

# Local action groups and the LEADER co-financing of rural development projects in Slovenia

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**Abstract:** The influence of a formal and informal system of the Local Action Group (LAG) board's performance on the perception of its members is analysed in association with the suitability of the rural development projects for the LEADER funds co-financing. The unique in-depth survey data was obtained from the surveys with the 103 LAG board's members using the written questionnaire designed for the inquiry and from the existing data analysis on projects which were co-financed by the LEADER funds in Slovenia in the years 2008 and 2009. The informal system of performance of the LAG board members was found to influence significantly its members' perception on the suitability of projects to be co-financed by the LEADER axis. The opposite was established for the formal system, which had an insignificant influence on the board members' perception on the suitability of projects.

**Key words:** formal system, informal system, institutions, lobbying, project selection

Rural development in the European Union (EU) countries has been supported by different policy measures and initiatives. One of them is mainstreaming the LEADER approach into development policies in establishing and supporting the local development partnerships in rural development projects in autonomous regional development (Pylkkanen and Hyyrylainen 2005). The LEADER approach aims at encouraging establishing and supporting local development partnerships between three groups of local actors – civil society, public administration and private sector – organized as the Local Action Groups (LAGs). Our focus is on the LAGs role in rural development projects, which have been supported by the LEADER program in Slovenia.

The LEADER program can bring to rural development a new innovative theme in the way on how to develop the countryside with regard to the agricultural and forestry sector, and the environment and quality of life in the countryside (Hudečková and Lošták 2008). It is based on the endogenous development concept (Terluin and Post 2001: 3) which builds on the capacities of the local actors. It is determined by three main characteristics which make a basis of some sort of a postmodern laboratory (Ray 2000: 174): First, all activities are implemented in a certain local area (not an economic sector any more, as it was in the exogenous development concept), which brings a greater interest of the local population and interested the inhabitants for the development of

the local area where they live. Second, all economic and other activities implemented in a certain local area multiply its effects and stay inside the local area. This means that the local resources are being used by local actors who want their living area to be safe, healthy and a nice place to live in. Third, it is oriented towards the activation of the skills, knowledge, cooperation, and development capabilities of the local actors. With their participation and integration in the development activities, they can get the opportunity to actively participate in the sustainable development of the local area.

The basic assumption of the LEADER approach is that the local development potentials exist and they can be strengthened through the local initiatives such as the LAGs (Delin 2012). These groups are expected to possess a relatively high degree of various intangible forms of capital, especially networking and social capital, which is believed to be the most important for the LAGs (Lošták and Hudečková 2008). The reason why social capital might be crucial for the LEADER approach lies in the fact that through the established network-like cooperation, this can induce synergies and supports in strengthening the roles of other forms of intangible capitals such as the intellectual, human and cultural capital. According to Schumacher (2000: 60), economic development does not come from goods, but from educated, well organized and disciplined people without whom the resources rest unused, the latent and only intellectual

capital, which is available in the local area and by the local actors living there, who can activate them. In this context, important are the learning regions with the appropriate institutions, innovation and regional renewal (Morgan 1997). So, we can say that the distinctive characteristic of the LEADER approach is that reliance is placed on the people who live in the local rural areas, and on their ability to discover what is best suited to their local development area needs (Nemes 2005).

Lowe (2000) argues that the integration and encouraging network-like cooperation between the local people and the local action groups in local development activities does not necessary mean that they possess the appropriate knowledge and experience to implement such local development activities. Therefore, the core question for the LEADER approach is if different groups of local actors really possess the necessary skills, knowledge and capabilities to implement the entrusted local development activities? If this innovative local development approach is to work well, the local actors must have the necessary capabilities or they have to acquire them in order to develop the project ideas. They need to have know-how and the human resources to devote to the particular local development and local employment activities. They also need to have the financial skills to manage those activities (European Commission 2006: 15). Moreover, when implementing the LEADER programmes, some irregularities might appeared such as approving co-financing of the project which had already been implemented, a non-transparent selection of the local development projects, the dominant influence of the public sector in the LAG's board and financing of the projects which were not development-oriented (European Court of Auditors 2010). All the above-mentioned deficiencies and shortcomings are likely to be due to the lack of the appropriate capabilities of the LAG members. More precisely, of those LAG members who through the LAGs participate in the local development activities.

