



Top Specialists Rescued The National Economy - Economic Lessons From The Crisis

* MSc. Toivo Tanning

* Tallinn University of Technology, Akadeemia street 3, 12618 Tallinn, Estonia.

ABSTRACT

The aim of this article is to analyse the lessons learned during the economic crisis in Estonia, a successful small country. The main emphasis of the analysis is on the professions that primarily define economic results - managers and top specialists. On the other hand, Estonia can be used to make generalisations about other countries, especially in a situation, where in 2012, the gross domestic product (GDP) of the euro zone as a whole was negative and South European countries are experiencing great financial difficulties. The Estonia can be viewed as a small economic model that not only allows making generalizations about the new European Union (EU) Member States in Eastern European, but also for other states. Analysis concentrates mainly on professions (workforce) in relation to the economic crisis. What are the lessons learned?

Keywords : economic crisis, lessons, Estonia, top specialists or professionals, managers.

1. Introduction

Estonia, a member of the EU and the euro zone, has a modern market-based economy and one of the higher per capita income levels in Central Europe and the Baltic region. Estonia's successive governments have pursued a free market, pro-business economic agenda and have wavered little in their commitment to pro-market reforms. The current government has followed sound fiscal policies that have resulted in balanced budgets and low public debt. [1,2,3]

Estonia can be viewed as a small economic model that not only allows making generalizations about the new EU Member States in Eastern European, but also for other states. [4,5,6,7,8]

Analysis concentrates mainly on the primary sectors of the Estonian national economy and professions in relation to the economic crisis. The analysis will focus on the professions that have experienced the greatest changes and have affected the process of overcoming the economic crisis the most. The situation before, during and after the crisis will be viewed.

The efficiency of the work performed by companies in connection to the crisis period, has been discussed in other articles, which provide the according methodological and theoretical foundations. [4,6]

The techniques and labour market survey definitions used by the authors have been specified in Eurostat [9] and ISCO 08 of ILO [10].

How has the economic crisis affected business and specific sectors of the economy, and what are the lessons learned? This is discussed in the following analysis on the basis of Estonian companies. [4,5,6,7,8]

2. Estonian economy growth

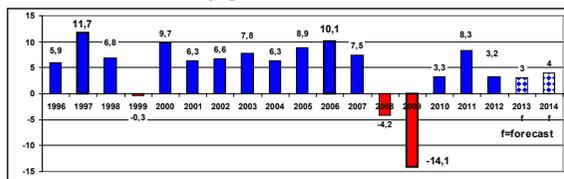


Figure 1. Real GDP growth rate in Estonia [12]

Source: the authors' illustration

The development of the Estonian economy before and after the crisis was one of the fastest in the EU. Yet, the crisis led to a very deep recession, which was one of the greatest in the world, as well as in the EU, and lasted for nine quarters. Thus, the country covered two extremes. On the other hand, it also shows that the reforms carried out in the past were successful and established a base that enabled exiting the crisis successfully. In particular, this meant creating favourable conditions for business. Again, GDP growths in 2011 and also 2012 are among the highest in the EU.

3. Employment in Estonia

Analysis concentrates mainly on the primary sectors of the Estonian national economy and professions (workforce) in relation to the economic crisis. Let us look at the four major sectors of the economy with the largest gross domestic product and the greatest number of employees: industry, construction, trade and transportation. The analysis will focus on the professions that have experienced the greatest changes and have affected the process of overcoming the economic crisis the most. The situation before, during and after the crisis will be viewed.

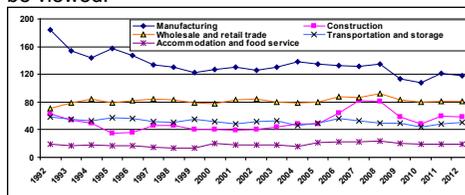


Figure 2. Employed persons of Estonia, thousands, branches, 1992 - 2012 [14]
Source: the authors' illustration

In 2012 economic activities persons (EMTAK 2008) total was 624.4 thousands. [14]

Table 1. Employed persons by occupation [16]

	2006	2007	2008	2009	2010	2011	2012
Employed persons, thousands							
Total occupations	646.3	655.3	656.5	595.8	570.9	609.1	624.4
Managers	72.5	74.5	69.7	64.1	61.2	54.9	55.9

