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# POSSIBILITIES OF BANKRUPTCY PREDICTION

Daiva Beržinskienė, Rūta Virbickaitė

## Abstract

The problems of organization bankruptcy and its prediction have become very relevant in Lithuania during the last decades. Different authors assess bankruptcy as a local phenomenon as well as micro economical process, which brings a lot of economical and social effects for workers and different institutions.

Neither of companies is guaranteed for its business success, its production or service demand in the future. To define and to estimate the riskiest business fields company's executives should always observe business tendencies, look for new market and business development possibilities.

## Keywords

Bankruptcy, bankruptcy prediction, bankruptcy possibility, solvency.

## Introduction

The problems of organization bankruptcy and its prediction have become very relevant in Lithuania during the last decades. Different authors assess bankruptcy as a local phenomenon as well as microeconomical process, which brings a lot of economical and social effects for workers and different institutions. Results of theoretical research are often integrated into the process of organization administration, however a big number of failed companies shows that bankruptcy prediction isn't assessed properly in active period of organization. Practice of failed companies shows that this process creates only negative ravage for organization. Bankruptcy in a company can be avoided when the company is ready to predict its initial features and assess efficiency of the prevention means. When the bankruptcy process starts company usually does not have enough resource to reorganize its activity or to start a new business. Therefore bankruptcy diagnostics should be built on the company's financial state to notice and estimate the first bankruptcy features, to define its reasons and growing possibilities.

**The aim of the paper** – to assess the needs of bankruptcy prediction and its applying possibilities.

**The object** – possibilities of bankruptcy prediction.

**The methods of the research** – analysis of scientific literature, analysis of systematic, financial and economical rates, their comparative analysis, specification and generalization.

## Theoretical Aspect of Organization Bankruptcy

Organization bankruptcy is usual phenomenon in the economical market which creates a lot of negative effects not only for company but also for the whole society. Working in the market economy every business experience less or bigger risk. Neither of companies is guaranteed for its business success, its production or service demand in the future. To define and to estimate the riskiest business fields company's executives should always observe business tendencies, look for new market and business development possibilities. In other case company can lose its market share or competitive supremacy and to fail (Mackevičius, 2005).

Scientists have been analyzing and exploring bankruptcy features and their reasons for many years trying to find the best way to define and predict bankruptcy and offer the best methodology for it.

Different sources define *bankruptcy* in a different ways. In the dictionary of economical terminology (1997) *bankruptcy* is defined as an inability to pay debts or as a person who met a financial crash.

The broader bankruptcy definition explains that *bankruptcy* is a state of organization, bank or a person, when they cannot pay their debts and keep to other liabilities. *Bankruptcy* is a basement of market mechanism going together with competition and legitimization of property (Charitonovas, 2004).

Organization bankruptcy is the result of business failure, but not a reason because decrease of company's market, increase of loss, default of liabilities, social problems and other negative appearances base the importance of bankruptcy and other company's reorganization procedures (Grigaravičius, 2003).

Bankruptcy is a way to escape company from the financial liabilities. Bankruptcy started in time is better way than its long time death-throes, when its financial liabilities continue growing and outweigh its half of all company's property. In this case bankruptcy law is very effective: it protects company from the growing debts and liabilities, ascertains its financial state and creates possibility to take the company's management (Mackevičius, 2005).

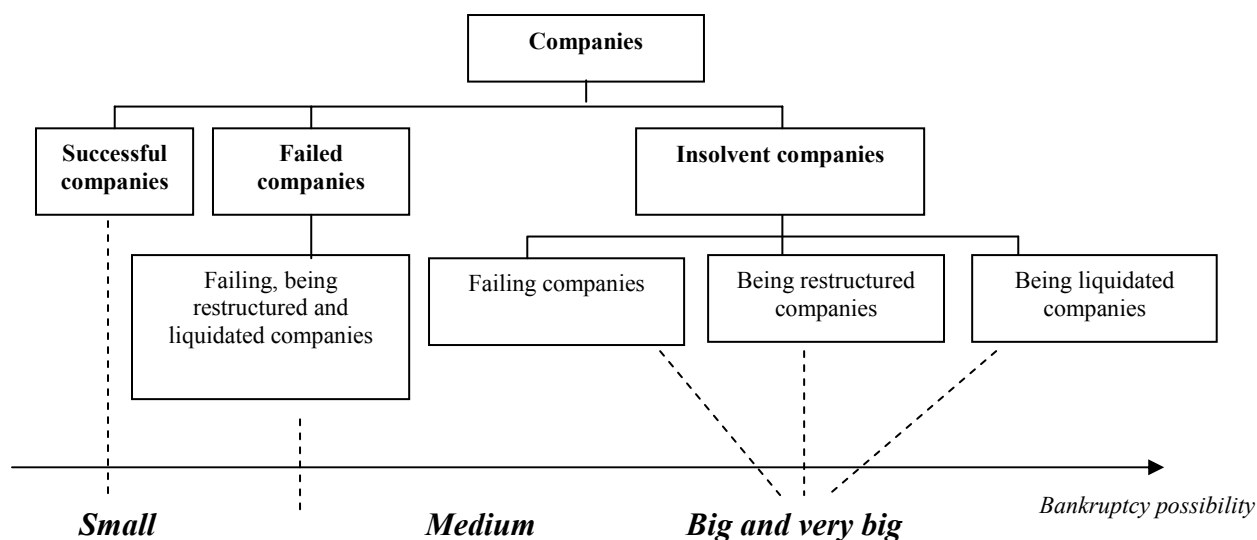
Lithuanian Bankruptcy Law defines bankruptcy as insolvent state, when company starts bankruptcy proceeding or its bankruptcy procedure is performed by the creditors. Organization bankruptcy is inevitable phenomenon in the market economy. Naturally that some companies do not stand against competition and become insolvent and other companies are established instead. Some economists claim that organization bankruptcy is necessary for technical, manufacture and society development. Whereas others think that bankruptcy is damaging not only for the company but for the whole society, because company cannot pay for the creditors and a lot of its workers lose job (Tvaronavičienė, 2001). Bankruptcy can be explained as a negative phenomenon as well as a positive one. Firstly, it is related with social problems of insolvent company's workers, because it is

difficult to find other work place for they and it becomes weak companies become insolvent and bankruptcy process lets pay debts for creditors and workers after solving company's property. So it is very important to define the first bankruptcy features and reason and try to find the best way to solve them or to begin bankruptcy process in time.

*In conclusion, according to the opinion of different authors varied interpretations of bankruptcy let make presumption about different reasons of bankruptcy possibility and its development.*

## Assumptions and Features of Organization Bankruptcy Development

Between successful and failed companies the other link can be defined – companies met temporary financial difficulties. They purposely need to reorganize its management. Companies' classification according to the possibilities of their performance is shown in 1 picture.



**1 picture.** Company's classification according to the possibilities of their performance and bankruptcy risk  
(Modified according to Grigaravičius, 2003)

It is obvious that unprofitable performance does not mean bankruptcy of the company or solvency problems, however it can be the first feature of possible financial problems (solvency or liquidate) in prospect. Having assessed this it is important to take actions to reorganize company's performance, to avoid solvency problems and to define their reasons. Financial problems can be identified according to the following features (Grigaravičius, 2002; Mackevičius, 2005):

- Decreasing profit, decreasing income of company's performance (especially when the prices are the same);
- Increasing financial liabilities to creditors;
- Decreasing financial rates such as company's solvency, liquidate, profitability, efficiency of profit usage and other;
- Decreasing part of the market (it is connected with decreasing of company's income);
- Lack of permanent accounting politics in the company (instability of accounting politics, usual changes of accounting methods, change of a reputation auditor to unknown one etc.);
- Lack of strength of company's administration and managers, lack of decision making;
- Fluctuation of company's manager and executives (it shows about problems in the top of management);
- Lack of performance strategy and planning (especially for a long time);

- Solvency problems, which are difficult to define and solve for executives;

These pointed features or only part of them can give a warning about company's failing for its creditors and other market members.

*To sum it up, there are not determinated bankruptcy features which could define the exact possibility of bankruptcy. According to different scientists the main bankruptcy features can be defined only as first indicators of bankruptcy.*

## Means of Bankruptcy Prediction

A lot of different means of bankruptcy prediction are found in the scientific literature. Bankruptcy prediction based on the financial rate changes in the company is the most usual way to predict company's failure. All company's financial rates which can predict company's failure can be put into two groups:

1. financial rates which show bad financial state of the company during the period;
2. financial rates which show some problems in the company's performance (Kovaliov, 1994).

Credits and debts which are not paid in time show that company has financial difficulties. In this case it is necessary to look through some balances of the last few years and to estimate this position during the last few years. If this problem appeared only last year, it is

necessary to define its reasons and find the best way how to solve it.

Negative state of financial rates from the second group can appear not only in the insolvent company but in the profitable one too.

Different methods are used to predict bankruptcy in the company. Mackevicius and Poskaite (2000) claim that two analyses methods are best to predict bankruptcy:

1. system of different comparative rates;
2. proportion of solvency and profitable rates.

E. Altman rate system is very useful practically. Solvency index is counted using multi discriminant analysis (MDA) and is based on the presumption that only two rates show possible bankruptcy in the company:

1. covering ratio ( $K_p = \text{short-term capital} / \text{short-term liabilities}$ );
2. financial dependence ratio ( $K_{fp} = \text{lent capital} / \text{all asset}$ ).

$$Z = a_0 + a_1 K_p + a_2 K_{fp} \quad (1)$$

The first ratio defines company's liquidity, and the second – financial stability. The bigger covering ratio and the less financial dependence, the less possibility of bankruptcy is. And conversely, company can fail when its covering ratio is decreasing and financial dependence is

growing. In this case scientists found discriminant point, which lets all these ratios to put into two groups:

1. ratio combinations, having which company can fail;
2. ratio combinations, having which company does not have probability to fail.

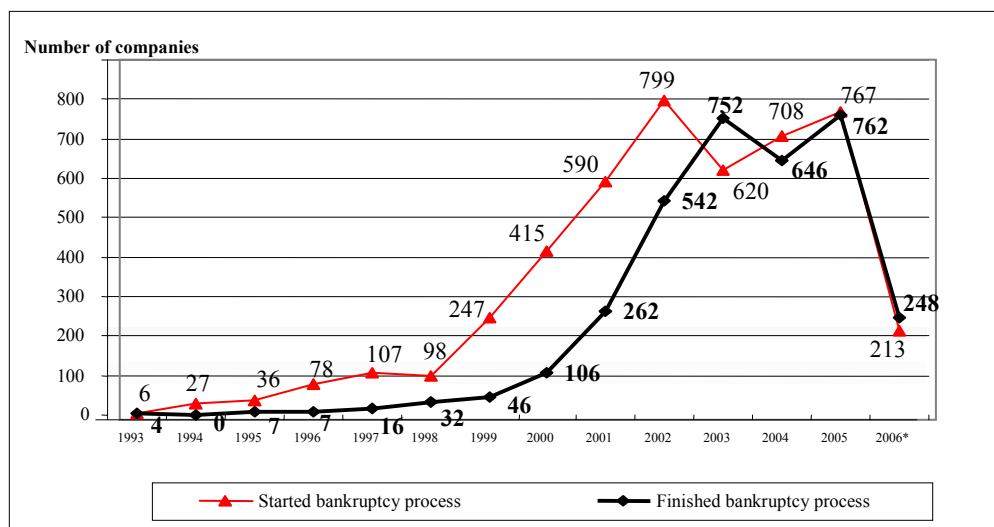
To predict bankruptcy probability the models of relative solvency rates are used:

- R.Taffler and H.Tisshaw,
- Spingate,
- R.Lis,
- Ca-Score and Fulmer models.

*In conclusion we can claim that assessing the possibilities of company's performance and estimating real possibility of bankruptcy it is necessary to apply different means of bankruptcy prediction which supplement each other and let define wider spectrum of performance problems.*

### The Results of Bankruptcy Possibility Research in AB „Ekranas“

Unsuccessful company performance leads company into the failing. The number of failed companies continues to grow in Lithuania.



**2 picture.** Dynamics of failed and insolvent companies (1993 – 2006)  
Source: Department of Enterprise Bankruptcy Management [www.bankrotodep.lt](http://www.bankrotodep.lt)

The first bankruptcy cases appeared in 1993. From that time till 30 April 2006, 4711 companies had failed. 3430 companies have already finished their bankruptcy process. The biggest increase of failed companies began in 1998. Russian crisis was the main reason to lead companies into the failing. A lot of companies had to slow down their performance because they could not adapt to the West markets, their requirements and standards. A lot of small companies had failed because of the new market conditions.