This article takes as a point of departure the literature on the empirical investigation the impact of a formal and informal system of the LAG board's performance on the selection of rural development projects. The LAGs define local development strategies and policies, and make decisions on the awarded grants for local development projects, which should comply with the objectives of the local development strategy. The formal and informal system of the LAG board's performance determines the opinion of their members and thus directly and indirectly determines

the selection of rural development projects. The empirical analysis using the unique in-depth survey data and the related available secondary data is focused on the role of the LAG board's performance in the case of the LEADER programme in Slovenia and particularly on the selection of suitable rural development projects for the LEADER funds co-financing.

#### **LAGS AND THE LEADER CO-FINANCING OF RURAL DEVELOPMENT PROJECTS**

One of the main objectives of the LEADER is to allow through the bottom-up approach participation of local community actors to more effectively voice their needs. The LEADER aims to improve governance mechanisms in rural areas in order to harmonise interests and solve potential conflicting interests by encouraging decision-making process closer to local rural citizens. The LEADER approach through the decentralized and bottom-up governance may lead to innovative approaches in rural development, which may contribute to a more efficient use of resources and may lead to a reduction in the territorial, local rural and social inequalities (Nemes and Fazekas 2007; Nardone et al. 2010).

In this study, the focus is on the role of the LAG's board members on efficiency of the LEADER related rural development projects. The LAG's board members are appointed under the expected requirement to have all the necessary skills to implement the LEADER's rural development activities. Namely, the LAG board is the legal structure responsible for leadership and control of the LAG activities. Each LAG member can be a candidate to become a LAG board member, regardless of his/her education and/or previous experiences, but by getting enough election votes. An elected member gets the opportunity to have an influence on the direction of the further development of the local rural development projects. The only formal limitation is that the LAG board has to be composed of 50% of the public institutions representatives, 25% of the economic sector representatives and 25% of the civil society representatives. By representing different groups of local actors, every member brings a unique insight into the needs of the local rural area development, but may have a quite different level of expertise in serving in the LAG's board structures (Irish LEADER Support Unit 2006). Once composed, the LAG's board should operate in accordance with the adopted rules and regulations regarding board meetings, decisions-making procedures and other

formal rules and regulations. This formal system encompasses the LAG's rules and regulations that help the board to function effectively and make decisions (Maharaj 2009: 107). However, only focusing on a formal system of the LAG's rules and regulations alone neglects the LAG's board's actual behaviour and the LAG's board's process. Therefore, in addition to the formal system, also an informal system of characteristics related to behaviours and attitudes that help the LAG's board to function effectively and make decisions should also be considered.

Maharaj (2007) shows that the experience and personal attributes of the individuals comprising the LAG board members and the decision-making process of the board's behaviour affect the good organizational governance. The informal system focuses on how the formal systems are embedded and translated and goes beyond the superficial adherence to the formal system and looks at three major LAG board members' characteristics that are required for the effective decision-making process. According to Maharaj (2007: 72), these three major LAG board members' characteristics are: knowledge, group-thinking, and values.

Knowledge represents the actual depth and breadth of knowledge of the LAG board members. Knowledge is a prerequisite for the LAG board members and involves the knowledge base and expertise of the individual LAG board members. They need it to better understand the issues and to be able to synthesize the received information and to be fully engaged in the discussion and dialogue during the LAG board meetings. Yet, it does not mean that the LAG board members should be experts, rather the knowledge should encompass their ability to critically evaluate the received information. Furthermore, the LAG board members should also possess learning capabilities which include their ability to absorb new knowledge, to synthesize this knowledge and to develop problem-solving skills, i.e., the ability to create new knowledge (Maharaj 2007). The knowledge base of each LAG board member should fit the needs of the LAG. Therefore, it should include knowledge of the seven key features that summarize the LEADER approach, the acquaintance of the local development strategy and the knowledge needed to identify the potential for further development of the LAG's rural development area. Moreover, they should be willing to share this knowledge and expertise to ensure the effective decision-making and not be afraid to ask direct questions in a case that they are not clear about an issue.

Group-thinking represents the LAG board members' ability to interact or the group-thinking mentality of the LAG board members and the level of engagement and questioning of the LAG board members. More specifically, Maharaj (2007: 75) called group-thinking "when receiving information, board members may succumb to the persuasive power of their peers in their thinking patterns and opinions." Groupthink occurs when a person's thought process and decision-making capabilities become heavily influenced by the peer pressure. This may cause the group to overestimate their power and morality, causing the members to ignore the ethical or moral consequences of their decisions. This pressure may cause the LAG group members to withhold their opinions for fear of having an opinion different from that of the group. This silence may create a domino effect where silence may be considered as consent among the LAG group members. If a LAG member expresses a strong argument against the majority of the group, however, a direct pressure may be exerted on that member to ensure that the LAG member understands that dissent is contrary to what is expected of loyal members. The level of participation among the LAG board members at board meetings can be used to reduce the negative effects of the group-thinking. The LAG board members, however, need to be able to think independently and not to conform to the in-group pressures. Thus, it is necessary that the LAG board members question each other and the management to preserve the integrity of the information and avoid the group-thinking. If board members are not able to think independently, free from the group pressures, then this may adversely affect the decision-making process.