Specialists	99.2	96.5	89.9	96.5	114.1	118.9	120.2
Proportion of the employed (total=100), %							
Managers	11.2	11.4	10.6	10.8	10.7	9.0	9.0
Specialists	15.3	14.7	13.7	16.2	20.0	19.5	19.3
Technicians and associate professionals	12.8	13.2	13.6	14.0	10.9	12.9	13.6

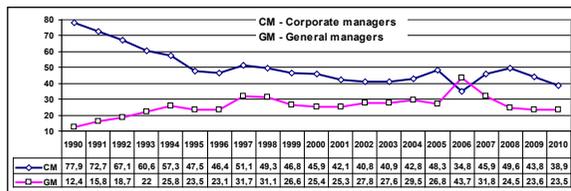


Figure 3. Employed persons in Estonia, by occupation, thousand [16]
Source: the authors' illustration

A number of large companies and thus also their managers from the Soviet times remained active during the first years of the restored independence. However, the radically changing markets resulted in the liquidation of many of them, while others were restructured. The situation stabilized in 1995. The number of large company managers also stabilized.

However, a noticeable CM (corporate managers) decrease took place in 2006; interestingly, a large increase in the number of small company (SME) managers also took place during the same year. The strategic plans of larger companies are created in advance; cooperation agreements and the sort are sought out and concluded with business partners. Compared to 2006, the number of managers in Estonia grew significantly in the two following years, while the trend was the contrary for SME. In 2008, the number of managers was already 49,600, which is the highest it has been since 1994. The number decreased to 38,900 in 2009 and 2010. This showed that the economic crisis reduced their number by more than one fifth (21.6%) in two years. But again, this decline was significantly smaller than the same ratios for SME managers.

When the Estonian economy was prospering, the number of managers also increased sharply from 2005 onward. CM managers increased 2008th was the last 10 years record highs. That same year, but the entire economy (GDP) fell by 4.2%.

Bankruptcy proceedings in Estonia may sometimes take years, but the decrease in the number of managers provides more operative information.

Sadly, a large number of the managers were incompetent; they lacked both economy and management related knowledge and experience. There was a shortage of information capital. There were also differences in the way they regarded work, here meaning the success of the company, as well as the managers' abilities. Managing private businesses requires great efforts, especially during difficult times. Not everyone was capable of that; for some the reasons had health issues – low capacity for work. Connections that enabled getting better orders also played their part. Corruption, indecent competition and other actions unacceptable in business must also be mentioned.

Thus, leaders, especially leaders of CM, could not slow decline in the Estonian economy. It was not realized until two years later, than in 2010. CM managers had declined over the heads of 10,700, or 21.6%.

Hence, another lesson: after the restoration of part of the former state-owned enterprises were owned by suspicious financial transactions. Since it was a relatively small company, most of them worked as well as leaders.

Simultaneously, there was a lack of education and experience

to manage a business necessity. As the chief of knowledge was missing, then it had to buy the service. Recruitment was invited to a number of top professionals.

The number of managers in Estonia was record high in 2007 – 74,500; by 2011, their number had dropped to 54,900. The decrease was 19.6 thousand, i.e. 26.3%.

Than in 2004, when the economy expanded successfully, accounted for professionals only 13.2% of employment, but in the following year, their share increased significantly, growth from the 2010th was in 19.1%, respectively. From 2004 to 2010, the number increased by 30 thousand, or 38.0%. Greater increment gave other specialists, growth was 17 700.

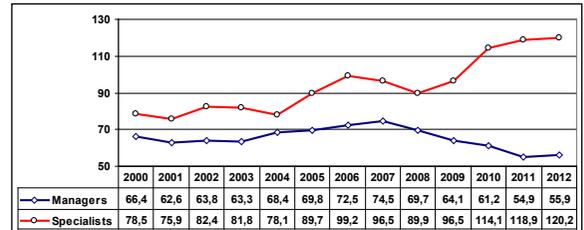


Figure 4. Employed persons in Estonia, by occupation, thousand [16]
Source: the authors' illustration

The trend in the change in the number of top specialists was the contrary and had a one year shift. Their numbers increased from 89.9 thousand to 120.2 thousand during the years 2008 to 2012. The increase was 30.3 thousand. If someone had received a fortune during the good times and created a company (the time of rampant capitalism), they soon discovered that in difficult times they lacked information capital. People thought that if God gave the profession, he would also give the brains. But that was not always the case. The managers, who realised this, hired someone smarter than themselves – a professional; while those that didn't went bankrupt during the economic crisis. The number of top specialists began to slowly rise already several years before the peak of the crisis, and continued to increase sharply during the crisis.