One of the biggest Panevėžys companies AB “Ekranas” has not avoided bankruptcy too. A few years ago AB „Ekranas“ was successfully working company, which

performed in Lithuanian market as well as in international markets. 86 per cent of its production was exported to West European countries. Millionth investments to the modernism of the manufacture let see remarked results.

Though AB „Ekranas” had always expanded its market and production, sought for the better quality of the production, had a strong attitude to its employees and customers and had a steady position among its competitors, but sudden bankruptcy process showed about difficult performance situation during the last few years.

Having assessed that company's strategic purpose was to keep steady position in the market as one of the main producers of kinescopes in Europe, now we can claim that the company had 110.3 mln Lt loss in 2005. The results of the performance showed that it had 60.7 mln Lt loss during the first three quarters of the year and 49.6 mln Lt during the fourth quarter of the year in 2005.

that company failed with it. Having analyzed the results of its performance during the last few years it is noticed

The bankruptcy prediction was done by the authors applying 5 methods: Altman's model of five rates, R.Taffler and H.Tisshaw model, Springate model, CA-Score and Fulmer model (1 table).

**Table 1**

Summary table of solvency rates in AB „Ekranas“

| No. | Model                          | Rate        | Period      |                |                |                |                 |
|-----|--------------------------------|-------------|-------------|----------------|----------------|----------------|-----------------|
|     |                                |             | 2001        | 2002           | 2003           | 2004           | 2005            |
| 1.  | <b>Altman</b>                  | Z (5 rates) | <b>1,27</b> | <b>1,35</b>    | <b>1,20</b>    | <b>1,14</b>    | <b>-0,32</b>    |
| 2.  | <b>R.Taffler and H.Tisshaw</b> | Z           | 0,48        | 0,31           | <b>0,30</b>    | <b>0,25</b>    | <b>0,06</b>     |
| 3.  | <b>CA-Score</b>                | Z           |             |                | <b>-0,91</b>   | <b>-1,10</b>   | <b>-1,06</b>    |
| 4.  | <b>Springate</b>               | Z           | 0,9807      | <b>0,4680</b>  | <b>0,3774</b>  | <b>0,1854</b>  | <b>-0,9259</b>  |
| 5.  | <b>Fulmer</b>                  | Z           | 2,9835      | <b>-1,8303</b> | <b>-0,2876</b> | <b>-2,8052</b> | <b>-16,8293</b> |

According to the results applying Altman's model it can be concluded that bankruptcy possibility In AB „Ekranas“ was very big. Index Z showed very big possibility during the whole given period in the company's performance. Having analyzed solvency rate applying R.Taffler and H. Tisshaw models we can claim that company was performing successfully in the 2001-2003 period and bankruptcy possibility was low. It began to increase at the end of 2004 and in 2005. According to the results applying CA-Score model bankruptcy possibility was defined during the whole given period of company's performance. Applying Springate and Fulmer models the results showed that in the 2002-2005 period AB „Ekranas“ was under the danger of failing. In the given period index Z indicated a possible bankruptcy in the company.

*To sum up the data of table 1 we can conclude that the changes of solvency rates counted applying different models of bankruptcy prediction show that presumption of insolvency and bankruptcy was found through the whole given period of the company's performance.*

## Conclusions

*Different interpretations of bankruptcy let make presumption about different reasons of bankruptcy possibility and its development.*

*There are not determined bankruptcy features which could define the exact possibility of bankruptcy. According to different scientists the main bankruptcy features can be defined only as first indicators of bankruptcy.*

*Assessing the possibilities of company's performance and estimating real possibility of bankruptcy it is necessary to apply different means of bankruptcy prediction which supplement each other and let define wider spectrum of performance problems.*

*To sum up the data of AB „Ekranas“ performance it can be concluded that the changes of solvency rates counted applying different models of bankruptcy prediction showed that presumption of insolvency and bankruptcy was found through the whole given period of the company's performance.*

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## **BANKRUPTCY PREDICTION POSSIBILITIES**

### **Santrauka**

Bankroto problemų ir diagnostikos klausimams pastaruoju metu skiriamas didelis dėmesys. Įvairių autorių nuomone, kiekvienos įmonės bankrotas vertintinas kaip lokalus ir kartu makroekonominis reiškinys, sukeliantis daugybę ekonominių ir socialinių padarinių, kurias tenka spręsti ne tik darbo netekusiems darbuotojams, bet ir atitinkamoms institucijoms. Teoriniai tyrimų rezultatai dažnai integruojami įmonių veiklos administravimo procese, tačiau nemažėjantis bankrutuojančių įmonių skaičius rodo, kad praktiniu lygiu bankroto diagnostikai ankstyvajame periode skiriamas nepakankamas dėmesys. Bankrutuojančių įmonių administravimo praktika Lietuvoje rodo, kad didžiajai daugumai bankrutuojančių įmonių, šis procesas sukelia neigiamus padarinius ir yra skausmingas. Bankroto įmanoma išvengti deramai įvertinus bankroto tikimybę, laiku diagnozavus pirminius požymius bei užtikrinus prevencijos priemonių veiksmingumą įmonės veikloje. Pradėjus veikti uždelsto bankroto mechanizmui, dažnai naujam verslui pradėti ar reorganizuoti įmonę jau nebelieka jokių bankrutuojančios įmonės rezervų. Įvertinus tai bankroto diagnostika turi būti pagrįsta nuolatiniu ūkio subjekto finansinės būklės stebėjimu ir vertinimu, siekiant kuo anksčiau pastebėti bankroto požymius, nustatyti jos atsiradimo priežastis bei sprendimo galimybes.

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# NEED FOR NON - DISCLOSURE AGREEMENTS KEEPS GROWING

Audrius Biguzas, Maksimas Saveljevas

## Abstract

The gradual improvement of business environment in Lithuania brings together new challenges. The flows of employees become more intensified leading to a higher risk of sensitive information leakage. To manage such risk, the employer should ensure that any confidential information entrusted to the employee does not become a public knowledge or is not disclosed to a competitor. This could be achieved by entering into a confidentiality agreement, or by including a commercial (industrial) secret non-disclosure contractual obligation of the employee into his/her employment contract. This paper deals with some legal aspects of entering into such agreements with the employee of a Lithuanian company. The author analyses Lithuanian laws and court practise entering and handling disputes because of the breach of non-disclosure obligation.

## Keywords

Non-disclosure obligation, commercial (industrial) secret, civil liability, administrative liability, criminal liability.

### Definition of commercial (industrial) secret under Lithuanian law

The commercial (industrial) secret is defined by law as information which has a real or potential commercial value that manifests itself in what is not known to third persons and cannot be freely accessible because of the reasonable efforts of the owner or other legitimate holder of such information to preserve its confidentiality. The Lithuanian laws establish which particular information may not be considered a commercial (industrial) secret, e.g. financial statements and other information which is made public.

### Non-disclosure contractual obligation of the employee

When entering into an employment contract, the employer should firstly consider which particular information the employee shall not be entitled to disclose at all or, alternatively, shall be entitled to disclose upon obtaining a prior consent of the employer only. It is either the employment contract that may be supplemented by an obligation not to disclose commercial (industrial) secret or other confidential information, or a separate confidentiality agreement, which shall deal with a non-disclosure obligation. The list should be comprehensive, clear and unambiguous. It is essential for the employee to be aware of the sensitive areas where his care should be intensified. It is also vital for the employer to have a clear picture of the scope of the employee's obligation and exemptions applicable (if any). The Board, the Managing Director or any other competent body of the employer should set up a list of commercial (industrial) secrets of the employer. Once such list is approved, the employer would be entitled to demand from the employee to sign a confidentiality contract, or enter into the employment contract/supplement the existing employment contract with the list of commercial (industrial) secrets and non-disclosure obligation of the employee. The employment contract may provide that the non-disclosure obligation shall survive the employment contract and establish the term of validity of such non-disclosure obligation after the employment contract expires. Such term should be reasonable. If the parties do not agree on the particular term of such non-disclosure obligation, it shall be valid

for the whole tenure of the employment contract and one year thereafter. The employment contract may exempt the employee from the non-disclosure obligation in specific cases when a disclosure shall be justified.

The employment contract could specify a list of confidential information that should be preserved (not disclosed) being much broader than commercial (industrial) secrets of the employer. The employer shall familiarize the employees, who get an access to commercial (industrial) secrets of the employer, with a list of such secrets against the signature of each particular employee before he starts working. If the employer fails to familiarize the employee, as due, he deprives himself of a possibility to apply disciplinary sanctions against the employee in breach of the obligation of non-disclosure of confidential information which specific status he has not been made aware of.

### Liability of the employee for unauthorised disclosure

The employee could be subject to civil liability for unauthorised disclosure of commercial (industrial) secret. According to the Lithuanian Civil Code, the employee, who has disclosed a commercial secret in breach of the employment or other contract, shall cover the losses sustained, i.e. the costs of development, improvement and use of commercial (industrial) secret and unrealised income. Income generated out of unlawful use of a commercial (industrial) secret shall be considered unjust enrichment. The employee having disclosed commercial (industrial) secret could be released from liability, if he proves that such disclosure has been justified by public safety interests.

The Lithuanian Labour Code provides that a disclosure or communication of commercial (industrial) secret is a gross breach of work duties, and an employer can fire the employee without giving a prior notice to the latter for such disclosure or communication. A disclosure and communication of commercial secret to a competitor shall be differentiated. The disclosure could be committed intentionally or negligently. As a result of disclosure, any third party (the competitor, not necessarily) is getting an access to the information. In case of communication of commercial (industrial) secret.

It could be disclosed to the competitor and intentionally only.

Moreover, the employee having disclosed commercial (industrial) secret could be subject to criminal liability, if the disclosure has caused substantial damage to the aggrieved party.

To summarise, it is highly advisable to clearly determine in the agreement what constitutes a confidential

information and how it should be preserved and familiarize the employee getting an access to the commercial (industrial) secrets with the list of such secrets against his/her signature. This brings an enormous benefit to the transparency of employment relationship and adds to the cooperation of the employer and the employee.

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Audrius Biguzas, Maksimas Saveljevas

#### NEATSKLEIDIMO SUSITARIMŲ POREIKIS AUGA

Santrauka

Besikeičianti verslo aplinka Lietuvos Respublikoje kelia ne tik daug ekonominių, finansinių problemų, bet kartu parodo, jog yra nemažai teisinių kliūčių tiek darbdaviams, tiek darbuotojams įgyvendinant savo teises. Darbuotojų perėjimai iš vienos kompanijos į kitą jau tapo kasdienybe, o tai sukelia nemažai problemų darbdaviams siekiant apsaugoti konfidencialią informaciją. Darbdavys turi ne tik fiziškai, bet ir teisiškai apsidrausti siekiant išvengti neigiamų ekonominių pasekmių atsiradimo. Tokio atsiradimo galima išvengti sutartinėmis sąlygomis, t.y. numatant teisinės priemonės kokia informacija bus laikoma komercine paslaptimi ir kokios grės šios informacijos atskleidimo sankcijos. Pažymėtina, kad sankcijas gali numatyti ne tik įstatymai, bet ir sutartys. Taigi šiame straipsnyje aptariamas konfidencialios informacijos susitarimų poreikis besikeičiančioje verslo aplinkoje.

# THE CONCEPT OF MASS CULTURE IN CULTURE MANAGEMENT

Jonas Bikulčius

„Environment, the way we understand it, is our invention“.

Heinz von Foerster

## Abstract

The concept of culture is an entirety. The culture development, its existence takes place through consonance of human souls. The times when the researchers of culture could give its universal definition are in the far past. Culture concept is becoming an abstract theoretical construction, defining different aspects of human activities. Already at the end of the 20th century a new economic term was formed, i. e. cultural industry. T. Adorn, the inventor of the term, wrote about the entertainment industry. Nowadays this industry is being interpreted as cultural production and consumption place of creative activities, as a complicated stream of information. The most significant factor spotted in culture industry is realization and consumption of new ideas. This is a very complicated matter. One could notice here that creative process consists of creator's inspiration, devotion, expectance, so due to the facts the creative work is impermanent, risky and spontaneous. Thus the decisive contact between the creator and culture manager is hardly under control, constantly influenced by various social and political powers, styles and movements. This problem is being widely discussed. In Lithuania a free culture market is being formed, able to cover activities of different groups and hobbies, as well as free-time activities and culture projects.

*The goal of the article* is to consider and define the notion of mass culture in its management process.

*Methods used:* analysis of literature by Lithuanian as well as foreign authors, concept basing and comparing.

