (TEA) index, measuring the share of adult population in the early stages of business formation, the discontinuation measure is an important indicator of the dynamism of the entrepreneurial process. In Slovenia, 1.6% of the adult population (representing 17% of TEA in 2010) discontinued their business (Rebernik et al., 2011). Reasons for business discontinuation are given in Table 6.

Table 6: *Reasons for business discontinuation*

	2008	Rank	2009	Rank	2010	Rank
Problems getting finance	8%		30.4%	1	21.2%	1
Personal reasons	7.9%		19.6%	2	11.4%	
Other job or business opportunity	27.2%	1	19.4%	3	18.7%	2
Business not profitable	22.1%	2	12.5%		14.2%	3
Exit planned in advance	7.8%		8.6%		8.03%	
Retirement	11%		4%		4.9%	
Opportunity to sell	2.2%		0%		1.6%	
Incident	14.2%	3	5.5%		8.4%	

Source: *Abridged from Rebernik et al., 2009, 2010 and 2011*

The main reason for business discontinuation was problems accessing finance (21.2%), less than the 30.4% in 2009. Interestingly, the next most common reason is that entrepreneurs find another job or new business opportunity. The third most common reason is profitability (14.2%). Among European companies profitability is in first place (30%), followed by financial reasons (15%) and finding other job or business opportunities (8%) (Rebernik et al., 2011). While in 2008 a greater proportion of Slovenian entrepreneurs dropped out of business due to events which were not expected, financial reasons prevailed in 2009 and 2010. Business sale remains a very rare reason for discontinuation, partly because the mechanisms for sale are not clearly formulated, so entrepreneurs are uncertain of the advantages and pitfalls (e.g. tax issues) of sale (Rebernik et al., 2009). Retirement is a common reason, similar to other EU countries, and it raises the question of succession with ageing entrepreneurs (Duh, 2009).

Distinctive characteristics of restructuring in SMEs

Anticipation, planning and preparation of restructuring events

No relevant studies on planning and preparing of restructuring events were found, except in the area of family businesses, despite the existence of a large number of sources business owners might use to forecast economic trends.¹¹ Duh and Tominc (2005) suggest that 57.5% of family business owner-managers who are 51 or older are planning for succession in the next five years. They estimate that five to ten years is needed for succession preparation and planning, longer if successors need to become qualified. More than one-third of family businesses in Slovenia will be unprepared to face succession problems in the next five to ten years. ‘Not planning to retire in the next five years’, and ‘succession planning is not necessary’ are the two most stated reasons for not preparing the transfer of management and/or ownership in the next five years. Similarly, Lovšin Kozina (2006) found that many family business owner-managers believe that succession planning is unnecessary, especially those under 50 years old.

Succeeding generations want to retain more freedom to decide whether to become part of the family business. Successors lack the proper training and mentoring so they feel uncertain about their capability of managing the firm (Glas et al., 2005).

Managing restructuring

In the field of managing restructuring we have identified some empirical evidence about critical success factors influencing M&A and internationalisation as well as business transfer related managerial endeavours.

Despite the popularity of an external growth strategy, empirical studies suggest that more than half of them fail to produce results; at best they are in break-even situation (Bertoncelj, 2009: 200). Bertoncelj (2009) investigated critical success factors that influence M&A in Slovenian large enterprises. The results are so common that they could be easily transferred also to M&A processes in SMEs. He claimed that although five ‘hard’ success factors – a professional acquisition search, due diligence, a realistic assessment of added value potential, the right mix of financial sources, a detailed post-acquisition integration plan – are found crucial to the M&A process, the five ‘soft’ success factors – a new ‘combined’ organisational culture, a competent management team, innovative employees, efficient and consistent communication and creative business environment – are becoming increasingly relevant and need to be understood and managed if the deals are to be successful (Bertoncelj, 2009: 198).

Ruzzier and Konečnik (2007) examined the importance of demographic characteristics (firm age and size) for internationalisation in a survey of 247 Slovenian SMEs. They found that international companies were significantly larger than domestic firms in terms of sales but not full-time employees. Such a finding implies that entrepreneurs wanting to expand in international markets do not necessarily need more employees, but should perhaps focus more on the quality of human resources in terms of knowledge, other non-human resources (finance, organisation, technical) and competitiveness (Ruzzier et al., 2006). International firms were found to be younger than domestic firms, but the difference was not significant.

