

## Slovenia: What People Know About Economy

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### Abstract

*The article shows Slovenians, similar to people from other transition countries, did not have the opportunity to learn the legal aspects and functioning of market economy in schools. Only after the historical changes in 1990s the opportunities have occurred that mass media would take on their educational function. Small shareholders are owners of up to 20 per cent of some companies but they did not have enough knowledge about dealing with property. Authors tested these hypotheses, related to the population and companies, with a questionnaire.*

### Introduction

Slovenia has about two million inhabitants. The gross national product per citizen amounts to 14 400 USD, which ranks the country on the 48<sup>th</sup> place among the countries (The World Bank, 2000, pp. 10 – 13).

Slovenians inclined being thrifty, which is confirmed also by the Bank of Slovenia's statistics. The statistics show that they had as much as 1 200 billion SIT in the banks and that in 2001 deposits increased even more (Banka Slovenije, 2001). According to the review, at the end of 2001 the deposits were worth 1 700 billion SIT. This is much more than the turnover of the Ljubljana Stock Exchange (LJSE). For trading on the stock exchange, both individual and institutional investors are important, be they noise traders, small-cap investors or micro-cap investors.<sup>1</sup>

A condition for proper decision making on investments is of course the knowledge about dealing with funds. The problem in Slovenia is still knowledge and the ability of citizens to deal with securities. In fact, many people have securities. They are owners of stocks of Slovenian companies. However, this is not a consequence of trading on the stock exchange, but certainly the method of privatization. Slovenians, similar to people from other transition countries, did not have the opportunity to learn the legal aspects and functioning of market

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<sup>1</sup> Noise traders are individual investors who act on feelings rather than facts.

economy in schools. Only after the historical changes in 1990s the opportunities have occurred that mass media would take on their educational function.

Some data on the stock exchange also deserves attention. Trading on the exchange amounted to 348.64 billion SIT in 2001, which is 29.3 per cent more than in 2000, with 320 157 business transactions made. Europe has more than 30 stock exchanges and trading here amounted to 6.49 billion EUR (The Economist, 2001, p. 63); 1 EUR is approx. 227 SIT.

The tradition of entrepreneurs and private ownership was interrupted for more than forty years. Public schools at that time did not educate from the standpoint of the market-economy, thus people had no opportunity to obtain knowledge about dealing with property and funds. Historical changes arose during the crisis in Yugoslavia. In 1988, the government of A. Markovič passed a company law that explicitly allowed for private ownership. In 1989, the same government passed a law on securities and a law on money and capital markets. On December 26, 1989, the LJSE was again re-opened<sup>2</sup> and started operations on March 29, 1990. In June 1991, Slovenia proclaimed independence, in November 1991 the law on denationalization was passed and in 1992 the law on company ownership reform. It was agreed to restructure companies in compliance with the European legislation. Based on the above mentioned law, the government decided to distribute to all Slovenian citizens, born before the implementation of this law, ownership certificates. The citizens have suddenly become owners of state (national) property and also shareholders of companies. Due to the method of privatization used, today small shareholders are owners of up to 20 per cent of some companies but, as a result of the already mentioned circumstances, they did not have enough knowledge about dealing with property.

## 1. The Research

### 1.1. Research Goals

The aim of the research was to answer the following questions: • *How many Slovenians even know about securities or about economics in general?* • *Do these problems even interest Slovenians?* • *To what degree do Slovenians keep up with the activities of companies?* • *Does the media report the activities of companies?* • *Do Slovenian companies have organized public relations departments?* • *Other.*

Some of these issues are discussed here and some others are part of some broader study including issues on the role of marketing and public relations in public awareness related to corporate performance and securities trading. The

<sup>2</sup> Then still called the Yugoslavian stock exchange, joint-stock company, Ljubljana.

hypothesis related to companies, namely, that Slovenian companies have departments that take care of public relations, was tested by an anonymous survey made in September – December 2001. The questionnaires were sent to 272 organizations with the following criteria used for selection: (1) members (32 firms) of the LJSE; (2) companies that are issuers of common stock quoted on the stock exchange list and free market list of the LJSE on August 31, 2001 (157 companies); and (3) organizations with more than 300 employees on August 31, 2001, registered as stock companies or limited liability companies and not issuers of common stock quoted on the free market of the LJSE (LJSE non-members – 131 companies). Surveyed were 31 members of the LJSE (joint-stock companies) and the questionnaire was also used to survey companies that are issuers of shares traded on the organized stock exchange market. On September 1, 2001 probably 115 common shares of Slovenian companies were listed on the free market and 42 on the stock market. The questionnaire was also sent to 110 companies who were issuers of common stock, to all issuers of common stock on the stock market and to 68 issuers of common stock on the free market in the year 2000. The companies selected according to the first two criteria were surveyed in October 2001. The companies chosen according to the third criterion were surveyed in December 2001. We sent the questionnaires to 131 companies and thirty questionnaires have been received.

Another survey was made in 2000 focusing on how much Slovenian know about securities. In general, the research found, that „Slovenians know very little about securities and dealing with them” (Ferjan, 2000). It was also found that at least 30 per cent of employed Slovenians have enough monthly incomes that allow for systematic saving.<sup>3</sup> The research also found, how Slovenians assess the security of individual types of investments. Ferjan found that: „The degree of knowledge and the ability of Slovenian citizens to deal with funds does not influence the assessment of security. The assessment of security for individual types of investments is influenced by past experience.” (Ferjan, 2000)

*The Central and Eastern European Privatization Network* (CEEPN) was established in Ljubljana in 1991. One of its activities is also research related to the implementation of market economy in post-socialist countries. Marko Simoneti, in the framework of CEEP, prepared its research on the development of the capital market in Slovenia<sup>4</sup> in 1999. The author found that Slovenians do not invest in shares of companies any longer. Simoneti recognizes the following main reasons for this: (a) the financial situation of the people does not allow for investment in shares; (b) Slovenians do not know shares; (c) Slovenians do not know the stock market; (d) Slovenians consider investing in shares too risky (Simoneti and Jamnik, 2000).