Their numbers increased by 30.3 thousand, i.e. 33.7% (!) during the years 2008 to 2012. Thus, incompetent managers led the state into the crisis and top specialists brought it out of the crisis. These trends are pertinently illustrated by the figure. While in 2004 there were only 9.7 thousand top specialists more than there were managers, then in 2012, the indicator was 64.3 thousand – a 6.6 time increase in difference.

Nearly a quarter of the managers were working in the public sectors (2012 = 26.5%) and three quarters in the private sector. This ratio was the same both during and after the crisis. Slightly more managers worked in the private sector during the pre-crisis years. The share of top specialists was greatest in 2001 (65.6%) and smallest in 2011 (51.1%). During the same time, the share of top specialists working in the private sector grew one and a half times, reaching 48.9%. There was a small decrease in 2012.

While in 2007 there were 2,400 managers employed with more than one job, their numbers decreased to two thousand in 2010, the year with the largest unemployment levels; but after that, their numbers increased again, rising to 3,100 in 2012. This indicates that some managers were not entirely occupied with the work of their company. The number of top specialists employed with more than one job decreased two-fold during the years 2000 to 2004, and then remained stable for the following four years; it began to increase sharply from 2009 onward, reaching 14.9 thousand in 2012. This indicates that their main jobs could not use their knowledge to the fullest and also that demand for them increased. On the other hand, small companies (SME) only needed them partially, because

many could not afford to pay wages for fulltime employees.

When the 2012th came from every male driver of one of the top specialist, then each female driver on 4.5 professional excellence.

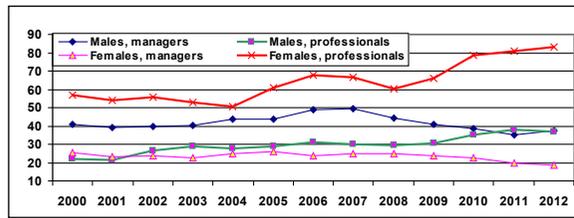


Figure 5. Employed persons by occupation of Estonia, thousand [16]

Source: the authors' illustration

In 2007, 49.7 thousand of the 74.5 thousand managers were men (66.7% share) and 24.7 thousand were women. In 2012, the indicators were respectively 37.6 thousand (67.3% share) and 18.3 thousand. The relative share was practically the same. In 2012 there were 83.2 thousand women (69.2% share) and 37.6 thousand men among top specialists, i.e. 2.2 times less. Is this enough to make the conclusion: the economy of the country was saved by smart women?

Regardless, managers and top specialists comprised only 28.2% of employed persons in 2012. Thus, the representatives of other professions also need to be considered to give the final evaluation. There were very diligent people in each group of professions, but also lazy people. A thorough and substantial in-depth analysis would provide a more detailed overview of the issue.

Regardless, their contribution to the economy as a whole is different. The final result depends most on the managers' decisions and on their skills or how much they take other people's advice into consideration.

Summary

- Estonia was brought out of the economic crisis mostly through the sharp incorporation of top specialists. Using