¹¹ Kresal (2010: 31–37) has identified a number of institutions that can help in restructuring in Slovenia. These include: The Statistical Office of the Republic of Slovenia – SORS (<http://www.stat.si>); Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES), Institute of Macroeconomic Analysis and Development, the Employment Service of Slovenia, and the Chamber of Commerce.

According to the cited Ruzzier's study (Svetličič, 2007) SMEs started internationalising at an early stage, and on average needed 3.3 years for exports to reach 20% of overall sales; 57% of them had affiliates in more than three countries; had about 40% of their sales abroad; and employed as many as 46% of their workers abroad. Motivations for outward FDI included gaining new customers overseas; for example, through a focus on key foreign market niches, and cost reduction. As underlined by Svetličič (2007), Ruzzier's study found out that good management was considered a very important source of competitive advantage together with product/service quality. It was also found that a number of managers had previous international experience and possessed good knowledge of foreign languages (Ruzzier, 2005; cited in Svetličič, 2007).

The Slovenian economy is dominated by family enterprises controlled by the founding generation. Owner-managers (founders in the majority of cases) are getting older and have almost no previous succession experiences. They have almost no possibility of sharing the succession experience with others, since the majority of their colleagues' owner-managers are the founders (not successors) (Duh, 2008).

Slovenian owner-managers believe that the business should stay in the family (Duh and Tominc, 2005; Glas, 2003; Glas et al., 2004). Owner-managers believe that: their children possess the capabilities to take over and manage the family business (Glas, 2003; Glas et al., 2004); children should become co-owners when they join the business while their parents are still alive and active; there should be only one successor (not a team) in management and this person should be found among family members since a business is considered stronger with family members involved. The concept of 'primogeniture', the oldest child taking over, is strong (76% of respondents), but the gender aspect is not that important since in 30% of businesses the daughter as the oldest child would be successor. Family business transfers usually take place through the gift process; owner-managers prefer not to sell the business (Lovšin Kozina, 2006).

Actors involved

Several institutional actors support business restructuring processes in Slovenia. Some targeting SMEs are large, national government bodies including: the Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments (Javna agencija Republike Slovenije za podjetništvo in tuje investicije, JAPTI) and the Slovene Enterprise Fund (Slovenski podjetniški sklad). The Chamber of Commerce and Industry of Slovenia (Gospodarska zbornica Slovenija) and Chamber of Craft and Small Business of Slovenia (Obrtno-podjetniška zbornica) act as service providers at the national level, and there are also many small local or regional services providers.

When major redundancies look likely, the main actors often act in coalition – the Employment Service of Slovenia with its local or regional offices, work funds, trade unions (if established in the company), local authorities, development agencies, and central government departments or agencies – to support the restructuring process in order to help reduce the negative consequences of restructuring and create new employment (Rajgelj and Rojec, 2007: 48). Such a scenario is more common for large enterprises than for SMEs. Trade unions and works councils that have an important role in trying to negotiate good conditions for redundant employees are rather rare in Slovenian SMEs. This is because they are not obligatory. In companies where employees have not decided to establish a works council, they cannot exercise participation rights in the event of restructuring.

The Employment Service of Slovenia carries out professional tasks in the field of employment and unemployment insurance. Being a public institution, the Employment Service has a uniform organisation across the whole country. It operates at three levels: the main office, where the management and the head office are located (Ljubljana); in 12 regional offices and in local offices throughout Slovenia.

Several private employment agencies and temporary work agencies in Slovenia operate on the basis of concessions granted by the Ministry of Labour, Family and Social Affairs to those meeting prescribed criteria for carrying out these activities.

Employers' associations offer support and assistance to members. In general they do not participate directly in individual restructuring processes but offer relevant general information as regards the economic situation and current developments in particular areas of activity; they prepare different analyses which help their members make decisions as regards their economic activity, on whether to start restructuring and how to plan it, and so forth.

Main challenges and constraints facing SMEs in restructuring

This section summarises some of the challenges and constraints SMEs face during restructuring. These include: entry/exit challenges related to bankruptcy or closure; general cultural attitudes towards failure; indicators related to 'second chance' attitudes; factors influencing internationalisation; and family business succession. Because no direct studies of restructuring challenges and constraints facing SMEs in Slovenia exist, indirect evidence may serve well as a starting point to understand the issues better.