The values of the LAG board members measure both personal and organizational values. According to Maharaj (2007: 74), the values, both personal (such as beliefs, education and social status) and organizational (as expressed in the organization's code of ethics, vision and mission statements), may elicit a more valuable insight into the LAG board members. They are important as they determine the choices that are made by the LAG board member. Therefore, it is important that they are aware of their personal influence in the decision-making process. During the LAG board meetings, the board members must ask difficult questions, use their knowledge and experience, and refer to the organizational values when making strategic decisions. As the LAG board members refer to the company values, a sense of cohesiveness will be established among the members and this synergy will

enable the board to act as a unified body. The LAG board members must also act honestly, be committed to their function, avoid conflicts of interest and put their own personal interests behind them.

While in general the LEADER approach can be beneficial for local communities in addressing rural problems and promoting rural development, there are rare studies to investigate the formal and informal systems that might cause effectiveness of the LEADER rural development partnerships. The experience with the implementation of the LEADER approach in the EU countries shows that the local actors need time to build up the strategic and operational capabilities necessary to design and implement a local development strategy in the framework of a larger rural development programme (European Commission 2004b). As is the case in the new Member States of the EU, they are less prepared for this endeavour, which may require a whole programming period for experimental and preparatory steps. On the other hand, experienced local stakeholders may develop expensive, bureaucratic and technocratic behaviours and isolate the group from other local actors (Marquardt et al. 2012).

This paper aims to fill this gap in literature by analysing the factors of the formal system (as the only criterion followed when forming the LAG's board) and the informal system on which the LAG's boards in Slovenia operate (as the basis to analyse the knowledge and abilities of the LAG board members to implement the rural development activities) and empirically test their influence on the LAG member's opinion which rural development projects are suitable to receive the LEADER co-funding.

The main thesis of the study is that based on the opinion of the LAG board members, which projects are suitable for the LEADER co-financing, this is influenced by both formal and informal systems: the informal system which reflects the knowledge and ability of the LAG board members to implement development activities is more important than the formal system.

The main thesis is empirically tested by the following two hypotheses (H):

H1: The opinion of the LAG's board members on which rural development project is suitable for the LEADER co-financing is positively associated with the LAG's board informal system.

H2: The LAG's board formal system has an ambiguous impact on the opinion of the LAG's board members on which rural development project is suitable for the LEADER co-financing.

## METHODS AND DATA

The research has been designed in three steps. Firstly, in the way that the LAG's Annual implementation plans (AIP) for the years 2008 and 2009, when the LEADER projects first started to be implemented in Slovenia, have been analysed in order to establish what kind of projects were recognized as suitable for the LEADER co-financing in this period.

Secondly, based on the analysis of the implementation results, a questionnaire was developed through which the formal and informal system was analysed using the Likert's type scale from 1 = not important at all to 5 = the most important. The questionnaire consisted of five sets of questions: first, the knowledge of the LAG's board members was measured. Second, the group thinking inside the LAG's board was measured. Third, the values of the LAG board members were measured. Fourth, the formal factors were measured. Fifth, the genuine information such as age and education was measured.

The questionnaire was pre-tested on a pilot sample of 5 members of the LAG board members. After that, it was entered into a web tool and a link with an invitation to participate in the research was sent by e-mail to all 267 LAG board members in all 33 LAGs in Slovenia between 15 March 2011 and 15 May 2011. In the survey, 38.58% of all the LAG board members participated, or 103 respondents fully completed the written questionnaire: 59 women (57.3%) and 44 men (42.7%). The average age of the respondent is 44 years (it varies from 29 to 65 years). By education, the structure is the following: 21% secondary education, 22% higher education, 52% high or university education, and 5% master or PhD. This implies a high level of formal education, which does not necessarily guarantee a suitable knowledge and skills for the LAG needs. By the representation of the local action groups, the structure is: 49.5% from the public sector, 29.1% from civil society, and 21.4% from the private sector. On the basis of the structure of the respondents who completed questionnaires, we can conclude that the sample of the respondents is representative as it covers all 33 LAGs, different local action groups' participation, and all territories in Slovenia in 12 statistical regions in Slovenia. In one statistical region, there can be more LAGs as they can be established at a lower municipality level. A LAG can also cover more municipalities in several statistical regions. This means that the LAG borders can be different than the borders of the statistical regions. To sum up, the sample of 103 respondents represents

opinions of all approved LAG's representatives and the regional coverage of the interpreted data for all statistical regions in Slovenia.