## Keywords

Mass culture, mass communication, mass versus elite, snob.

Culture management is a process of creative behaviour with creative people. It is a special environment of cultural influences requiring knowledge in culture management. In cases when in culture market amateurs not having management knowledge and qualification are working, lack of communication, misunderstanding are quite often and in arguments regarding concepts the culture consumer is completely forgotten.

In what ways is our present culture management special? That is the question often asked by culture managers. Hopelessness may occur having understood that this question is hardly seen under a huge question mark. How slippery and unwatchable the answer would have to be or rather only a try to answer it. To generalise things which only nowadays acquire a real face's an unbearable task.

The concept of mass culture is under discussion yet. The researchers interested in the phenomena of culture and civilization, regardless of an abundance of books and articles on the matter, raise new and new discussions. Until the present moment there is no unified and constant approach what mass culture is. This term is more likely to remind of reasoning about the end of culture or its profanation. In my understanding, trying to explain the mass culture genesis applying a great number of methods, multivariable typology of similarities and differences, we would only waste time and lose the concept itself. So I am going to start from more general tendencies and present a few notices which only partially word the features of mass culture. It is quite obvious that panoramic overview of the problems will leave out minor points of research.

Having overviewed the accumulated experience of different nations and civilizations, and after cleansing it by ideological and moral progress of society it could be noticeable that interpersonal relations cannot be

explained or forecasted only using evolutionary and technological concepts or categories of development and progress. According to the USA historian S. Even, the economic progress of the 20th century was hardly possible without cultural development or changes. Mass market had to compete with regional cultures (underlined by J.B.). The businessmen logo was as follows: masses have not only to be literate but also cultural. Then they will learn to consume much more. Consumption and mass culture had to reduce boredom, rescue from social cull - de - sac and soften the sensation of losing traditional community. An ordinary person has to admit that either his or somebody else's choice or goal is subjective and voluntary, thus it is only wise to achieve something that justifies life in terms of its worldly pleasures. The people of the 20c. knew a great deal about building, machines, arms, chemicals, but nothing about themselves, they were not fully awake as human beings and consumers of culture.

While searching for primeval source of truth we turn to a human being again. This turning back does not come from human vanity as it has always existed; rather the human problem is in his tragedy. A person who claims to understand everything at often times is killed by his self incomprehension.

Another aspect is axiological relativism. Its essence is quite simple: cultural values appear from ratio with a subject. Thus value depends on the evaluator. A value becomes everything I value, try to achieve, want or desire. This is a purely personal matter, known and understood by me. Accordingly all cultural value systems are a phenomenon of an individual (nation, community) and individual is a righteous (underlined by J.B.) creator, reformer or depredator.

Original culture perception aspect is worded and widely discussed by a German sociologist Max Weber. This is

what he said: 'Value areas are not identical, such as political and ethical or ethical and aesthetical'. (Weber, 1990, p. 67)

Likewise in the area of values it is impossible to find identical norms, which could „solve“ forever the problems of action and choice. I could say that among human beings not only alternatives are always and everywhere, but much more between them proceeds unappeasable deadly fight, just as between God and devil (A. Stebukonis, 2002, p. 123). For many years Weber was tormented by the thought: what guides an individual while accepting or rejecting somebody's thoughts, statements or reasoning? Certainly not by common understanding or logic of all acknowledged facts. The so called „mass man“ follows his taste, his logic and does so everywhere both spontaneously and after pondering. Either praising or criticizing a piece of art, fashion, a kind of entertainment or a play or criticizing somebody's words, we aesthetically react to words, according to Socrates we treat ourselves to them. Mass culture person today does not call the word of truth; he admires or despises words, remains indifferent to a content of the thing, all his attention is paid to impression, rhythm, tempo, movement or style. Neither the form nor literary genre or musical instruments determine its belongingness to mass culture. Mass culture expresses itself through: extreme visualization, a view pushes out a printed word or sound. While writing the next „symptom“ and I am doing it with great joy, I say the book has not disappeared yet, and the world has not turned into a computer village with immeasurable internet space.

Mass culture has one more feature, i.e. fragmentation of pictorial reality. Its brief essence is as follows: this is a phenomenon when its parts revive and start functioning without the whole.

In mass culture „melts“ the minimal distance among the performer, author and receiver. Either a viewer or a listener is tamely offered an illusion of easy participation in the process (e.g. karaoke style).

Everything that is defined as mass culture is only the author's inability to deny himself or laugh at himself. That is a sign of poor self-expression unconditionally accepting the reality. Mass culture is a culture without any alternative or challenge to existing reality. I would dare to claim that mass culture in its essence is contrasted to classical culture which strictly demands from its consumer both spiritual and intellectual efforts, and only emotional discharge or outer experience reflections are insufficient.

Mass culture is not indiscrete, that is a triumph of kitsch side by side with professional pieces in cinema, art and music. In this regard some sociologists (V. Pareto, G. Mocka) divide mass culture into low, average and high cultures (K. Richter, 2004, p. 103-104).

So we can say that mass culture is a bound- with- culture-forms market in which production and mass printing little by little ousts out creativity. As an example we could mention the histrionic film „Mountain Ranger“ which turned into an endless TV serial for mass viewers. In this way the distinction between mass culture creation and viewer is wiped off. Teleserial does not have and cannot have any end. Do TV viewers want to see their own life

come to an end when they themselves as film heroes or film heroes become their true family members?

Mass culture has got its kinds. They are Chinese, German, Polish, Austrian, etc. national variations. In what way does mass culture phenomenon appear and spread? The best answer came from the philosopher Leonidas Donskis when he said, „Mass culture is inexperienced, existentially incensed and non-contextualized ethnic culture“ (L. Donskis, 2000, p. 20).

In the cultural life of Lithuania there have been a great many changes which have not acquired or showed off their distinctive forms yet. Meanwhile the noticeable changes are revealed in used concepts. In a dictionary of culture terms one can more and more often find the concept ‚mass culture‘. There has been a lot of trying to define this borrowed and multi meaningful concept. Its content in printed matters and oral comments is of moralizing aspect. However prior morals as well as didactic tendencies in culture manager's work say and teach nothing. While looking for the concept transparency I would like to analyse its interpretation. The word ‚mass‘ established in modern consciousness, the English theoretician R. Williams explains mentioning three basic historically risen social tendencies.

One – concentration of population in industrial cities, two – concentration of working force on factories and three – working force self-organization having acquired its social and political aspects. However it is worth mentioning that those Williams' tendencies explain not the spread of the concept but the domination of mass in public life.

Modest at the beginning technical mass dominance has eventually transformed into complicated macrocosmic system. This system as self-regulating and self-forming over the last 200 years has dug itself in different social, political and cultural forms.

While defining the society of masses we can get its image. This is the society half-and-half welfare and-battalion-like, without any traditional relations, contacts, with high density of population and passive and inert consumer. This is a society where coexist large and different working groups, psychological commonality, sameness of material life and dominance of mass culture.

After expanding the limits of the analysed concept we are able to notice that the concept of mass culture does not exist as objective, doubtless and understood equally by everybody, matter. Mass culture does not have jugg-handled effect or the only trajectory. The effects of mass culture results can be estimated only after evaluating a human being and also the potency of his individuality. In this case we will hardly avoid the worst interpretation of the concept. The essence of interpretation lies in the fact that at often times we haste to moralize while lacking initial research results. However after expanding the limits of the analysed concept, manager of culture is able to open the brightest visions of mass culture and also notice its influence on society.

Here I would like to recall a notice of Umberto Eco that the present „medium“ of mass culture is not only a TV programme, but a whole complex of different communication channels. So while interpreting the concept, pessimistic as well as optimistic versions are possible. A pessimist claims that we are doomed to live in the environment of the mass culture dominance, and

constantly by our presence and needs to confirm this doom as an inevitable becoming of present culture. A pessimistic note tells us that we can and even must purposively develop this becoming by far-sighted and tolerant culture management means.

An optimistic note, on the contrary, directs us for spiritual joy: mass culture spree is under control with mansion gardener's precision and accuracy. This is how selection is being made in mass culture, i.e. having in view all the growing vegetation. This is a professional manager's activity.

Having come back to the problem of mass culture interpretation, we will easily see a new factor, which is coping phenomenon (I doubt whether such a correct word is the right one to define this vice – J. B.). Printing, repetition, coping – they all erase the verge between the original and its copy. Moreover, disappears the valuable understanding of the creation in cases when a most rare and unique object of culture is being copied. If it is massively copied or printed, it loses its inimitable in time and space trace. The coping or printing annihilates elite possessing privilege. The creation becomes massive, consumption and loses its aesthetic value. It becomes void of a thing and in it remains only a collection of meanings.

Mass culture also spreads as a compulsory being next to each other, without any wish to communicate or hear each other. Uniqueness of communication and its remaining value are easily changed by coping global values. Fashion becomes a value in such cases when an individual can be distinguished in the field. Mass culture is the author's inability to laugh at himself or to deny

himself. This is only unconditional acceptance of reality and its affirmation, mass culture without any alternative, without any challenge to the present reality. I could state here that mass culture is being contrasted to classical culture.

As we have already noticed the concept of „mass culture“ is discussable. Any unambiguous answer would be an effort to answer such a complicated question. We could also say that culture managers have a difficult but honourable mission ahead: to be aware of all functions of culture in a society. A manager should be well oriented in the field of culture services as well as knowledgeable in managing principals. A culture manager should have to understand the world of reasoning and creating of both creators and consumers, to understand positions and needs of culture sponsors and culture politics. He will become the mediator between irreconcilable groups of society. Culture and management are fashionable and often repeated present-day notions. Their combination is a complicated and mysterious ratio of well-known words. This raises and will raise a great many questions for those analysing culture processes.

## Conclusion

The question itself what is the only way of any culture manager is not to be asked. We should ask instead how this way will be done. The way among management tricks, show business, one-off culture models, the way impossible to recognize. Strange as it is the way cannot be made in advance, it becomes visible only while driving it or taking it.

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Бикюльчюс Ионас

## ПОНЯТИЕ „МАССОВАЯ КУЛЬТУРА“ В СФЕРЕ МЕНЕДЖМЕНТА КУЛЬТУРЫ

### Резюме

Интерес к феномену культуры определяется в наши дни многим обстоятельствами. Современное понятие „массовая культура“ рассматривается как развертывание человеческих сущностных сил в социальной динамики. Но само понятие полно мучительных вопросов. Массовым в управлении культуры называется такое общество, в котором культура утрачивает уникальность и тиражируется для всех. Она призвана удовлетворять сиюминутные запросы людей, реагирует на модное либо новое событие и стремится его отразить. Массовая культура таит в себе реальную угрозу низведению человека – творца до уровня манекена, человека – винтика. Массовая культура – часть культуры и достоинство её произведений в том, что они базируются на архетипах. Но феномен массовой культуры рожден, существует и требует глубокого осмысления.

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# THE DEVELOPMENT OF COGNITION SKILLS IN THE SECONDARY SCHOOL STUDENTS DURING COLLEGE PREPARATORY COURSES

Sarmite Černajeva

## Abstract

Productivity and purposefulness of study process is one of the toping pedagogical problems in contemporary world. Worldwide sociological research shows that study results improve if students see the purpose of learning process, if they can link the study material with real life situations and goals of their future.

Therefore, it is important to use various teaching methods for development of cognition interest of high-scholars, which becomes the key motivator of student.

Motivation of high-scholars to study process is very important objective since it develops their desire to cognition, curiosity, and willingness of self-education.

In order to motivate high-scholars to study mathematics, Latvian Agricultural University established full-time preparatory courses in mathematics. These courses give high-scholars possibility enhance their knowledge and try study process, which is near to study process at university.

During these courses there are used methods of group work, individual work, and are developed students' self-appraisal skills.

Study process should include methods for all possible social forms – projects that train group work skills of data mining, exchange with ideas and information; frontal work at lectures that develops presentation skills of processed information; co-operative (in pairs, with partners, in groups) and individual work that trains skills and abilities of self-appraisal and mutual evaluation.

## Keywords

Methods, the activities of cognition, the joy of cognition.

One of the most burning questions in pedagogy is determination and productivity of learning processes. If the students see the purpose in what they are doing and can connect their studies with the real life and their future then their grades (marks) will improve.

The social research in the world has proven that if the students see the purpose in what they are doing and can connect their studies with the real life and their future then their grades (marks) will improve.

In order to develop the cognition skills it is important to use different methods and that could become one of the most essential stimuli in their learning processes. The experience verifies that if the student can not see the point in the activities of cognition then he/she will not be willing to study. J. Komensky points out: '...by all means we have to inflame their passion to be educated and ready to study...' [1]. Also teacher Ushinsky ponders: 'Studying without any interest whatsoever (under pressure) will only repress their desire and will not lead anywhere'[3].