For start-ups, it is characteristic that their employment and investment do not increase to the point necessary to achieve the optimum size of the business. The reason for this lies in the fear that the investment will not be successful. Empirical analyses have shown that it is very important that new businesses survive the first few years, as the likelihood of their growth depends on business age and initial size (Evans, 1987; cited in Caves, 1998). Company failures do not happen because of the small initial size of their operation, but rather because entrepreneurs resist excessive investment as expected results might be doubtful (Caves, 1998). However, at the beginning strong growth is desirable and necessary and should therefore be encouraged. With the increasing size of the company, growth gradually slows down, stopping when the size and the scope of the undertaking stop changing.

Močnik (2010a) identified a positive relationship between entry (start-up) and GDP growth between 2000 and 2005, an association that has been gradually declining. It is possible that new companies were motivated by very short-term challenges as entrepreneurs tried to take advantage of current favourable opportunities without addressing the long-term strategic goals of their companies. Such processes may cause unnecessary costs for society. The second possible reason for the decline could be unequal business conditions among the newly established firms. It is very important that new companies operate in a healthy competitive market structure and not be hindered by incumbents (Močnik, 2009, 59).

SBA Fact Sheets' indicators measuring 'second chance' reveal that there are obstacles in the path of entrepreneurs who have failed and would like a fresh start. On the one hand, the speed and low cost of bankruptcy proceedings are essential for viable business, especially in times of recession, and Slovenia fares well in this area. On the other hand, there seems to be a lot of stigma associated with bankruptcy since only 62% of Slovenians compared to the EU average of 81% agree with the statement that people who have started their own business and have failed should be given a second chance (EU, SBA Fact Sheet, 2010/11). Such attitudes towards failed entrepreneurs do not facilitate the exploitation of experience and skills that entrepreneurs acquired and which could prove very useful in endeavours to restructure the business. The social stigma may force entrepreneurs to close the business even though it could be restructured rather than risk failure and stigma.

Internationalisation is an important element of restructuring SMEs; for example, searching for new markets, outsourcing or offshoring. SMEs wishing to internationalise face challenges with regard to the human capital base, firms' resources, such as financial, organisational and technical, administrative and infrastructural barriers to import/export procedures as well as access to financing in the form of non-financial debt.

Ruzzier and Konečnik (2008) found that Slovenian entrepreneurs from international companies have higher levels of education. Internationalisation is arguably more complex than operating a domestic business, requiring special competencies. More highly educated entrepreneurs (especially those who spent some time studying abroad) are especially interested in operating in foreign markets. Ruzzier (2011) found that entrepreneurs with prior exposure to foreign markets in terms of schooling, work experience or established contacts and networks, are better able to exploit opportunities. A strong human capital base (including the entrepreneur and employees) with knowledge of foreign markets, languages, cultures, possibly with prior experience of living, working and established contacts in that market are very important to undertake specific international marketing operations and activities.

Slovenian enterprises with plans to source internationally might experience barriers to doing so. One in seven Slovenian companies (13.8%) expressed concern that the cost of international sourcing operations could exceed expected benefits. A second concern was legal and administrative barriers (12.0%) and a similar figure reported difficulties in identifying potential/suitable providers abroad (11.5%).

SMEs face challenges with regard to administrative and infrastructural barriers to import/export, for instance in preparing documents. This conclusion is confirmed by the opinion of many SMEs that believe administrative procedures are a major problem in general. Deregulation and improved infrastructure might lead to an increase in SME competitiveness (Stamenčič and Širec, 2010).

Now that the outward FDI regime has been harmonised with EU regulations, internal factors faced by firms are becoming the main barriers to outward FDI. Even for larger firms, the lack of experienced managers who are willing to go abroad has become a major impediment. However, for SMEs, particularly newcomers, the lack of capital is an additional problem (Svetličič, 2007).

Slovenian companies have been very heavily affected by the decline in foreign demand during the credit crunch and have found it difficult to obtain affordable bank finance in the Slovenian market. The bank loan guarantee scheme is still not yielding satisfactory results. One reason for this is the delay in launching it. Companies have been unable to obtain loans at the very time they need them to compete effectively in foreign markets (Cirman et al., 2009).