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<sup>3</sup> More about this see in Ferjan (2000).

<sup>4</sup> More about this issue can be found in Simoneti and Jamnik (2000).

## 1.2. Companies and Media

This part presents some results of the survey of the attitudes of companies listed on the stock exchange towards small investors. A relatively small response to the survey was evidenced since only 31 from 153 actors on trading on the exchange replied. It was found that the surveyed companies give small investors less importance than it is usual in abroad. As result, 9.6 per cent of the surveyed replied that the importance of small investors is none, 45.2 per cent said that is small and 25.8 per cent attributed medium importance. The rest give minority investors greater importance. It was shown that among minority shareholders also owners of up to 20 per cent of shares were from important companies. This is more a result of privatization than of trading on the exchange. This is also confirmed by the answers of stock broker houses. They state that little work is done for minor investors. Less than half of the companies (38.7 per cent) communicate with minor investors, the rest do not. Different situation is abroad. It is evident that Slovenians have somewhat conservative saving habits. They do not make long-term investments in securities to such an extent, as they do in some other countries. In some countries such a long term investing is much more developed.

## 1.3. Media and the Public

As mentioned, we test the hypotheses, related to the entire population, with a questionnaire. The investigators surveyed 1221 people. First of all we were interested in how much people actually know about securities and dealing with them. We found, that people have heard about securities and they might even be acquainted with them. However, the majority of people is poorly qualified for dealing with securities. Thus, for example, only 19 per cent of the surveyed can actually buy stocks.

We found also that more than half of the surveyed regularly or at least occasionally follow the economic reports in the media. However, a small part of the surveyed follow up on these reports regularly. The majority of respondents (33.9 per cent) regularly monitor foreign currency exchange rate. Fifteen and less per cent of respondents, depending on the type of news, monitor news. This is interesting, since Bole already proved in his research that the news publication affects the stock market value on the stock exchange.

## Conclusion

It was found that the position of small shareholders, knowledge of public about investing and media reporting on economic issues in Slovenia is comparable with the situation in neighbouring countries. The survey has shown that the

extent to which media report on economic issues is suitable. Reports are regularly monitored by less than a third of the people.

The results also show that all securities market public in Slovenia can be divided into „executive actors“ (insiders) and „public“ (outsiders). The main characteristic of insiders is that they have enough knowledge and experience and are therefore qualified for operating on the market. On the other hand, the main characteristic of outsiders is that they do not have enough knowledge for operations. Thus, this research finds that the majority of people in Slovenia do not even have enough knowledge to be an actor in operations. This is why people for example do not invest in securities. To improve the situation, the state should be active in order to improve the knowledge of citizens to deal with assets. Thus, in all public secondary schools in Slovenia the subject of economics was introduced in 1994. So all high school students can get basic knowledge on economics, securities etc. Most of them, as part of excursions, visit the LJSE. Since the time of schooling in Slovenia is twelve years, it can be expected that the majority of people in the future will get the basic knowledge on economics. For seven years now *The Student Stock Exchange* is being organized for student education with fictive shares listed on the stock exchange and fictive trading with them. So far, in the past five years more than hundred of Slovenian students were participating in this project.

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## SLOVINSKO: ČO L'UDIA VEDIA O EKONOMIKE

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Článek prezentuje závěry empirických prieskumov, týkajúcich sa záujmu slovinskej populácie o otázky súvisiace s trhovou ekonomikou, a najmä s oblasťou cenných papierov. Sleduje, do akej miery obyvateľstvo získava informácie o činnosti podnikov a či médiá poskytujú informácie o ich výkonnosti.

Na druhej strane sú v článku stručne uvedené výsledky zisťovania, či si slovinské firmy vytvorili komunikáciu s verejnosťou. Výskum ukázal, že Slovinci vedia len málo o cenných papieroch a o tom ako ich využívať. S odvolaním na poznatky predchádzajúcich

výskumov článok konštatuje, že Slovinci koncom 90. rokov nemali záujem investovať do cenných papierov, a to z dôvodu ich finančnej situácie, absencie poznatkov o tomto produkte, ako aj o burze, a najmä vzhľadom na ich presvedčenie, že takéto investície sú príliš rizikové.

V otázke médií pri pomerne malej reakcii respondentov (31 zo 153 subjektov) autori zistili, že spoločnosti prisudzujú malým investorom menší význam, ako je bežné v zahraničí. Vyše polovica ich význam považuje buď za malý, alebo žiadny. Ukázalo sa však, že medzi minoritnými akcionármi boli aj zástupcovia veľkých spoločností, čo je skôr výsledkom privatizácie než obchodovania na burze. Len menej ako polovica firiem komunikuje s minoritnými investormi. Na vzorke 1221 ľudí sa zistilo, že ľudia sú zle pripravení na investovanie do cenných papierov a len 19 % z nich skutočne akcie nakupuje. Vyše polovica opýtaných však pravidelne alebo príležitostne sleduje ekonomické správy v novinách.