It is essential to develop and improve the student's motivation of studying, their curiosity, the needs and wants of cognition as well as their willingness for self-education.

By developing the wants of cognition the students will show initiative and activity and the joy for the results of their studies. Consequently, we can see that their interest and activity in learning goes hand in hand. This interest in learning becomes apparent in the following ways:

- positive emotions towards the studies
- the joy of cognition
- the willingness to be engaged id est. powered by their own engagement (with no outer influence)

G. Rudzitis thinks that the development of interest in students is one of the most important elements in the teacher's activities.

In order to awake their interest the teacher has to be not only knowledgeable but able to plan the lessons in the way to keep the student's attention and not to make them feel bored. Nowadays in pedagogy there is a viewpoint that the most important is the interaction between the student and the teacher which contains the psychological and practical preparatory activities, the implementation of the activities and the assessment of the results. The mastership of teacher lies in the fact that he/she can choose the best methods thereby increasing the activity in students and developing positive atmosphere in the learning processes. The most important thing in the classroom is not the latest software, expensive books or educational programs but the methods that the teacher uses. If the teacher does not know how to use the given equipment and which methods to use then there will be no development in his/her students.

When choosing the learning methods for the secondary school some rules should be observed:

- In the classroom there has to be atmosphere that asks for spiritual activities. The teacher has to satisfy their needs for cognition and there also has to be the possibility for self-realization.
- The teacher has to develop their independence and accountability in learning, utilizing their own mental facilities, feelings and will power.
- The student's cooperative learning, independence and self-learning has to be facilitated as well [2].

Taking into account these requirements (in order to increase the motivation to study mathematics) there has been established LLU (Latvian University of Agriculture) preparatory courses for the secondary school students. In these courses the students are given the possibility to widen their knowledge and make a step closer to the university-like learning processes. The students that chose the given courses were much more motivated than those in the secondary school where the subjects are

mandatory to everyone (even to those whose future will not be connected with the hard sciences.) In the courses the following methods are used: the cooperative method, the independent work and the improvement of self-assessment. The students are very active, ask a lot of questions because they are really interested in the subject and want to acquire deep knowledge about it.

The new surroundings and the particular aim – to be ready for the studies in the university – increase their motivation, independence and their readiness to solve the tasks.

In order to prepare the students for the life where they will have to work it is essential to pay attention to the

organization of such courses and the presence of the teaching aids. There could be some research (at the beginning of the studies) concerning such courses and their productivity.

The methods should be very different: the work in groups for the independent acquisition of information, exchange and understanding processes, frontal work, and the recital of 'ready' information, cooperative (pair work, group work) and independent work, the exercising of acquirements and skills, peer assessment and self-assessment.

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# TURKEY'S INTEGRATION PROCESS INTO THE EU AND ITS IMPLICATION TO TURKEY'S FOREIGN POLICY

Kenan Dagci

## Abstract

This article aims to analyze the determining factors of Turkey's emerging universal foreign policy vision. Turkey's multi-dimensional foreign policy has changed regarding to some variables. One of them is Turkey's integration process into the EU. The notion of geographic imagination is provided to theorize Turkey's emerging policy attitudes and behaviors. Geographic imagination has taken place in cognitive maps of political elites in the integration process of Turkey into the EU. Turkey's EU integration links the reform and change in the domestic landscape and Turkey's new politic vision, which has opened new horizons in its relations with her neighbors and other regions.

## Keywords

Turkey, Turkey's foreign policy, EU, regional politics, geographic imagination

## Introduction

It can be put forward two determining causes which shape the mindset of politic elites. One of them is "Military security" and the other is "Economic security". These two factors have been effective on decision making processes of the foreign policy. In this respect, a security and prosperity zone has been created in Europe by EU since ECSC was established (1952). In this regard, it has to be continued for European future.

After the collapse of the Soviet Union, the European Union faced with new developments within the neighboring countries. Mainly for security and economic reasons, the EU has extended the relationship with her near neighbors, the Central and Eastern European countries (CEECs), to gain the stability and prosperity in the region. The EU was aware of the problems of migration, security and economic instability that would have been created unless prompt actions had been taken. The EU also has considered the benefits of enlargement to the new markets not only for the CEECs but also for the present member states. Therefore, first of all, EU focused her near neighboring countries. In that phase, Turkey's importance for the EU was postponed. But contrary to the EU's Turkey point of view, Turkey's geopolitical value has increased.

Turkey, surrounded by strife and serving as a critical passageway for the flow of trade and ideas between Europe and Asia, has always shaped the course of events. Once Turkey was important for where it is. Turkey was very important country especially for the European defense against to Soviet block. By the end of the Cold War, the rebuilding of the Balkans, the NATO and EU enlargement process, and the 9/11 events now have created a new strategic space between Central Europe and Central Asia and down into the Middle East.

The changes in the international system beginning in the 1990 have had a profound effect on Turkey, which moved from being a secondary player in a global conflict to a central player in a range of new regional conflicts. Whether in the Balkans, the Transcaucasus, Central Asia or the Middle East, Turkey has emerged as an actor of pivotal importance, not least to the West. (Robins, 2003)

In this article, I argue that a comprehensive understanding of Turkey's foreign policy, at the same time, requires discussing the changing domestic dynamics and the rhetorical and practical connotations of the formative relations between Turkey and EU.

In this regard, I will employ the notion of geographic imagination to theorize Turkey's emerging policy attitudes and behaviors. I will also discuss how to Turkey's integration into the EU effects Turkey's foreign policy.

## Turkey's Integration Process into the EU and Its Implication to Turkish Foreign Policy

Turkey is the only pluralist secular democracy in the Islamic World and has always attached great importance to developing its relations with the European countries. Turkey began "westernizing" its economic, political and social structures in the 19th century with the Tanzimat. Since the establishment of the Republic of Turkey by Mustafa Kemal Ataturk in 1923, Turkey's main goals were oriented toward gaining acceptance in the West, and especially to be seen as part of Europe (Rubin, 2001: 1, Dagci, 2005: 88-89).

Turkey has ever since closely aligned itself with the West and has become a founding member of the United Nations, a member of NATO, the Council of Europe, the OECD and an associate member of the Western European Union. During the Cold War Turkey was part of the Western alliance, defending freedom, democracy and human rights. In this regard, Turkey has played and continues to play a vital role in the defense of the European continent and the principal elements of its foreign policy have converged with those of its European partners (Acma, 2006).

Turkey-EU relations began very shortly after the establishing of the European Economic Community in 1958. Turkey made the first application in order to be an associate member to the Community on 31 July 1959. After the negotiations, the Ankara Agreement which is the oldest and most long-standing association agreement was signed on 12 December 1963 and came into force on 1 December 1964 (Yazganarikan, 2003:4). It envisaged the progressive achievement of the Customs Union,

financial cooperation and free movement of workers. But, Turkey wasn't accepted as a full member country to the EU although about three decades past at the beginning of the 1990s.

The idea of geographic imagination helps to understand the changing meaning and mindscapes of distant geographies and the dynamic process of affiliation to the former far away territories. According to Aras (see Aras, 2005: 40-41), although the distance remains same, the perception of these geographies changes under the premises of a new geographic imagination. The physical distance and former difficulties to involve in these geographies began to not make strong senses in policy circles and at public level.

The end of the Cold War has brought with it the growth of Turkey's relations with Black Sea and Central Asian countries, (Kirisçi, 1998: 43) and there emerges a process of discovery of the "closeness" of these geographies and "availability" for Turkey's involvement through the instruments of remembering the past relations, unfolding cultural and civilizational affinities, and exploring the possible opportunities. While the EU was taking a different position to the CEECs, Turkey redefined its relations with the Western allies and reached out for a larger Euroasian role. It wished to become a model for the newly independent Turkic states (NITS) of Central Asia and Caucasus (Kramer, 2000: 94). In this regard, it is understood that the EU's reluctance for accepting Turkey's accession to the Union has affected the Turkish decision makers. In addition to this, as mentioned above, due to Turkish political elites rediscovered their historical and cultural geography the perception of these geographies changes under the premises of a new geographic imagination.

Following rejection of Turkey by the European Union institutions in December 1997 Luxembourg summit of European Union (see Dagci, 2005: 95-96), two opposite views were put forward by academics and analysts. First, Turkey may put aside its long-lasting dream and try to find other partners. Second, Ankara may turn to resolve its problems related to Kurdish issue, human right and improving democracy in order to strengthen its position vis-a-vis European schemes (see Aras, 1998: 44). Until the Helsinki Summit (1999), Turkish political elites tried to find other partners. For instance, a much different position was taken by Turkey's Islamists. They advocated a preference for relations with the Islamic World, which has been expressed in Necmettin Erbakan's D-8 policy, which aimed to establish close relation between Turkey and seven other large or economically strong Muslim states: Iran, Egypt, Pakistani Bangladesh, Indonesia, Malaysia and Nigeria (see Kramer, 2000: 95).

It took 35 years until Turkey was officially declared a candidate country for final membership at the EU Helsinki Summit in December 1999. On October 3, 2005 the European Union decided to begin accession negotiations with Turkey. This decision capped a decades-long process during which Turkey repeatedly

pressed the organization for a decision and the EU frequently temporized or made preliminary decisions designed to give themselves a longer period of time in which to evaluate Turkey and decide about possible membership (Wood and Quaisser, 2005: 147-173).

Recent years have witnessed considerable change and reform in Turkey's political, economic and foreign policy. Turkish politicians are proud of this transformation and they promise to contribute to security, stability and prosperity in a wide range of territories which go beyond Turkey's immediate neighborhood, namely to distant geographies in Asia and Africa.

Turkey's integration to the EU has much to offer that could enhance the credibility of the EU as a foreign policy actor in the wider Middle East region. Turkey is already the main hub for regional cooperation, both in institutional terms in the context of Black Sea cooperation and as an energy supply artery between the Caspian and Middle East suppliers and West European consumers. Its military capabilities and logistic location make Turkey an ideal forward base for EU's emerging security and defence policies, and its peoples have rich set of cultural and linguistic assets that are relevant for the EU to engage more effectively in many of these future neighboring states (Dervis, Gros, et al, 2004: 45-46).

## Conclusion

The aims of this study were to investigate the implications of the Turkey's EU integration process to Turkey's foreign policy. There is no doubt that Turkey's integration to the EU will be difficult and long. But Turkey should take its place in the EU for the stability and prosperity in the region in which all we are living.

At George Town University (November 1999) Clinton emphasized the importance of Turkey, both in Europe and for shaping the future of the critical region that lies between Europe and the wider Middle East and Central Asia. He said: *"I believe the coming century will be shaped in good measure by the way in which Turkey itself defines its future and role today and tomorrow. For Turkey as a country at the crossroads of Europe, the Middle East and Central Asia, the future can be shaped for the better if Turkey becomes fully a part of Europe as a stable and democratic secular Islamic nation"* (see Guvenc, 2006: 51)

As Clinton mentioned above, Turkey is very important country for Europe as much as for Asia and Middle East. This study showed that the EU's reluctance for Turkey's integration to the Union has marginalized Turkey. Therefore Turkey has tended to different preferences. Whereas Turkey's associate membership to the European Union began as an elite project and as a foreign policy choice, the situation today has substantially changed. Turkish people have perceived the EU as a security and prosperity zone. For the sustainability of this zone the EU needs to Turkey and Turkey needs to the EU.

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Kenan Dageci

## **TURKEY'S EU INTEGRATION PROCESS AND ITS IMPLICATION TO TURKISH FOREIGN POLICY**

### **Summary**

Turkey's integration process into the EU has been going on since the Ankara Agreement which is the oldest and most long-standing association agreement; signed in 1963. This process has sometimes frozen either due to Turkey's domestic issues or EU's different attitudes to Turkey contrary to other candidate countries which have been in the process of integration into the EU. Turkey has oriented to different preferences and her political preferences have mostly changed related to these bilateral relations. In addition to this, the end of the Cold War has opened new horizons to relations between Turkey and the EU. While the EU was taking a different position to the CEECs, Turkey redefined its relations with the Western allies and reached out for a wider Euroasian role.

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# **CUSTOMER RELATIONSHIP MANAGEMENT: IMPLEMENTATION, BENEFITS AND PROBLEMS**

**Vesna Damnjanović**

## **Abstract**

One of the recent trends in marketing and sales department has been growing focus on using the information technology for retaining customers and applying relationship marketing strategy. This paper presents customer relationship management (CRM) implementation as an important business approach for achieving competitive position on the markets. The author explained the different definitions of CRM process, application, benefits and problems of CRM strategy and the new role of the holistic marketing concept in the changing business environment.