To exit the crisis, Slovenian companies are actively trying to change the structure of their markets with an existing set of products or by launching new products in existing markets. They do not regard the strategy of entering new markets as very attractive. Entering new markets requires high sunk costs and therefore the Slovenian government might ease the burden of entering new markets (Cirman et al., 2009).

The issue of family businesses is a rare topic of policy or public discussion. Lately, business transfer (that is, succession issues) has become a topical issue as family enterprises established in the early 1990s are now approaching the critical stage of the transition to the next generation. Other topics also discussed, that present a considerable challenge for SMEs, are: the strengths and weaknesses of family businesses; the role of family members in the business; family relationships and conflicts and their influence on a family business; managing a family business; problems linked to the family ownership and management; and relationships between business and private life, including children in the business (Duh, 2008).

Business support from public and private sources

Supply

In the supply side section we provide a brief overview of government legislation, support programmes and projects relevant for restructuring. Various public support measures are available, some predating the financial crisis, with the purpose of supporting vulnerable companies, protecting employees and increasing added value (Medved, 2010). Policies include financial and non-financial support, including labour market instruments. Employers have a duty to consider alternatives to employee dismissal, including: new employment contracts; giving employees paid time-off to search for new job; making severance payments, dependent on length of service; giving preferential treatment to dismissed employees if new vacancies arise; transfer as a restructuring tool; protection of employees' claims in case of insolvency; unemployment benefit; active labour market policy measures; economic policy and regional development policy measures; and temporary employment measures as a response to the current crisis (Kresal, 2010).

To limit the negative effects of the current crisis on employment Slovenia introduced measures explicitly focused on the labour market and employment-related issues. Measures included allowing employers to claim partial wage compensation for employees temporarily laid off and subsidising a shorter working week to safeguard existing jobs (Kresal, 2010; Mandl, 2010).

Demand for public support from firms and/or employees affected

There is a considerable gap in the literature with respect to the demand side for public support for restructuring from firms and employees affected. Limited information exists on SME needs with respect to outsourcing, internationalisation and business transfer issues.

In Slovenia, there are no formal incentives, assistance or information for outsourcing, despite companies using the practice extensively. Bradač (2009) suggests that finance-, information- and time-poor SMEs might benefit from such support from the initial decision-making stage, clearly defining outsourcing needs and challenges, determining key skills and activities, the selection of external providers, through to the management of outsourcing relationships.

The Slovenian Export Window (Izvozno okno) provides information and consultancy to existing and potential exporters. It offers a web portal with basic information for internationalisation beginners, consultancy and help in organising participation in international trade fairs, education for international business (international seminars, lectures about sales techniques, introduction of changes, cultural differences) and contacts with foreign companies in similar industries for exporters. The majority of clients (82%) found this kind of supportive instrument useful and are generally satisfied (77%) with the level of service provided (EIM Business and Policy Research and European Commission Enterprise and Industry, 2010; cited in Hurley/Mandl, 2011).

Duh (2008) emphasised that there is almost no educational or institutional support regarding succession issues in Slovenia. Family enterprises arguably deserve greater support regarding business developments, for example counselling assistance, and education and training programmes offered by universities and schools are needed.