- their information capital skilfully was the key to success.
- The majority of the top specialists were women. Smart women saved the Estonian economy.
- After the crisis, the age of the managers increased, and thus also their experience. The age-old truth – one also needs experience in addition to money.
- A crisis inevitably cleans the economy with its harsh market economy laws; the weaker fail to keep up.
- The share of the main nationality, Estonians, was larger both among managers, as well as top specialists. Thus, patriotism plays its part in difficult situations.
- The new, more flexible Employment Contracts Act of Estonia also helped exit the crisis better.
- An increasingly important problem is that there is not enough qualified workforce, which is already hindering the development of business. A seeming contradiction has appeared: on the one hand there is relatively large unemployment and on the other, an increasingly large amount of vacant positions.
- The need to constantly increase people's qualifications also falls into this category, because outdated knowledge and experience soon becomes obsolete; changes in the economy are quick to occur.
- An increasingly important problem is that local people move abroad in search of work and higher wages.
- This is directly related to the need to raise the low wages and thus also increase labour productivity and the quality of the workforce.
- People are already recommending bringing cheap workforce in from where wages are even lower than here. At first just unskilled workers, but also skilled workers and specialists.
- The fact that the public debt was very small and that the state budget was balanced for most years, was important.
- Still, the basis for exiting the crisis was already created with the large-scale market economy reforms initiated and implement since the time Estonia regained its independence.
- Let us repeat the main position of the data, i.e. information society: information capital (education + experience) is the greatest asset. This was also confirmed by Estonia's experience in exiting the crisis.

REFERENCES

[1] Estonia. The World Factbook. CIA. <https://www.cia.gov/library/publications/the-world-factbook/geos/en.html> 22.04.2013 | [2] Tanning, T., and Tanning, L. (2013). An analysis of labour productivity in Central and East European countries. *The International Journal of Arts and Commerce*, 2(1), 1-18. | [3] Tanning, L., and Tanning, T. (2013). Companies working efficiency before and after the economic crisis of the Latvia example. *Global Advanced Research Journal of Management and Business Studies*, 2(3), 126-136. | [4] Tanning, L., and Tanning, T. (2010). *Rahvusvaheline majandus I & II*. (International Economy, Vol. I & II). Tallinn. Tallinn University of Technology. | [5] Tanning, L., and Tanning, T. (2012). Labour market analysis of East- and Southern-European countries. *The International Journal of Arts and Commerce*, No. 5, 209-223. | [6] Tanning, T., and Tanning, L. (2012). European Union labour force competitiveness in the world. *The International Journal of Arts and Commerce*, No. 6, 64-79. | [7] Tanning, L., and Tanning, T. (2012). Labour Costs and Productivity Analysis of East-European Countries. *International Journal of Business and Social Science*, No. 20, 65-78. | [8] Tanning, L., and Tanning, T. (2013). An analysis of Eastern European and Baltic countries wages. *The International Journal of Arts and Commerce*, 2(3), 125-138. | [9] Methodology. Annual accounts. National accounts (including GDP). Eurostat http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/methodology/annual_accounts | [10] International Standard Classification of Occupations (ISCO 08). ILO <http://www.ilo.org/public/english/bureau/stat/isco/index.htm> | [11] Eurostat news releases 64/2013 - 22 April 2013. Eurostat http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22042013-AP/EN/2-22042013-AP-EN.PDF | [12] Real GDP growth rate – volume. Percentage change on previous year. Code: tec00115. Eurostat. 20.04.2013. <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115> | [13] Gross domestic product of Estonia. Millions of PPS (Purchasing Power Standard). Code: tec00001. Eurostat. 20.04.2013. <http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tec00001&language=en> | [14] Employed persons, thousands. Economic activity (EMTAK 2008) Code: ML0200. Statistics Estonia. 14.02.2013 http://pub.stat.ee/px-web.2001/Dialog/varval.asp?ma=ML0200&ti=EMPLOYED+PERSONS+BY+ECONOMIC+ACTIVITY+%28EMTAK+2008%29&path=..//_Databas/Social_life/09Labour_market/04Employed_persons/02Annual_statistics/&lang=1 | [15] Employed persons by indicator and occupation, employed persons of Estonia, thousands. Code: ML211. Statistics Estonia. 14.04.2013 http://pub.stat.ee/px-web.2001/Dialog/varval.asp?ma=ML211&ti=EMPLOYED+PERSONS+BY+OCCUPATION+%281989%2D2010%29&path=..//_Databas/Social_life/09Labour_market/04Employed_persons/02Annual_statistics/&lang=1 | [16] Employed persons by occupation. Code: ML2109. Statistics Estonia. 14.04.2013 http://pub.stat.ee/px-web.2001/Dialog/varval.asp?ma=ML2109&ti=EMPLOYED+PERSONS+BY+OCCUPATION&path=..//_Databas/Social_life/09Labour_market/04Employed_persons/02Annual_statistics/&lang=1