## **Keywords**

Customer relationship management (CRM), holistic marketing concept.

## **Introduction**

The information technology opportunity create platform for building the relationship with customers better than in the traditional marketing approach. Many organizations invest in marketing research, advertising, sales promotions, personal selling and public relations activity and these are not always related to its good marketing performance.

However, the new economy requires also the application of the new marketing strategies which include combination of e-marketing, brand building strategy and CRM strategy. (Kotler, 2000.)

CRM also known by other terms such as Customer relationship marketing, direct marketing, database marketing, 1-1 marketing, interactive marketing, technology driven marketing, permission marketing. CRM strategy create, develop and enhancement of individual customer requirements which carefully targeted customers resulting in maximizing their customer life-time value and building customer loyalty.

A major purpose of this paper is to provide a managerial view of the CRM strategy from a holistic marketing perspective. The basic perspective had been taken is from the managers from companies in Serbia. In other words, what do managers need to know about their customers and how should information used to develop and select more profitable customers using CRM software.

We had interviews with managers divided to the three departments: marketing, sales and public relations from companies in Serbia.

The research problems are related to:

1. Identification and comparison of benefits and problems in implementation CRM strategy
2. A need for implementation of holistic marketing concept in companies

The research goals of this study is to better understanding that CRM helps managers into greater profitability by increasing repeat purchase rates and reducing customer acquisition costs and also identified problems in CRM implementation.

## **Theoretical background**

There are many different view of definition what CRM means to different people.

For practitioners CRM has become an integral part of relationship marketing strategy combining one or more IT systems: data warehouses, customer service systems, call center, e-commerce, Web marketing, operational systems and sales systems in organizations.

Recently, Payne and Flow (2006) observed that CRM has become widely accepted like a strategic framework in organizations. From a marketing and strategic perspective, customer loyalty, Perry (2001) notes that CRM depends on finding out everything possible about your customers' and then building an appropriate and profitable relationship with them.

Customer relationship management plays an important role in building and maintaining customer relationships in the terms of customer retention and gaining customer loyalty.

CRM helps companies to plan and organize their marketing campaigns, to identify sales leads, and to manage customer contacts and call centers.

Payne (2000, p. 2) also suggests that CRM is developing into a major element of corporate strategy for many organizations.

Another view is expressed by Roil (2001) as follows:

Customer Relationship Management (CRM) is an enterprise approach to understanding and influencing customer behavior through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty and customer profitability.

CRM is a set of high-tech tools that are used to plan and organize all aspects of marketing, sales, support. It deals with automation of each of these functions.

Definition of CRM, according to Mc Donald (Egan, 2004.) include a continuous performance initiative a company's knowledge of its customers, consistent high quality customer support access across all communications channels and business functions and business partners.

According to Dalrymple, Cron, DeCarlo (2004) CRM it is essentially a comprehensive set of process and technologies for managing relationships with potential

and current customers and business partners across marketing, sales and services regardless of the communication channel.

Benchmarking reports had showed that before 1993., CRM included two major markets: (*Sales Force Automation*) and (*Customer Services*). Sales force automation was initially design to support salespersons in managing their activities: contact management, activity management, communication management, forecasting, order management, opportunity management, document management, sales analysis, product configuration.

Compared to SFA, Customer Service is an after sales activity to satisfy customers. The goal of Customer Service is to resolve internal and external customers problems quickly and effectively. It includes: call center management, field service management, and help desk management. Authors (Gray, Byun, 2001.) explained that CRM includes all customer-facing application: SFA, Customer Services, Sales and Marketing Management and Contact&Activity Management.

### The customer relationship management framework

To success application of a CRM program in companies is always difficult.

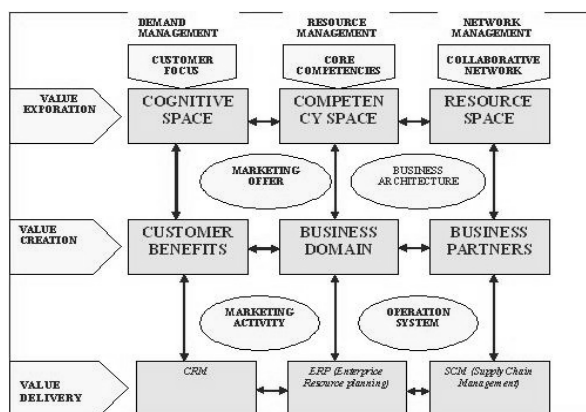
Carrying out a CRM program is a three-stage process (Kotler, Dipak 2002., p 107.)

1. finding the target customers,
2. filling the target customer's needs,
3. forming long-lasting links with the target customers.

CRM framework involved all management levels in companies (management define requirements for IT systems and solutions) but it is ciritical for operational level of employees who work in the front line and use IT systems with direct communication and contact with customers. It is dynamic concept deriver from the electronic connectivity and interactivity among companies, customers and business partners.

According to (Kotler, 2000.) holistic marketing concpet combines the best of traditional marketing with new digital capabilities to build long term, mutually satisfying relationships among all key stakeholders.

These framework shown in figure 1.



**Figure 1.** Holistic Marketing Framework (Kotler, Dipak, 2002., p.29.)

Kotler explain that hree organizational functions will play the major roles in the digital economy:

1. demand management function,
2. resource management funsction and
3. network management function.

This framework shows the connection and interaction between relevant actors (customers, company and collaborators) and value based acitivites (value xploration, value creation and value delivery).

Customer relationship management had a main role in the value based acitivity for customer(value delivery) with other information technology: Enterprise resource planning and Supply chain management..

The holistic marketing framework provides future direction for tranformation of organizational structure of companies which are customer and technology driven oriented.(Damnjanović, 2005)

### Results and Discussions

All companies should develop a customer database (Kotler, Dipak, 2002.) which include „good“ customers who would:

- Buy more from the company, event is the price a relatively higher from than competitors' price.
- Become apostles, recommending the company and its products to colleagues, family and friends.
- Try out the company's new offerings and help the company make them better.
- Use company support, service and other facilities.

In this paper we explain how the companies shift the way of doing business are moving from product management to customer management and are focusing on managing interactions with individual customers..

According to (Arthur, 2000.) there are five criteria for successful CRM:

- The company has well developed marketing process.
- The company can easily capture customer's names, address and purchase behavior.
- Data about customer's repeat-purchases can be captured at the point of sale.
- The company has the skills to build and mine their database.
- The company can offer a frequency program with significant benefits for both parties.

### Problems

The study showed that companies had many of these factors when implement CRM solution and again had different problems The managers had problems :

- they are not enough educate for using the CRM: they need to select customers from database and hadn't knowledge to do that easy for different criteria,
- they need charts for analysing current and predict future forecast sales,
- organizational change: sales force like to go sales field and don't like to used information technology in their job,

- IT department never understand what application managers from marketing and sales department need.

The CRM forum also identified that the most failure for implementation CRM solutions include organizational change and company politics. Success of IT solutions depend of human skills, motivation, understanding the advantages of using these systems.

**Table 1**

CRM problems (Kotler, 2003.)

| Rb | Following causes of failure<br><i>CRM solution</i> | Percent (%) |
|----|--|-------------|
| 1. | Organizational Change                              | 29%         |
| 2. | company politics/inertia                           | 22%         |
| 3. | lack of CRM understanding                          | 20%         |
| 4. | poor planning                                      | 12%         |
| 5. | lack of CRM skills                                 | 6%          |
| 6. | budget problems                                    | 4 %         |
| 7. | software failure                                   | 2%          |
| 8. | bad advice   | 1%          |
| 9. | Other  | 4%          |

Successful CRM efforts depend on combination of people, process, technology and knowledge. At the heart of CRM process is information. Information must be readily benchmarking, analysed and shared among all members which take part in the buying process.

### Benefits

There are many reasons why companies adopt CRM solutions. Many studies showed that dissatisfied customers tell 8 or 10 people about their experience and also new customers come to company if existing customers recommend company or product offer.

The benefits of CRM are to improve the organization's ability to retain and require customers.

By examining a customer's past purchases, demographics, and psychographics, the company will know more about what the customer might be interested in. The company will send specific offers only to those with the highest possible interest and readiness to buy, and will save all the mailing or contact costs usually lost in mass marketing. Using the information carefully, the company can improve customer acquisition, cross-selling, and up-selling.

Benefits of CRM also include: Maximize the lifetime value of each customer and improve service and also to help managers in their work to gain better performing results.

**Table 2**

Benefits of CRM realised by companies (Masiulionis, Vanhanen, 2004.)

| <i>Tangible benefits</i>                               | <i>Intangible benefits</i>  |
|--|---|
| Increase revenue and profitability                     | Increase customer satisfaction  |
| Reduce internal cost                                   | Improve customer service  |
| Higher employee productivity                           | Streamlined business process  |
| Reduce marketing cost                                  | Closer contact management   |
| Higher customer retention rate                         | Increased depth and effectiveness of customer segmentation                                  |
| Protected marketing investments with maximized returns | Better understanding of customer requirements<br>Acute targeting and portfolio of customers |

*CRM solutions have tangible and intangible benefits (see Table 2.)*

CRM follows naturally from an emphasis on relationship selling. The objective of CRM is to provide better customer service by giving all customer contact personnel the complete history of a customer's needs, problems and purchases. To accomplish these objectives, CRM requires a software business management system that collects and interprets customer-base data from internal (marketing, sales, customer support) and external (marketing research, competition marketing information system) Major CRM software suppliers are: *Sap, Microsoft Navision, Siebel, Oracle, Clarify, Vantive i SalesLogix*. The primary goal of CRM is not software focused, however, rather, it is a developing a process for identification, targeting, and responding to the need of the most profitable customers.

### Conclusions

We investigated CRM from managerial view and change management, communication problems, lack of knowledge and different view of software systems for top level management and front line employees are critical factors in CRM implementation.

It is also important to understand metrics for CRM to evaluate the implementation of CRM systems.

Table summarizes a simple evolution in the way metrics are likely to move. Note the consistency between those applying to customers and front-line staff. Ambler suggests that commitment should be the primary focus, even through the bottom line remains the goal.

The most important CRM measures are the synergy between the technical CRM (functionality, costs and efficiency) and relational aspects of CRM.

**Table 3**

CRM metrics (Ambler Tim, 2003)

| Metrics | Customer     | Front-line staff | Company                                    |
|---------|--------------|------------------|--|
| Old     | Retention    | Turnover         | CRM costs                                  |
| Better  | Satisfaction | Satisfaction     | CRM ROI                                    |
| Best    | Commitment   | Commitment       | Shareholder value – including brand equity |

*Mercedes-Benz has successfully implemented CRM across its European divisions. The goal's of Mercedes CRM program is to understand the customers and offer them the individualized experience of consistent quality. Mercedes is attempting to shift from mass marketing to one-to-one marketing. Mercedes-Benz now has a database of 10 million customers across Europe and has improve customer retention and loyalty through improved customer care insight. Sales effectiveness and efficiency have also improved according to company sources.*

Loyalty rates across Mercedes-Benz markets in Europe have risen as a result. (Dalrymple, Cron, DeCarlo 2004, p.8)

In order to manage marketing changes in business environment and work more efficiently and effectively, companies need to renew their business infrastructures and capabilities by investing in three systems and applying the holistic marketing concept with:

1. *Customer Relationship Management.*
2. *Internal Resource Management.*
3. *Business Partnership Management.*

All departments in companies should understand relationship marketing concept. Human resource and public relation department with top management could develop change management programs, trainings and internal communication program for employees for better understanding of CRM need and implementation.

Future research could be directed toward analyze problems from different views: managers and information technology experts and purpose for better creation and implementation of CRM solutions in companies.

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Vesna Damjanović

## CUSTOMER RELATIONSHIP MANAGEMENT: IMPLEMENTATION, BENEFITS AND PROBLEMS

### Summary

The study contributes to the marketing and information technology literatures. I present need of combining traditional with new marketing holistic framework with information technology (CRM solutions) in the terms of improving business results and identified managerial problems and provides ideas for resolving these problems in implementation of CRM systems.

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# EVALUATION OF EU COUNTRIES' DEBT: THE ASPECT OF INTERGENERATIONAL MORALITY

Mindaugas Dapkus

## Abstract

In this paper an alternative fiscal policy evaluation criterion and index are presented. This can be proposed only after the definition and substantiation of the time-frame for the debt redemption. The EU fiscal policy evaluation and suggestions for policy changes are made with this criterion in mind.