Outcome of restructuring events

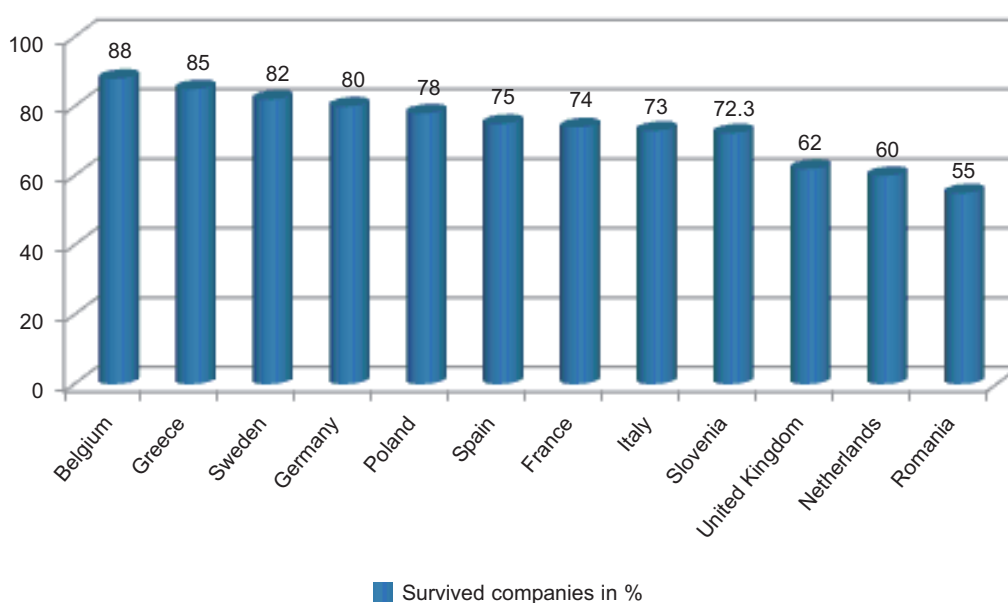
Organisational effects

This section presents data on the state aid restructuring programme, which addresses the entire population of business, including SMEs. Then we look at the impact of the economic crisis on less export oriented and smaller Slovenian companies. Exporters realise a high premium over non-exporters in all size clusters in relation to performance variables (number of employees, sales and value added per employee). Again, the importance of internationalisation for Slovenian SMEs is a key element for gaining and sustaining competitive advantage.

In recent years, state aid allocation procedures have been tightened in accordance with EU guidelines. Following the principle of single assistance, limiting the amount of aid and imposing a necessary minimum contribution to restructuring by businesses themselves reduced the number of recipients, although aid levels to recipients are higher than in the past (Medved, 2010).

Figure 9 shows the percentage of businesses surviving three years after the allocated state aid for 11 EU countries and Slovenia. The data on the effectiveness of received state aid are based on a European study ‘Should aid be granted to the firms in difficulty?’ from the year 2009. For Slovenia the data refer to the time period 2000–2007.

Figure 9: Percentage of businesses surviving three years after the allocated state aid



Source: http://ec.europa.eu/competition/state_aid/studies_reports/restructuring_aid_study.pdf

The effectiveness of state aid for restructuring in the Republic of Slovenia in the period 2000–2007 is comparable to that of the same kind of aid in EU countries (Table 7).

Table 7: Percentage of preservation of number of employees

	% of preservation of employment
EU	72
Slovenia	73.3

Source: http://ec.europa.eu/competition/state_aid/studies_reports/restructuring_aid_study.pdf

It is expected that the results after 2007 are much worse than in the period 2000–2007 due to the impact of the global economic crisis, although data are not available for this period.

Medved's study of 114 firms (2010) found that the effectiveness of state intervention in the restructuring of Slovenian firms in difficulty in the period 2000–2007 was variable. Recovery failed for 34% of companies. From those, 29% ended in bankruptcy. The remaining 5% of companies, in spite of restructuring, initiated compulsory settlement as there were insufficient funds to repay creditors. Two-thirds of companies (66%) using restructuring aid managed to survive, and after completion of the restructuring programme continue with relative success.

Medved (2010) also found that the most intensive collapse of companies occurred in the second year after obtaining aid – 13% of companies failed, compared with 8% in the first year after aid was received. Further deterioration was only stopped after the fifth year of restructuring. As many as 79% of Slovenian textile companies receiving assistance collapsed, as did 75% of companies in the leather and footwear industry. The restructuring of the Slovenian textile and leather industry failed on a big scale, demonstrating the inefficiency of restructuring policy in these industries which focused mainly on ameliorating social problems and lacked adequate strategies to focus on activities with higher added value.

With product and technological restructuring, and elimination of unprofitable production programmes, the average loss from operations of enterprises declined significantly faster than the net loss (the reason being the high financial expenses related to a restructuring plan). Value added per employee in Slovenian surviving companies after eight years increased by an average of 76%.

As companies seek to adapt to changes in the economic environment, Cirman et al. (2009) outlined that deepening of the economic crisis has hindered smaller companies (measured by employment) and those less focused on export.