Thirdly, the unique in-depth survey data obtained from the questionnaire designed for the inquiry has been analysed using quantitative methods: first, descriptive statistics. Second, the multivariate factor analysis and the regression analysis are used to test the two set hypotheses on the association between the formal system, the informal system and the perception of the LAG board members about which projects are suitable for the LEADER co-financing.

## RESULTS

In the programme period 2007–2013, the axis LEADER has been implemented in Slovenia for the first time. In order to find out how successful Slovenia has been in taking the first steps of implementing the LEADER, some basic data was collected. In the years 2008 and 2009, two public tenders were published and 33 LAGs were approved for the co-financing, which covers in total 97% of the Slovenian territory (without towns). With the intention of gathering more information, the AIPs for the years 2008 and 2009 were reviewed.

Firstly, the amount of funds spent was analysed and the results showed that in the observed period for co-financing the LEADER projects, €6.2 million had been allocated, which represents at the end of the first half of the programme period only 26% of all available LEADER funds. This lack of spending is a result of the delays in establishing legal rules and the legislation at the EU and national level and it corresponds to the situation at the EU level.

Secondly, the structure of the final beneficiaries was analysed and the findings clearly show a strong domination of beneficiaries from the public sector. More specifically, in the years 2008 and 2009, the final beneficiaries in 58% of all projects approved for co-financing with the LEADER funds were from the public sector, 27% of the final beneficiaries were civil societies and only 15% of the final beneficiaries came from the private sector. The reason for such a distribution of the LEADER funds may be related to the fact that the public sector has more experience in managing the EU projects and has a better access to financial resources to provide assets for financing or co-financing of the projects. However, based on the experience from the LEADER+ (European Commission 2004a), another possible interpretation

would be that in the LAG's boards, the public sector representatives have a greater influence in the decision-making process, which means that their proposed projects have a greater privilege and thus a biased advantage in the selection process. An additional explanation is that the LEADER approach is not well known among the potential beneficiaries in Slovenia as it is apparent from the interim report of the Regional Development Programme 2007–2013 in Slovenia (MAFF 2010) and as a result, such a biased beneficiaries' structure may occur. The MAFF (2010) also states that the LAGs are not active enough in promoting the LEADER approach opportunities for the local rural development.

Thirdly, the analysis of the content of the approved projects for co-financing by the LEADER funds in the years 2008 and 2009 showed that almost 27% of the projects cover topics related to the development of the tourism offers in the countryside. In addition, 15% of the co-financed projects were in the field of education and 11% of the co-financed projects were related to investments in the municipal infrastructure and public facilities, events and similar activities. Moreover, 9% of the co-financed projects were in the fields of the natural, cultural and ethnological heritage, 8% in marketing and promotion of the local products, 6% in the preparation of projects documentation and only 3% for private investments. Yet, an in-depth review of the contents of the approved projects for co-financing by the LEADER showed that also projects which bring nothing new to the area with contents that have already been implemented in the area meaning the danger of a deadweight loss were also recognized as suitable. Those include different traditional events, well known among people, investments in municipality buildings and activities that would have to be paid from their own resources such as the arrangements to do with the school boiler, kindergarten surroundings, the purchase of chairs, setting up of the municipality's official web site, the maintenance of the municipality building surroundings, a financial support for running the sport and cultural societies. One would argue that it is very difficult to find the LEADER features in those activities or they could not reveal an innovative character, which is thought to be the biggest advantage of the LEADER programme.

Finally, regarding the projects in order to improve the knowledge and abilities of the local actors to participate in and implement development activities, the results showed that none of the projects in the field of education was oriented towards the capacity build-

ing of the local actors. Instead of the local capacity building development, the contents of the projects were related towards the traditional topics such as learning foreign languages, the use of the internet and the information and communication technologies and learning how to cook, the supply of which is widely available in the market. This finding suggests the conclusion that the LAGs in Slovenia, similar to the LAGs in the other EU countries (Maye et al. 2010), consider unnecessary to gain more knowledge in the capacity building in the topics related to fostering rural development.