## Keywords

Fiscal policy, debt redemption, Intergenerational Morality index; JEL category number: H62 - Deficit; Surplus; H63 - Debt; Debt Management.

## Introduction

To evaluate the efficiency of the national fiscal policy two main indexes are applied, that is public debt and budget deficit (absolute and relative- as the ratio to GDP- forms). *Budget deficit (BD)* is the discrepancy between the governmental spending and income of the financial year when spending exceeds income. *Public (government) debt (PD)* is an accumulated consolidated public debt emerging from the borrowed and not repaid funds dedicated to finance the former budget deficits. The importance of these indexes is seen as they stand among the four EU most significant indicators in evaluation of the economical status of the EU States. Other indicators are also possible beside these indexes estimating the characteristics of the state debt redemption and its structure.

The example of the estimation of the quantitative fiscal policy is quantitative criteria used in "Stability and Growth Pact". According to the *Stability and Growth Pact*, the consolidated public budget deficit level and public debt are respectively up to 3% and 60% to annual GDP. The fiscal policy criteria are criticized because of the various reasons:

1. These criteria's selection within EU turned to be the *political decision* going with a target to control the weakest States' fiscal policy. This fact became obvious when great EU members (Germany, France, and Italy) have stopped executing the intruded principles of a "correct" economic policy. To avoid penalties they took the lead to soften the fiscal policy criteria.

2. The interdependence of both indexes (budget deficit and public debt) is varying. For example, in the case of rather small public debt the budget deficit can be bigger and can bring no direct threats to national economy or doubts about its insolvency. Thus, their application for the evaluation of the whole fiscal policy is not really correct.

3. The suggested EU fiscal policy evaluation criteria are brought as universal, that is applicable for all countries, but actually it is not the case. For example, even if there is a higher debt level than provided this does not mean that debt will not be paid as everything depends on many other factors such as the rates of economical growth, debt administrative costs, interest rate etc. The

latter, in their turn, are dependent on the countries' development level.

4. Stability and Growth Pact allows some liberty treating the State economic results: there is the possibility when the State's efforts to improve are appreciated even when they do not meet the basic criteria. Such flexibility, however, is based upon the qualitative evaluation and also from the author's point of view gives too much freedom for political manipulations.

The contradictions of the fiscal policy evaluation introduce the scientific issue that must be solved. **The object of the research** is the fiscal policy efficiency and its evaluation. **The goals** of the paper are as follows: to suggest an alternative fiscal policy evaluation criterion; on the basis of this criterion to evaluate the fiscal budget policy of the EU States; to define a means enabling EU to improve it's fiscal policy.

The first chapter presents the conceptual idea leading to the fiscal policy evaluation index construction. Intergenerational debt morality index (the second chapter). In the following chapters the author evaluates the fiscal policy status of the EU countries. The last chapter is intended to propose means for some solution of EU countries' fiscal problems.

## The conceptual idea and the method

The necessity of the new motivated fiscal policy evaluation index emerged after the contradictions in evaluating debt control in micro- and macro- aspects have occurred. The essential contradiction that practically eliminates any possibility to suggest optimal or efficient debt level evaluation criterion is related to public debt redemption period.

In micro economical level debt redemption is related to physical ability of a particular individual to pay debt interests and finally the debt itself. Here the debt redemption is linked with the individual's responsibility during his active period of life, so most lending contracts are delimited by 25-30 years time period. *Macroeconomic debt control* indexes conform to the indexes of micro levels but their particular level cannot be concretized due to the "infinite life expectancy" of a State as the eternal economical subject. In this way the infinite life expectancy is often integrated into



the debt evaluation macroeconomic models calculating the future debt size, taking into consideration the unchanged everlasting fiscal policy. Contrary to the private business, where disability to pay debts under the contract terms leads to bankruptcy, the actual insolvency of the State has rather *moral* than *real* menace. Having no restriction for the debt redemption period the only warranty to repay the debt of a current period turns to be moral-ethical liabilities of the State.

The public debt redemption period infinity has been substantiated due to the PD and BD benefits brought to the future generations; so, they must be ready to pay the debts of the current generation (governments) who acted on behalf of the future generations. Those benefits would be gained from the borrowed funds: properly invested they would lead to the growing living standards of the future generations (Rioja, Glomm, 2003; Rankin, Roffia, 2002). The debt redemption period uncertainty is under critique because it does not stimulate the governments for more efficient usage of public finance and this leads to debt and, accordingly, tax growing. The “goods” such as increased environmental pollution or drained natural resources left for the future generations make a lot of doubts whether the benefit is so much significant that it can substantiate the tax burden of the future generations.

From this point of view *the undefined PD redemption period (infinite time horizon) is the only weakness in further development of the economical idea in terms of the public debt control*. Namely, on the basis of the debt redemption period definition this article suggests an alternative fiscal policy evaluation index and criterion.

In this article, fiscal policy is evaluated by *the* here suggested *Inter-Generational Debt Morality index*. The suggestions given refer to the *Generational Accounting* debt evaluation method. The founders (Alan Auerbach, Jagadeesh Gokhale, Laurence Kotlikoff) of this methodology suggest solving the issue of the debt redemption time horizon delimitation (Bonin, Patxot, 2004; CBO study, 1995). In the GA methodology forthcoming income and spending of the State is compared and the obligatory percent of the tax increase ensuring full public debt redemption in a particular time is calculated; the theoretical assumption of debt redemption period infinity is excluded and the time horizon for seventy-five, ten and three year periods are proposed. In this way the policies of the long, average and short run terms are evaluated. But, however, the protagonists of GA idea do not substantiate why those periods were chosen for the policy evaluation. That is the reason why the author of this article decided to clarify the selection of the debt redemption period criteria to the evaluation of national budget policies. The alternative debt estimation index is proposed for the more simple analysis.

### Inter-Generational Debt Morality Index

In the proposed public debt evaluation index the responsibility of the current generation (current government) over the future one is highlighted. The author states that each generation must be responsible for its actions and must not create new problems for the future generations. That is why the concept *Generation* is relevant and must help to determine governmental liabilities in its existence period. What is the definition of the generation?

According to the author, the concept *generation* can be determined as a group of mature people of a certain age

who: 1) are legally and morally responsible for themselves; 2) are able to take care of themselves and of their dependants. In sociological point of view, the definition of a generation can be recognized as the age of an average person physically and morally ready to start an independent life. For statistical purposes the age of a generation can be identified, for example, as an average age of newly married couples, or an average age of the women giving birth. On the author's supposition in the modern world, this period has to include time necessary for obtaining secondary school compulsory, higher education and professional skills, and also the means to start an independent life. This is a theoretical approach to the individual's independence and the generation definition. According to the author this time-frame age must be 25 years, that is 18 years dedicated to obtain compulsory education, plus 4 years to gain the tertiary education and plus 3 years to fix in the professional business and personal life. The age of 25 years is conditional. The author will apply it in further calculations as a minimum evaluation unit in estimating the efficiency of the national budget policies.

The author proposes the index of fiscal policy which is defined as *Inter-Generational Debt Morality Index* ( $i_{DM}$ ). Its idea is that every government assumes responsibility with the funds available to provide the country residents with better economic welfare, at the same time undertaking to repay debts over the *defined time period*, not imposing the burden of debt payment problems on the next generations. Inter-Generational Debt Morality index allows presenting this significant debt redemption characteristic in more convenient form. It directly represents the key idea – to evaluate the “depth of financial responsibility” of actually living generations towards the future ones (Equation 1):

$$i_{DM} = \frac{t_{Debt}}{t_{Gener}} \quad (1)$$

here  $t_{Debt}$  is the actual public debt redemption period calculated on the basis of economic growth, interest, and the prognosis of other factor change;  $t_{Gener}$  is the denomination of one generation in terms of years (there 25 years is the defined time horizon).

The author suggests following the levels of the government financial responsibility, which could be used as criterion for defining the efficiency of the fiscal policy; they are expressed also through Inter-Generational Debt Morality index and presented in Table 1:

**1. The fiscal policy responsibility level of 25 years (of one generation,  $i_{DM} \leq 1$ ).** In terms of debt management, the individual upon taking decisions has to personally feel the responsibility for the decision-making results. Assuming that State management and fiscal policy decisions are made by the politicians (supposed 50 years old on the average) State's responsibility must be borne via politicians' active period of life ( $50+25=75$ , an average human life expectancy). According to it the given public debt redemption period of one generation must guarantee that current government and the representatives of other economical-political institutions (politicians) would bear at least moral responsibility for the efficiency of their decisions taken without transferring the responsibility to the future generation. I denominate this level of fiscal responsibility as the “Moral fiscal policy”.

**2. The fiscal policy responsibility level of 50 years (of two generations,  $1 < i_{DM} \leq 2$ ).** This level is based upon the attitude that indirect responsibility for the political solutions made is borne by the inhabitants of the country because they have voted for the politicians to represent their interests. Within the time-frame of the average life expectancy of the inhabitants, the first conditional generation of 25 years at present indirectly taking part in the politics has to bear the moral responsibility for the

accepted fiscal policy". So, I treat this responsibility level as a "risky fiscal policy". This critical period of the state loan redemption can be related with the average man's life expectancy.

**4. Irresponsible and immoral fiscal policy ( $i_{DM} > 3$ ).** Exceeding this 3G level of Inter-Generational Debt Morality index could be called an "irresponsible fiscal policy". Outside 3G debt redemption duration level not a single average statistical person, involved in debt

**Table 1**

Inter-Generational Debt Morality index and the fiscal policy estimation

| Debt redemption period (years)                                  | 0- 25               | up to 50                  | up to 75            | over 75                     | never                 |
|---|---------------------|---------------------------|---------------------|-----------------------------|-----------------------|
| Conditional number of generations*                              | ..... $\leq 1$      | ..... $\leq 2$            | ..... $\leq 3$      | 3<.....                     | -                     |
| Inter-Generational Debt Morality index $i_{DM} = t_{Debt}/25^*$ | ..... $\leq 1$      | ..... $\leq 2$            | ..... $\leq 3$      | 3<.....                     | -                     |
| Qualitative description of inter-generational morality          | Moral fiscal policy | Sustainable fiscal policy | Risky fiscal policy | Irresponsible fiscal policy | Immoral fiscal policy |

\* 25 year period is the conditional denomination of one generation in terms of age ( $t_{Gener}=25$ )

economical solutions made by the politicians. Thus, the first generation during its life expectancy has to pay debts and the time to pay the rest of the debts will be 50 years ( $25+50=75$ , or within two generations time horizon). The availability of the public debt redemption period of 50 years to evaluate the fiscal policy morality can be substantiated by already discovered duration of long-term business cycle of Kondratyev. Its average time-span reaches 40 to 60 years or the period in average of about 50 years. So, this criterion of the fiscal policy also incorporates the EU qualitative attitude towards the necessity to balance budget in the course of a business cycle (here long term business cycle). The proposed debt redemption level of 50 years reflects the responsibility limits for the mature society and I call this level a "Sustainable fiscal policy" (Table 1).

**3. The fiscal policy responsibility level of 75 years (of three generations (3G),  $2 < i_{DM} \leq 3$ ).** Another level of responsibility is related with now available viewpoints on the State secrets. On the basis of understanding the political responsibility and concern about State stability the society must not learn the particular information for some definite time span. In many States the marginal time to keep their (government) secrets is about 75<sup>1</sup> years. In author's opinion those societal restrictions of political information do not guaranty sufficient control of politicians and in reality allow them avoid responsibility for, in some cases, infamous, egoistic and antisocial decisions are made. But, however, "the period of a political rest from responsibility" could be applied by using it only as a marginal criterion of "a fair and morally

management decisions process, could take any real responsibility; but this leaves the possibility to settle debts later. On the other hand there can be States that will never be able to redeem their debts if the basis of the state fiscal and economical politics is constant. Their long-term policy there is estimated as "immoral fiscal policy". The public debt redemption period of 75 years (in this paper corresponds to the criterion of the three generations' (3G) fiscal policy morality with regards to the future generations although not well-founded was represented by the authors of the *Generational Accounting (GA)* public debt evaluation methodology (GA critics by CBO study, 1995). However, the application of the GA method to evaluate the balance of the *public pension funds* budget implicitly reveals the natural responsibility level appropriate for this institution and available data for its evaluation. That is the same average human life expectancy. Also, my approach is different from GA by the debt evaluation principles: the GA accepts the actual level of debt as a fact and proposes to evaluate the extra efforts to implement the debt redemption during 75 years. I begin with a motivation of the limit of debt redemption period, but this period is critical; the evaluation of actual fiscal policy must be understood as a comparison of debt redemption possibilities vis-à-vis of 3G debt morality criteria and the change of those possibilities during the last year (as a government impact in the debt redemption). So, proposed 3G inter-generational debt morality criteria allow to evaluate an absolute level of the State liability against the Society (historical evaluation), but also it allows to evaluate the efforts of Government at work to keep the debt at or to move it towards the inter-generational acceptable level.