Table 8: *Size structure of Slovenian exporters in 2004 (in %)*

Size cluster	Distribution of the number of exporters
Micro	77.6
Small	15.3
Medium	5.4
Large	1.6
Total	100

Note: Micro, small, medium and large firms employ 0–9, 10–49, 50–249 and more than 250 employees respectively
Source: *Burger et al., 2008*

Table 9 shows that exporting increases with size of firm. In 2004, the vast majority (95.8%) of large firms exported, while only 35.6% of micro firms were exporters. Burger et al. (2008) show that increasing exports has a positive influence on employment growth. Exporter performance can be calculated using an exporter premium (that is, premium realised by exporters over non-exporters in relation to various performance indicators).

Table 9: *Exporter's premium (%) by size clusters of Slovenian firms in 2004*

Class sizes	Micro	Small	Medium	Large	All firms
Number of employees	74.5	12.7	12.0	20.1	201.6
Sales	312.1	107.4	64.9	51.5	313.1
Value added per employee	89.4	38.5	29.7	9.1	93.0

Note: Numbers show by what percentage the value in individual variable is higher for exporters than for non-exporters. Values for sales and value added per employee are controlled for the number of employees.

Source: *Burger et al., 2008*

Exporters realise a high exporter premium over non-exporters in all size clusters across all analysed performance variables (Table 9). The highest premium is realised by micro firms. In general, the larger the size of a firm, the lower the exporter premium. The high export premiums realised by micro and small firms suggests the targeting of economic policy measures at these firms (Burger et al., 2008). In the first four years of exporting, new exporters increase productivity by 30%, employ 11 more people, pay on average €320 higher wages per annum and bring in around €540,000 additional total sales due to export. Exporters are on average more productive, larger and faster-growing than non-exporters. New exporters achieve better results even before they start exporting; they further increase their advantage over non-exporters. Preliminary evidence suggests that long-lasting learning-by-exporting effects may be veiled by the continuous emergence of new exporters ('born-globals') that develop above-average export orientation and performance indicators from birth (Burger et al., 2008).

Employment effects

We have identified employment effects regarding different types of restructuring processes. First, we present findings on planned job reductions by type of restructuring based on cases reported by the ERM. Second, we have investigated employment effects with respect to company growth. The empirical evidence regarding the impact of employee development on company growth has also been described. We conclude the subsection with the results of state aid for restructuring with respect to job retention.

The change in economic activity during the current financial and economic crisis was obviously reflected in the increase in registered unemployment. Bankruptcy and redundancy have become more prominent reasons for unemployment. At the beginning of the crisis, non-renewal of fixed-term contracts of employment was also a very important factor (Kresal, 2010).

From January 2007 to November 2011, 185 cases of restructuring in Slovenia were recorded by the ERM (Table 10). The data refer to all business size classes, not just SMEs. It needs to be emphasised that the ERM thresholds are rather high; only a small number of registered cases are SMEs. Job reductions were announced in 135 cases, affecting 34,407 workers. Bankruptcy or closure (49% of all jobs lost), internal restructuring (46%) and offshoring or other physical moves were the cited causes of job reduction. In the remaining 50 cases (27% of all cases), job creation was announced, with 14,319 new jobs being created.