To sum up, the Slovenian initial LEADER experiences confirmed a main similarity with the previous experiences at the EU level in terms of the tendency of the public sector to prevail in the decision-making process and in their perception of the LEADER as an additional source for financing their local projects (European Commission 2004a). In addition, the main initial orientation of the Slovenian LAGs was tourism development, which was also the main field of investment at the EU level in the previous LEADER programmes (European Commission 1999). Considering that small and medium sized enterprises have been the main generator of jobs in the rural area, there is a need for the creation of innovative rural development projects that originate in the private sector and actually address the development problems in the local area (e.g. Bojnec and Latruffe 2011, 2013).

In order to investigate the influence of the formal and informal system on the performance of the LAG board members, the written questionnaire was developed. One of the questions was devoted to determine how in-depth the LAG board members were acquainted with the seven distinctive characteristics of the LEADER approach. Namely, the position of the European Commission (2004b) is that many difficulties, which occurred when implementing the LEADER, could have been avoided with a better recognition and compliance of the basic LEADER features. The results of the conducted research showed that the most recognized LEADER features among the LAG board members were that the local development strategy originates from the local area (81%), the LAG role in public-private partnership (72%), and the bottom-up approach (71%). However, only a half of the LAG board members recognized cooperation and innovativeness as a LEADER feature, and less than one quarter knew that a LEADER characteristic is also networking and multi-sectoral and integrated initiatives. The LEADER is a very specific approach, which builds on the intangible forms of capital. If

not properly understood even among the key local stakeholders, i.e., among the LAG board members, who are supposed to act in the “LEADER spirit” and to promote the LEADER approach, its overall effectiveness can be questionable.

These findings are also reflected in the opinion of the LAG board members on their perception and the possible selection choice of rural development projects, which are suitable for the LEADER co-financing. Among the respondents, 76.69% of the questioned LAG board members were familiar with the fact that such projects should be in line with the Local Development Strategy. Furthermore, only 71.84% of the respondents thought that a LEADER co-financed project should be developmentally oriented in order to bring to the local area new products and new solutions. Yet, 31.68% of respondents thought that the municipality projects were eligible for the LEADER co-financing simply because the municipalities contribute the largest part of co-finances. This should not be a selection reason for approving a LEADER project for co-funding. However, a structure of the final beneficiaries in 2008 and 2009 clearly proves that this is important for the project approval. 27.18% of respondents believed that the LEADER projects should be mostly from the area of tourism and 23.3% from the area of agriculture. 21.36% of the LAG board members who participated in our written questionnaire survey even thought that the LEADER co-financing was more suitable for projects, which have already been implemented in the local area because this fact represented less risk in their implementation.

These findings clearly show a lack of understanding of the basic LEADER features among the LAG board members. This is also reflected in the range and content of the projects approved for the LEADER funds’ co-financing in 2008 and 2009.

### Knowledge

For the purpose of this study, factor knowledge was measured with the questionnaire, by the LAG board members as the respondents, which had to choose on the scale from 1 = totally disagree to 5 = totally agree on how they gained the additional knowledge, which they needed to participate in the LAG board process. The empirical results showed that the arithmetic mean for the statement “if I do not know the topic that is being discussed at the board meeting very well I will ask my acquaintances who are experts in the field”

was found at 3.68, with the statement “I know all the topics that are being discussed at board meetings very well” the arithmetic mean value at 4.03, and with the statement “I will seek the knowledge I need as a board member in the professional literature”, the arithmetic mean value at 3.09. It was also investigated on how well they knew the basic documents related to the LEADER programme in Slovenia (such as the LEADER basic guidelines, the Local Development Strategy, and the Regional Development Programme for the period 2007–2013) and the results for the mean value were between 2.93 and 3.83.

To sum up, it was established that many LAG board members in Slovenia did not know the basic development documents, and did not know the topics that were being discussed at the LAG board meetings. Yet, in general, they did not seek extra knowledge in the professional literature or ask the acquaintances who were experts in the field.

### Group-thinking

Factor group-thinking was measured with the questionnaire, where the LAG board members had to define their perception towards the following statements (from 1 = totally disagree to 5 = totally agree):

- If I do not know a certain topic that is being discussed in the board meeting well enough, I would support the opinion of the majority (arithmetic mean value = 2.99).
- The opinion of each board member is considered equal to the opinions of the others when decisions are being made (arithmetic mean value = 3.86).
- Every board member has the opportunity to state his or her opinion (arithmetic mean value = 4.24).
- When I am certain that I am right, I hold strongly to my opinion even though it is opposite to the opinion of the majority (arithmetic mean value = 3.72).
- Asking tough questions is well accepted in our board (arithmetic mean value = 3.73).
- Usually I do not interfere in the discussion at board meetings (arithmetic mean value = 2.10).
- In our board, decisions are made after a constructive debate and consensus (arithmetic mean value = 3.83).
- I estimate my influence in the board as important (arithmetic mean value = 3.54).