## Research assumptions

The main purpose of this article is not to suggest a new method for public debt prediction, but to propose an alternative criterion for fiscal policy evaluation, and to present its application. Therefore, in estimates of debt

<sup>1</sup> For example, according to the Article 13 of Law On State Secrets And Their Protection Of Lithuanian Republic, the information which is considered as a state secret is classified as follows:  
1) information classified "Secret" - for the period of 10 years; and  
2) information classified "Top secret" - for the period of 30 years, and the information related with the secret participants of operative activities - for the period of 75 years.

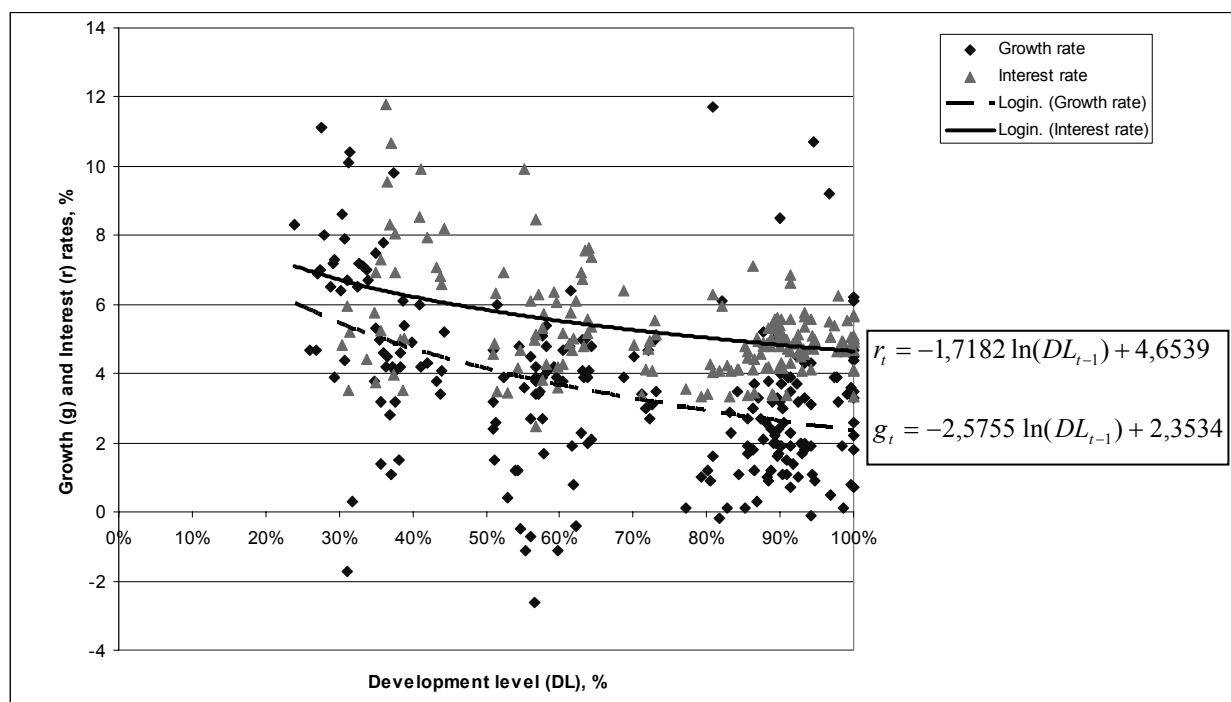
redemption period, this simple debt variation equation will be applied:

$$D_t = D_{t-1} + D_{t-1} \cdot i - a \cdot T_{t-1} \cdot g, \quad (2)$$

here:  $D$  is gross (or net) government debt, % to GDP;  $t-1$  and  $t$  define the previous and current period;  $i$  are long-term interest rates, %;  $T$  is the government revenue, % to GDP;  $g$  is the GDP growth rate, %;  $a$  is the budget relative part used for the redemption of the state debt. Indexes  $i$  and  $g$  are treated as being the function of State's development level ( $DL$ ).

presented in Table 2. Let us assume that the part of the budget of all the countries (coefficient  $a$ ) attributed to the debt redemption is equal to 10%<sup>2</sup>.

➤ There, the *assumption* about the dependence of growth and interest rate on economy development level is made (data from Eurostat are graphically shown in Fig. 1). The dependence of the interest of the *current* period and the dependence of the growing speed from the development level of the *previous* period were estimated. This attitude is the result of the convergent development of economics: the greater the lag from the leader countries the bigger the



**Figure.1.** Relationship of the interest and growing rate of the current period on the economic development level of the previous period (calculations using 1996-2005 data)

The investigation estimated the time for the Net Debt redemption (what is the level of the debt morality) calculating from the year 2005 and when the debt of EU states will be settled if the levels of the interest rate and the economy growth are variable. Net government debt is General government consolidated gross debt as a percentage of GDP reduced by financial assets. Here the financial assets are a sum of securities other than shares, loans, shares and other equity in % to the GDP. Some assumptions and constraints were made in calculations:

➤ I state, that throughout entire debt redemption period (long run) *budgets of States must be balanced*. This assumption is long-term-oriented, i.e., for the period of 25-75 years, during which the qualitative debt control criterion of EU is applied, i.e., the necessity of deficit offset during the business cycle. In other words it is assumed, that current public total debt can be reduced using money received because of country economic growth, and the debt will not grow because of the future deficit accumulation. Estimates were made using data (Eurostat, Economy and Finance) of EU Department of Statistics, and missing information was supplemented with OECD data (OECD Factbook, 2006). Data used (development level, national revenue, financial assets, net debt in % to GDP and growth rate, interest rate prognosis in %) for the estimates as well as their results are

external forces that stimulate the internal economic development. On the other hand, the greater is the economic lag of the country the bigger is the economic risk of the country and the greater is the interest. The data of the estimation of the long-term interest norms is used for the calculation of interest norms, the data of (10-year government bond yields). The development level was estimated as GDP per capita in Purchasing Power Standards is expressed in relation to the country with the greatest GDP<sup>3</sup>. The change of the development level ( $DL$ ) depends on the speed of the investigated state economic growth and the leader state economic growth rate. The paper investigates if the leader state will not change with time (in 2005 it was

<sup>2</sup> The assumption is based on Lithuanian example: Lithuanian government has stated that the State expenditure for the debt redemption should not exceed 10% of the annual income of the budget of Lithuanian republic (the solution made in July, 2005). Actually 5.14 % of the budget income of LR was paid for the State credits of 2004 (State debt, 2004)

<sup>3</sup> Among the countries of EU the greatest level of GDP in 1995-2005 was in Luxembourg, but the author of this paper does not use the data of this country for the calculations because the achievements of this country were determined by the special geopolitical circumstances.

Ireland) and its rate of economic growth will correspond to 3% foreseen by EU. Then the relationship of the change of the development level if compared with the previous period rate of growth will be calculated as follows:

$$DL_t = \frac{100 + g_t}{100 + g^*} DL_{t-1} \quad \text{or} \quad DL_t = \frac{100 + g_t}{103} DL_{t-1} \quad (3)$$

Here  $DL_{t-1}$  and  $DL_t$  are the development levels of the previous and current period, %;  $g$  is the rate of the economical growth of the analyzed country, %;  $g^*$  are the rates of the growth of the most developed country (3%).

➤ Fig.1 shows the relationship between the development level (DL) of the previous period and the current interest rate ( $r$ ) and the development level and the speed of the current economic growth ( $g$ ). It is defined using the data of the period of 1995-2005. The fulfilled regressive analysis showed the existing week (interest  $R^2=0.1625$  and the growing speeds  $R^2=0.1927$ ) relations between reverse relationship, described by mathematical logarithm equations with regard to interest and with regard to growing

rates  $g_t = -2.5755 \ln(DL_{t-1}) + 2.3534$ . Rather great scatter of the data is determined by the individualism of the politics of various countries, different approach of the governments into regulation of the economy and the peculiarities of economic activity with regard to the cycle. Nevertheless the relationship is obvious, logically supporting the presumption about the relationship of the investigated values. The analysis shows that the average interest rate is higher than the interest rate and this is the negative fact in the sense of the possibility to return the debt. The regressive curves show the larger elasticity of the growth rates toward economy. This means that the growth rate decreases more quickly than the interest as the development level of the country growth (coefficients are  $|-2.5755| > |-1.7182|$ ). Thus the possibility to redeem the country debt becomes worse with its development level amelioration. At the same time the average development rate of economy of the most developed countries does not correspond with the desirable sizes of EU growth rate. It is less (2.3534%) than expected 3% economic growth.

For the forecast of the change of the economic growth rates of EU countries the corrected relationship of the growth rate on the formula of the development level was used. This formula estimated desired long-term growth rates of the EU (presumption is made that the goals of economic growth of the EU are reached):

$$g_t = -2.5755 \ln(DL_{t-1}) + 3.$$

## Research results

Thus within the limits of the foreseeable economic growth and interest rate change the following facts were disclosed after estimation of the possibility to redeem the *net debt*. The following states belong to the states with moral fiscal policy: Estonia, Finland, Sweden, Lithuania, Latvia, Luxembourg, and Slovenia. Their net debt is negative or in other words they can redeem their debts with the possessed financial assets immediately. The moral fiscal (the inter-generational

debt morality index is  $i_{DM}=0$ ); the net debt of Slovenia is positive but with the present income level Slovenia could completely pay off its creditors till 2012 (index  $i_{DM}=0.28 < 1G$ ) if the anticipated rate of the economic growth and long-term interest were as foreseen.

The calculations evidently disclose the states that have no possibilities to redeem their debts unless they make serious economic reforms and use manipulations (such as the state budget financing with the help of monetary emission). They are: Belgium, Cyprus, France, Germany, Malta, Netherlands, Poland, Portugal and the United Kingdom. This conclusion is strengthened by the comparison of the economic growth of the last period and the interest rate with the variations of the analogous indexes foreseen in the paper. They show that the difference between the actual growth rates and the interests (column 13 in Table 2) is less than foreseeable data (column 12 in Table 2), and this shows that actually the rates of the economic growth of the mentioned states are less, and the interest for the paid debts is greater than the calculated with the help of the prognostication method.

Czech republic, Denmark, Greece, Ireland, Slovakia and Spain can be attributed to the states with the higher estimation than the "Immoral" fiscal policy, but this simplified investigation does not make it possible as some of the data used in the estimation were conditional. On the other hand the forecast results of the economic growth and interest rate change (column 12 in Table 2) from the point of view of the debt redemption are worse than the corresponding actual results (column 13 in Table 2). If the mentioned countries are able to retain these tendencies their estimations of the possibilities to redeem the debts and fiscal policy should improve.

## Propositions for EU fiscal policy modifications

The following proposals to regulate the fiscal policy can be given using the results of the EU state debt estimation:

- The index of intergenerational debt morality could be proposed as the complex alternative to the indexes that estimate the other achievements of the country economy. The estimation of the debt redemption possibilities is impossible without the use of other indexes: such as the growth rate, interest norms, the change of exchange rate, inflation level (the latter two were not used in this paper investigation). Each of these indexes estimates the economic situation of the EU states but they do not estimate the functioning of the system as a whole. Thus the estimation of the debt redemption possibilities can be used as complex method to determine the state economic possibilities.
- The EU Countries that can redeem the debts in 3G period should agree and initiate the order forming the greater financial discipline. This order is based on the moral (financially) idea of the responsible state. This idea could become the instrument of the improvement of the international competitiveness of the EU that attracts the capital of the foreign states for the financing of the EU development.
- Lithuania and other inter-generational financially responsible countries of the EU could use their relatively better financial situation by giving the proposal to create the

special EU fund to pay off the debts of the most deep-in-debt countries. For this purpose the rules of such financing should be prepared. Lithuania will not have financial benefit with this proposal because some part of the EU financial sources would be transferred into this fund: the financing of

the deep-in-debt countries would be indirectly executed using means of the new EU states. But Lithuania would win politically, i.e. the image of Lithuania as the “freeloader” would be reduced and the capacity would occur to act in EU and adopt the beneficial solutions for Lithuania.