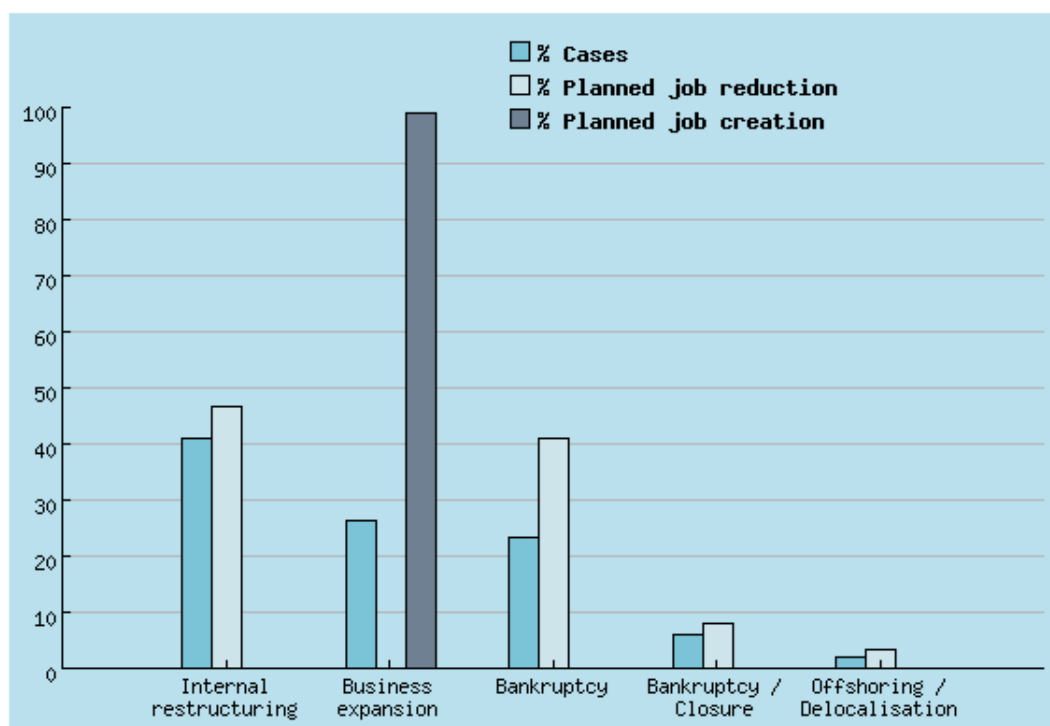
Table 10: Breakdown of employment effect by type of restructuring

Type of restructuring	# Planned job reductions	% Planned job reductions	# Planned job creation	% Planned job creation	# Cases	% Cases
Internal restructuring	16,087	46.76	14,199	0	76	41.08
Business expansion		0		99.16	49	26.49
Bankruptcy	14,129	41.06		0	43	23.24
Bankruptcy / closure	2,746	7.98		0	11	5.95
Offshoring / delocalisation	1,195	3.47		0	4	2.16
Merger / acquisition		0	120	0.84	1	0.54
Closure	250	0.73		0	1	0.54
Other	0	0	0	0	0	0
Relocation	0	0	0	0	0	0
Outsourcing	0	0	0	0	0	0
Total	34,407	100	14,319	100	185	100

Source: <http://www.eurofound.europa.eu/emcc/erm/index.php?template=stats>

These are only limited data, since not all restructuring cases in Slovenia were registered by the ERM, only the more important ones attracting media attention. Nevertheless, the data show that bankruptcies and enterprise closure represent a much higher and more significant share of restructuring processes during the crisis than before, and that they affect a significant number of workers (Figure 10). According to the ERM investigation business expansion is the most common source of new job creations (99.16%).

Figure 10: Distribution of cases and employment effects in %



Source: <http://www.eurofound.europa.eu/emcc/erm/index.php?template=stats>

Company growth is closely related to the promotion of employees. Companies often neglect employees who are important elements for the achievement of internal quality. Auer et al. (2010) analysed the impact of employee development on growth using a sample of 144 service and manufacturing companies. Their findings indicated a positive relationship between employee development and firm growth.

Companies should therefore ensure that promotion does not cause other employees to feel threatened. Reward systems must be effective and should be based on the evaluation of individual performance and on assessment of potential development options. Parallel to the growth of the company, changes of corporate culture must also take place, and should not be dependent on the current leader. Management should promote awareness among employees that promotion of individuals also brings long-term benefit to other employees. In difficult times, the corporate culture can increase the chance of success. Fast-growing businesses must make sure that they have the necessary resources for growth, appropriate control mechanisms, and innovative ideas in order to retain key employees. In the absence of adequate vertical promotion, companies should find opportunities for horizontal promotion (Auer et al., 2010).

Medved's study (2010) of restructuring aid for Slovenian companies in difficulty reveals that the share of retained jobs has been declining faster than the share of surviving firms. The study found that in the 2000–2007 period, on average companies retained only 51% of employees. Narrowing the sample to surviving firms, the research showed that after eight years, companies retain, on average, 71% of jobs. Reducing the number of employees stabilises only five years after receiving assistance at the level of 75% of preserved jobs.