This analysis indicates a rather disturbing situation and a clear presence of group-thinking in the LAG board’s process. Considering that for almost two

thirds of the projects in the years 2008 and 2009, the beneficiaries were from the public sector and that one third of in this research participating LAG board members think that the municipalities’ projects are eligible for the LEADER co-funding simply because they contribute a great deal of funding to the LAGs, it can be established that apart from the lack of knowledge, the group-thinking also contributes to the discrepancies in the LEADER implementation.

One of the issues that influence the presence of group-thinking in the LAG board meetings, there is the dedication to the function; whether all board members participate at the board meetings; if the board members are able to respect the views of other board members even when these views might be different; if new board members are comfortable asking questions and whether there is a high level of ‘independent-mindedness’ on the LAG board. In our written questionnaire, the LAG board members were asked to state how often they (from 1 = never to 5 = always):

- Attend the LAG board meetings (arithmetic mean value = 4.13).
- Examine the material before a board meeting (arithmetic mean value = 3.86).
- Consult an expert before the LAG board meeting about the topics they do not know so well (arithmetic mean value = 3.36).
- Consult with other members of the LAG whose representatives they are (arithmetic mean value = 2.93).

As we can see from the answers, the respondents from the LAG boards rarely consulted with other LAG members although they were elected to represent their opinion and interests. Apart from this, they attended the LAG board meetings on a quite regular basis even though they were not well prepared and they did not study the material they received before the meeting. Here, it is confirmed once again that the formal system itself is not enough. In a spite of a fact that the LAG board member receives the material for the board meeting in time, it is less likely to be studied for a meeting in advance. It is also questionable how legally does the dictated formal composition of the LAG board contribute to the equally represented opinions from all three groups of local actors if the actual representatives do not come prepared to the LAG board meetings, or they do not consult other LAG members, or they succumb to the peer pressure or do not even understand what the LEADER is all about.

Table 1. Factor matrix for knowledge

	Factor	
	1	2
Rural development program for the period 2007–2013	0.777	–0.312
Local development strategy of LAG	0.748	–0.279
Law on public procurement	0.684	–0.237
I know all the topics that are being discussed at board meetings very well	0.714	0.219
If I do not know the topic that is being discussed at the board meeting very well I will ask my acquaintances who are experts in the field	0.618	0.536
I will seek the knowledge I need as a board member in the professional literature	0.585	0.215

Extraction method: principal axis factoring (cumulative explained variance 57.9%: 47.7% the first common factor and 10.2% the second common factor)

### Values

For the purpose of the written questionnaire study, the following questions were asked (from 1 = totally disagree to 5 = totally agree):

- Our LAG has clearly established its strategic goals (arithmetic mean value = 3.75).
- The LAG board members put their own interests behind them when decisions are being made (arithmetic mean value = 3.44).
- The values of our LAG board correspond to my own personal values (arithmetic mean value = 3.64).

From these statements, it can be deduced that the LAG board members in Slovenia are not quite familiar with the values of their LAG or that the values are not clearly stated. That might also be the reason for the fact that not all board members put their own interests behind them when decisions regard-

ing important LAG issues – such as financing of the projects – were being made.

### Testing of set H1

The testing of set H1 was conducted in two steps due to a larger number of variables that are used in the analysis. In the first step, by using the factor analysis, the common factors were deduced from the individual variables that were measured using the written questionnaire and then in the second step, the regression analysis was used to test the set of H1.

With the factor analysis, all the collected data for variables was analysed and five new common factors in the informal system were created: specific knowledge and willingness to obtain information (the first and the second common factor respectively for knowledge in Table 1), decision-making

Table 2. Factor matrix for group-thinking

	Factor	
	1	2
The opinion of each board member is considered equal to the opinions of the others when decisions are being made	0.609	0.471
Asking tough questions is well accepted in our board	0.713	0.306
In our board decisions are made after constructive debate and consensus	0.558	0.396
I estimate my influence in the board as important	0.503	0.285
Attend LAG board meetings	0.649	–0.241
Examine the material before a board meeting	0.820	–0.240
Consult an expert before the LAG board meeting about the topics they do not know so well	0.754	–0.470
Consult with other LAG members whose representatives they are	0.685	–0.236