Conclusions and policy issues

Slovenia has undergone three fundamental restructurings in the last 20 years: the first was the transition to an independent country; the second was the transition from a socialist to a market economy; and the third was joining the EU and Eurozone. SBA Fact Sheets 2010/2011 show that Slovenia's SME sector closely resembles the EU's. The most notable deviation from the European pattern is that, while employing fewer people – 64.2% of the workforce in the business economy compared to an average of 67% in the EU – Slovenian SMEs produce proportionately higher value added (63% vs. 58%), indicating a smaller labour productivity differential between small and large businesses in Slovenia than the EU. The sectoral distribution of Slovenian SMEs also resembles the European average, with only slightly higher concentrations of SMEs in manufacturing (15% vs. 11% in the EU) and construction (19% vs. 14%) and a lower share of small and medium-sized businesses in trade (22% in Slovenia and 33% in the EU).

Different types of SME restructuring are very unevenly reported. We find two reasons for this: first, as a small country, Slovenia has a smaller set of these different kinds of restructuring, and second, few Slovenian researchers have investigated restructuring systematically. We have not found any evidence on relocation. For some types of restructuring, data can be found but is not SME-specific (for example, offshoring/localisation, government restructuring programme). Solid evidence, however, was found for outsourcing, bankruptcy and closure, internal restructuring and, partially, for mergers/acquisition.

Forecasts of economic growth in Slovenia until the year 2050 modelled by Burger and Svetličič (2009) predict a slowdown in the coming decades. They estimate that the annual growth rate after 2020 will drop to just 1%. Even if such a pessimistic scenario does not happen, it still calls for appropriate economic policies. The authors suggest increasing cooperation with emerging economies to neutralise the decline in growth in Slovenia's major trading partners, undertaking timely and radical reforms, and solving the demographic decline by increasing the number of people of working age, either through higher fertility or a voluntary extension of the activities of retired workers, including intensive immigration flows.

Unfortunately, economic policy measures in a small, open economy like Slovenia are limited. Since the future is very uncertain and further deterioration of economic conditions is expected, economic policy must focus on at least three basic areas: i) reduction of uncertainty in the business environment; ii) strengthening the basic social network; and iii) preservation of future fiscal power (Bole, 2009).

In every economic crisis, the labour market is affected the most. Therefore, one of the most important policy challenges is how to design and implement economic measures that are, at the same time, socially sensitive and economically effective. Kresal (2010) suggests the following activities should be undertaken:

- Find the adequate equilibrium between employer and employee interests in legal regulation governing dismissal for economic reasons, including collective dismissals. This regulation has to follow the flexicurity principles.
- Strengthen the importance of employee education and training. The lifelong learning concept as an element of flexicurity policies is a necessary precondition to improve both worker employability and business competitiveness.
- Develop active labour market policy further. Slovenia's expenditure on active labour market policy programmes has been low in recent years, below the EU average. Active labour market policy responded to the crisis, as the number of programme participants increased more than unemployment during 2009, though their share is still low (IMAD 2009: 16–18).
- Strengthen the social dialogue at the enterprise level, especially preparing/anticipating, and during, restructuring.

Socially sensitive restructuring, the only long-run possibility for successful restructuring, can only be realised if it is based on a fruitful social dialogue and flexicurity principles (Kresal, 2010). Such a conclusion is in line with Prašnikar et al. (2009) who claim that ‘wage guarantee funds’ are an appropriate tool to increase labour market flexibility. They suggest that together with the skill accounts and pension accounts, unemployment accounts could be a good way to reform the welfare state in a way that enhances individual responsibility and other elements (for example, sustainable level of inequality and preservation of the environment) that have thus far not played an important role.

Internal restructuring processes call for different micro-level solutions if they are to be successful. Duh (2008), for example, stresses that there is almost no educational and institutional support regarding succession issues in Slovenia. Even though many owner-managers do plan for the transfer of management and/or ownership, most believe succession preparations are unnecessary. Therefore raising awareness of the need to prepare the transfer of management and ownership on time is much needed. Due to demographic changes (fewer children as potential successors), Slovenian family firms, while growing, will have to become more open to non-family professionals and managers. Even though family business owners prefer successors from the family, other options should be considered (for example, in the case of the non-existence of family successors, or due to demographic changes) such as: non-family manager, sale of the firm, and employee-management buy-out. Policymakers should follow European efforts to develop a more friendly administrative, tax and financial environment for family businesses to realise transfer without endangering the business (Duh, 2008).

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