Extraction method: principal axis factoring (cumulative explained variance 56.5%: 44.7% the first common factor and 11.8% the second common factor)



Table 3. Factor matrix for values

	Factor 1
The values of our LAG board correspond to my own personal values	0.777
Our LAG has clearly established its strategic goals	0.667
LAG board members put their own interests behind them when decisions are being made	0.506

Extraction method: principal axis factoring (explained variance 43.5%)

process and the commitment to the function (the first and the second common factor respectively for the group-thinking in Table 2), and values (the single component for values in Table 3). As the criteria for the number of the common factor, there was used the initial eigenvalues greater than 1 and the scree plot, while for the variables, there were included in the factor matrix on the basis of the factor weights, which is absolutely greater than 0.2.

All five new common factors were applied for the purpose of testing H1 with the regression analysis. The regression results in Table 4 show the following:

Factor specific knowledge, which measured the acquaintance with the basic LEADER related documents, had a positive impact on the LAG board members' perception that the LEADER projects should cover the widest possible range of the LAG areas.

Factor willingness to obtain information, which measured how well the LAG board members knew the topics that were being discussed at the LAG board meetings, how often they sought an addi-

tional information in their social network and in the literature, had a positive impact on the LAG board member's perception that not only tourism projects or agricultural projects were suitable for the LEADER co-financing.

Factor the decision-making process which measured if all LAG board members had an equal possibility to state their opinion, if they were equally taken into account, if they expressed and defended their opinion even when it was different from the others, asking tough questions, and the level of involvement in the discussion and making decisions based on consensus, had a positive impact on the opinion of the LAG board members that the LEADER co-financing projects should be developmentally oriented.

Factor commitment to the function which measured how often the LAG board members attended the LAG board meetings, if they read the material before the LAG board meetings, if they obtained an additional information about the topics they did not know well enough, how often they consulted with other LAG

Table 4. Regression analyses for testing of the set H1

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Specific knowledge	-0.086	0.085	-0.031	0.002	0.195**	-0.041	0.064
Willingness to obtain information	0.103	0.057	-0.161**	-0.243***	-0.011	-0.055	0.076
Decision-making process	0.087	0.157***	-0.091	-0.071	0.067	-0.018	-0.009
Commitment to the function	-0.200***	0.013	0.050	0.082	-0.068	-0.131**	0.030
Values	0.042	-0.095*	0.099*	0.086	-0.049	0.109**	0.030
Constant	0.311***	0.718***	0.272***	0.233***	0.515***	0.214	0.408***
Adj. $R^2$	0.107	0.189	0.101	0.178	0.059	0.143	0.035
$F$ -test	3.44	5.77	3.287	5.411	2.279	4.398	1.733
$N$	102	102	102	102	102	102	102

Dependent variables:

1 = Projects in the municipality interests because they contribute most of the finance; 2 = Developmentally oriented (formation of new approaches, products, services); 3 = Particularly from the field of tourism; 4 = Particularly from the field of agriculture; 5 = Project activities should cover the broadest area of the LAG; 6 = Already conducted at the LAG area, because such projects represent lower risk in implementation; 7 = Innovative if their effects are not visible immediately it is nothing wrong because they encourage in searching of new solutions

\*, \*\*, \*\*\* indicate significance levels at 10, 5 and 1 percent respectively

members, had a positive impact on the opinion of the LAG board members that municipalities' projects were not suitable for the LEADER co-financing simply because municipalities co-funded the LAGs.

Factor values also had a positive impact on the LAG board members' perception that projects which had already been implemented and posed a risk of a deadweight loss were not suitable for the LEADER co-funding.

Key findings partially confirmed of set H1 that the informal system had an influence on the perception of the LAG board members on which projects were developmentally oriented and suitable for the LEADER co-financing.

Formal system, performance of the LAG board members and the selection of the development projects co-financed by the LEADER

The formal system is set in the official documents and contains rules and regulations. Our intention is to establish whether the formal system had any influence on the LAG board members' perception on which projects were suitable for the LEADER co-financing and were developmentally oriented. The respondents were asked to evaluate the influence of the following activities (from 1 = does not influence at all to 5 = has a major influence):

- The frequency of the LAG board meetings (arithmetic mean value = 2.62).
- Delivery of materials within the specified period (for example 5 days before the LAG board meeting) (arithmetic mean value = 2.94).
- Formal structure of the LAG board (arithmetic mean value = 2.89).
- Formal decision-making process (arithmetic mean value = 2.93).

As we can see, the LAG board members estimated that the formal system does not have a significant influence on the performance of the LAG Board Members and on the selection of the developmentally oriented rural development projects, which are co-financed by the LEADER.

### Testing of set H2

The set of H2 was tested by using only the regression analysis. When testing of set H2, the regression analysis was used and the results confirmed that the formal system of the LAG board did not have a statistically significant influence on the LAG board members' perception on which projects were developmentally

Table 5. Regression analysis for testing of the set H2

	(1)
Frequency of LAG board meetings	0.094*
Delivery of materials within the specified period (5 days before the LAG board meeting)	-0.113**
Formal structure of the LAG board (public sector, civil society and private sector)	0.002
Formal decision-making process (voting)	0.057
Constant	0.144
Adj. $R^2$	0.019
F-test	1.493
N	102

Dependent variable: (1) Particularly from the field of agriculture

\*, \*\* indicate significance levels at 10 and 5 percent respectively.

oriented and suitable for the LEADER co-financing (Table 5). Therefore, these results clearly proved that formal rules and regulations were inadequate; they had a little effect upon decision-making by the LAG board members.

To sum up, the informal system must be considered in unison with the formal system when discussing the performance of the LAG board members and the effect it has on the selection of the projects which are co-financed by the LEADER funds.

### CONCLUSION

Slovenia has, in the programme period 2007–2013, met with the implementation of the LEADER approach/axis for the first time. Based on the experiences of other EU countries, it was expected that it would take time to optimize the operational axis of the implementation process of the LEADER and to build the local group actors capability. In terms of the implementation of formal procedures, it can be established that Slovenia has been quite successful, as 33 confirmed LAGs currently operate in Slovenia, which cover almost the entire Slovenian rural areas, and receive the LEADER axis funding for their operation. With a 12% realization of spending on the LEADER axis until the end of September 2010, Slovenia, together with the Czech Republic, has been the best in realization of the LEADER axis between the new EU countries that for the first implemented the LEADER approach.

A rather different picture is evident regarding the capability of local stakeholders for the implementation of the LEADER development activities. A unique in-depth survey using the written questionnaire was conducted among the LAG board members. It clearly showed that the respondents knew little about the basic features of the LEADER approach. The most recognized features, as identified by two-thirds of the respondents, were the public-private partnerships, a Local Development Strategy that originated from the area, and the bottom-up approach. Approximately half of the respondents knew that the basic features of the LEADER approach were co-operation and innovation, and only a quarter of the respondents knew that for this approach, networking and the integrated and multi-sectoral actions were also typical. Similar findings were established at the EU level and particularly for the new EU Member States, such as the relevance of social networks for the LEADER in Romania (Marquardt et al. 2012). The European Commission even considers that several irregularities regarding the implementation of the LEADER programmes derive from the lack of recognition of the basic characteristics of the LEADER approach.

An analysis of the AIPs for the years 2008 and 2009 showed the strong domination of the public sector among the LEADER co-financing beneficiaries. Although they have more financial resources and knowledge to implement various projects activities, the results of a survey among the LAG board members showed that the reason for this structure also lies in the lack of recognition of the basic LEADER features, a specific knowledge of the LAG board members, their willingness to obtain information, the decision-making process, the commitment to the function and their values.

The regression analysis confirmed the set of H1 that the perception of the LAG board members on the suitability of rural development projects for co-financing by the LEADER axis has been positively associated with the informal system of the LAG board's performance. It has also confirmed the set of H2 that the formal system of the LAG board's performance has had an insignificant impact on the perception of the LAG board members on the selection of projects of rural development, which were suitable for co-financing by the LEADER axis.

As a recommendation for a more effective and efficient implementation of the LEADER axis, it follows that more attention should be devoted to improving the capability of the LAG board members. In particular, they need to improve their knowledge regarding the

basic features of the LEADER approach and to ensure the transparent operation of the LAG board and a systematic evaluation of its performance. Finally, it is necessary to increase the awareness that learning by their own mistakes is time-consuming and costly, and that it would make much more sense to look at the good practices in the LAGs around the EU, which have had many years of experience and are in a more developed stage. Therefore, networking and transnational cooperation as an instrument for the exchange and introduction of new methods and best practices in rural development is an opportunity to build and strengthen the capacity of LAGs in Slovenia and other new EU countries which are building their local development capacities in the frame of the LEADER axis.

The informal system of performance of the LAG board members was found to influence its members' opinion on the suitability of projects to be co-financed by the LEADER axis. The opposite was established for the formal system, which had an insignificant influence on the board members' opinion on the suitability of projects.

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