Table 2

Estimation data (percentage) and results of the State debt (fiscal policies)

| Country           | Develop-<br>ment 2005 | Growth<br>rate<br>prognosis<br>2006 | Interest<br>rate<br>prognosis<br>2006 | Revenue<br>2005 | Gross<br>Debt<br>2005 | Financial<br>assets<br>2005 | Net<br>Debt<br>2005 | Net Debt evaluation                     | Growth<br>rate 2005 | Interest<br>rate 2005 | Growth minus<br>interest rate<br>(prognosis<br>2006) | Growth<br>minus<br>interest<br>rate<br>(2005) |
|-------------------|-----------------------|-------------------------------------|---------------------------------------|-----------------|-----------------------|-----------------------------|---------------------|---|---------------------|-----------------------|--|---|
| 1                 | 2                     | 3                                   | 4                                     | 5               | 6                     | 7                           | 8                   | 9                                       | 10                  | 11                    | 12   | 13  |
| Austria           | 89.48                 | 328                                 | 4.84                                  | 48              | 62.9                  | 21.19                       | 41.71               | Immoral                                 | 2                   | 3.39                  | -1.55  | -1.39   |
| Belgium           | 85.90                 | 3.39                                | 4.91                                  | 50.1            | 93.3                  | 7.45                        | 85.85               | Immoral                                 | 1.2                 | 3.43                  | -1.52  | -2.23   |
| Cyprus            | 60.92                 | 4.27                                | 5.50                                  | 42.3            | 70.3                  | 6.64**                      | 63.66               | Immoral                                 | 3.8                 | 5.16                  | -1.22  | -1.36   |
| Czech Republic    | 53.25                 | 4.62                                | 5.73                                  | 41.5            | 30.5                  | 6.64**                      | 23.86               | Immoral                                 | 6                   | 3.47                  | -1.11  | 2.53  |
| Denmark           | 90.79                 | 3.24                                | 4.81                                  | 57.1            | 35.8                  | 25.74*                      | 10.06               | Immoral                                 | 3.2                 | 3.4                   | -1.57  | -0.2  |
| <b>Estonia</b>    | <b>41.85</b>          | <b>5.24</b>                         | <b>6.15</b>                           | <b>37.5</b>     | <b>4.8</b>            | <b>33.58*</b>               | <b>-28.78</b>       | <b>MORAL (<math>i_{DM}=0</math>)</b>    | <b>9.8</b>          | <b>3.98</b>           | <b>-0.90</b>   | <b>5.82</b>                                   |
| <i>Finland</i>    | 82.83                 | 3.48                                | 4.97                                  | 53.1            | 41.1                  | 87.82*                      | -46.72              | <b>MORAL (<math>i_{DM}=0</math>)</b>    | 2.9                 | 3.35                  | -1.49  | -0.45   |
| France            | 79.47                 | 3.59                                | 5.04                                  | 51.3            | 66.8                  | 18.51*                      | 48.29               | Immoral                                 | 1.2                 | 3.41                  | -1.45  | -2.21   |
| Germany           | 80.13                 | 3.57                                | 5.03                                  | 43.4            | 67.7                  | 6.64*                       | 61.06               | Immoral                                 | 1                   | 3.35                  | -1.46  | -2.35   |
| Greece            | 59.89                 | 4.32                                | 5.53                                  | 41.8            | 107.5                 | 19.08                       | 88.42               | Immoral                                 | 3.7                 | 3.59                  | -1.21  | 0.11  |
| Hungary           | 44.41                 | 5.09                                | 6.04                                  | 44.5            | 58.4                  | 15.65                       | 42.75               | Immoral                                 | 4.1                 | 6.6                   | -0.95  | -2.5  |
| Ireland           | 100.00                | 3.00                                | 4.65                                  | 35.5            | 27.6                  | 6.64**                      | 20.96               | Immoral                                 | 4.7                 | 3.33                  | -1.65  | 1.37  |
| Italy             | 75.01                 | 3.74                                | 5.14                                  | 44              | 106.4                 | 12*                         | 94.4                | Immoral                                 | 0.1                 | 3.56                  | -1.40  | -3.46   |
| <i>Latvia</i>     | 34.33                 | 5.75                                | 6.49                                  | 36.4            | 11.9                  | 15.81*                      | -3.91               | <b>MORAL (<math>i_{DM}=0</math>)</b>    | <b>10.1</b>         | <b>3.53</b>           | <b>-0.73</b>   | <b>6.57</b>                                   |
| <i>Lithuania</i>  | 37.98                 | 5.49                                | 6.31                                  | 33.1            | 18.7                  | 35.64*                      | -16.94              | <b>MORAL (<math>i_{DM}=0</math>)</b>    | <b>7.5</b>          | <b>3.73</b>           | <b>-0.82</b>   | <b>3.77</b>                                   |
| <b>Luxembourg</b> | <b>180.71</b>         | -                                   | -                                     | 42.4            | 6.2                   | 6.64**                      | -0.44               | <b>MORAL (<math>i_{DM}=0</math>)</b>    | <b>4</b>            | <b>3.37</b>           | -  | <b>0.63</b>                                   |
| Malta             | 50.54                 | 4.75                                | 5.82                                  | 44.2            | 74.7                  | 6.64**                      | 68.06               | Immoral                                 | 2.4                 | 4.57                  | -1.06  | -2.17   |
| Netherlands       | 90.06                 | 3.26                                | 4.83                                  | 45.4            | 52.9                  | 13.92*                      | 38.98               | Immoral                                 | 1.1                 | 3.37                  | -1.56  | -2.27   |
| Poland            | 36.37                 | 5.60                                | 6.39                                  | 40.8            | 42.5                  | 20.11*                      | 22.39               | Immoral                                 | 3.2                 | 5.23                  | -0.78  | -2.03   |
| Portugal          | 52.08                 | 4.68                                | 5.77                                  | 41.8            | 63.9                  | 16.45*                      | 47.45               | Immoral                                 | 0.4                 | 3.44                  | -1.09  | -3.04   |
| Slovakia          | 40.17                 | 5.34                                | 6.22                                  | 34.7            | 34.5                  | 6.64**                      | 27.86               | Immoral                                 | 6.1                 | 3.52                  | -0.87  | 2.58  |
| <b>Slovenia</b>   | <b>58.29</b>          | <b>4.39</b>                         | <b>5.58</b>                           | <b>4.5</b>      | <b>29.1</b>           | <b>27.89</b>                | <b>1.21</b>         | <b>MORAL (<math>i_{DM}=0,28</math>)</b> | <b>3.9</b>          | <b>3.81</b>           | <b>-1.19</b>   | <b>0.09</b>                                   |
| Spain             | 71.95                 | 3.84                                | 5.21                                  | 39.3            | 43.2                  | 9.6                         | 33.6                | Immoral                                 | 3.4                 | 3.39                  | -1.37  | 0.01  |
| <b>Sweden</b>     | <b>83.71</b>          | <b>3.45</b>                         | <b>4.95</b>                           | <b>59.4</b>     | <b>50.3</b>           | <b>59.6*</b>                | <b>-9.3</b>         | <b>MORAL (<math>i_{DM}=0</math>)</b>    | <b>2.7</b>          | <b>3.38</b>           | <b>-1.50</b>   | <b>-0.68</b>                                  |
| United Kingdom    | 85.17                 | 3.41                                | 4.92                                  | 41.9            | 42.8                  | 6.64**                      | 36.16               | Immoral                                 | 1.9                 | 4.46                  | -1.51  | -2.56   |

\* data of 2004; \*\* Attributed the least value of the investigated totality (Germany 6.64%).

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Mindaugas Dapkus

## EVALUATION OF EU COUNTRIES' DEBT: THE ASPECT OF INTERGENERATIONAL MORALITY

### Summary

In this paper the alternative index of debt evaluation is proposed and treated as a base for the evaluation of the EU fiscal policy. The suggestions for EU fiscal policy development are also made.

The proposed index of government debt (fiscal policy) evaluation and is considered as Inter-generational Debt Morality index. According to the author, the responsibility of current generation is pertained to the human life expectancy, since only in such case minimum moral controlling pressure to the government implementing economic policy decisions may be ensured. Inter-generational Debt Morality index is calculated as a factual period of debt redemption divided by the denomination of one generation (there defined as a period of 25 years). There are five levels of inter-generational fiscal policy morality, which relate fiscal policy efficiency of current generation to its ability to cover public debt. According to the author, the fairest inter-generationally responsible fiscal policy is when the public debt morality index does not exceed 1 (1 generation or 1G), i.e., public debt should be redeemed within 25 years (named as Moral fiscal policy). Fiscal policy which allows to redeem State's debt in the period of 2G (50 years; debt morality index does not exceed 2) is named as sustainable fiscal policy. Critical debt redemption criterion (reflecting State of the risky fiscal policy), i.e., debt redemption level of 3G (75 years) is pertained to currently applicable in political level period of national secret preservation (it may amount to 75 years) and to potential human life expectancy. The States able to redeem debts later than in the period of 3G are treated as States of low fiscal responsibility. The States never able to redeem its debt without dramatic changes in present economic policy are treated as those pursuing the immoral fiscal policy.

While evaluating possibilities of debt redemption of the EU countries the author followed the assumption that there are two main factors influencing the debt level: growth rate and interest rate. Both depend on the economic development level of the past period. It is obvious that average interest rate (which is a significant factor for debt service) in many countries is higher than the growth of States' income. With application of a regression analysis it is estimated that when the level of State development grows, rate of economic growth deteriorates in a higher rank than the interest rate decreases. It is not a beneficial fact which may worsen States' abilities to redeem debts in the future. It must also be evaluated in the planning of the means of State's fiscal policy. According to net debt redemption period (Inter-generational Debt Morality index) calculations, only Finland, Estonia, Latvia, Lithuania, Luxemburg, Slovenia, and Sweden were attributed to most responsible (moral) fiscal policy pursuing group of EU countries. A big group of other countries (Belgium, Cyprus, France, Germany, Malta, Netherlands, Poland, Portugal and the United Kingdom) is treated as countries with immoral fiscal policy. In order to redeem ever the debts those countries have to change dramatically their economic policy.

In order to raise a competitive ability in global competition, EU could support the idea of inter-generationalisation or in other words States' fiscal responsibility could become one of the main characteristics in strife for global investments. For that purpose it is required to create aim-based program to decrease all EU countries debts and and so increase fiscal responsibility. Lithuania and other „fiscally responsible and intergenerationally moral“ EU States could use their relatively better situation proposing the idea of an ad hoc purposive EU fund for debts redemption of the EU States. Therefore it is essential to formulate rules of such sponsorship. Lithuania as an initiator of such idea will not gain any financial benefit because part of the EU allocation will be redistributed namely in behalf of mentioned "debt redemption fund". However in exchange, Lithuania (as other countries pursuing morally responsible fiscal policy) could get a long term political influence.

**Key words:** fiscal policy, debt redemption, intergenerational debt morality index.

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# LEADER'S ROLES AND LEARNING AIMS IN BUILDING A LEARNING ORGANIZATION

Ona Daraškevičiūtė – Raginienė, Diana Lipinskienė

## Abstract

The research problem in this article refers to new role of the leader, which is a learning organization builder. This new role influences leader's learning process. Specific leader's learning aims are made including main learning organization principles. Special attention is paid to the importance of what the leader must or should learn, when seeking to build a learning organization fast and qualified. The article consists of two parts. The first part analyses the importance of leader's learning with emphasis on this process as leading role and the prime aim. In the second part the colligation of leading roles and learning aims of the leader is discussed and the model of leader's learning process is presented.

## Keywords

Learning organization, leader's roles, leader's learning, learning aims.

## Introduction

Today business environment is changing very fast, so the organization can hardly catch up with technological progress, also to stay competitive. One of the ways to maintain competitive advantage is to become a learning organization. Although the learning organization is still an ambition, many organizations in Lithuania are in the process of organization becoming a learning organization. The leader of the organization is the initiator of this process; also he is the one, who coordinates it, that is why leader's abilities and the improvement of these abilities are so important. The improvement of leader's abilities and skills can be called the constant learning, which is the main condition for becoming a learning organization. Many researchers such as Senge P. M., Appleby R. C., Dessler G., Robbins S. P., Neergaard C., Patrick J., Pedler M., Chmiel N. and Tannenbaum S. I. have discussed about leadership in organizations, learning organizations and learning process, the motivation to learn and learning aims. The synergy of results of literature analysis gives us new approach to leader's learning.

The aim of the paper is to analyse leader's learning aims taking into consideration new roles of the leader in the process of building a learning organization. The literature analysis and modelling were used as methods for achieving the aim of the paper.

## 1. Leader's roles in the learning organization

The traditional view of a leader as a special person who sets the direction, makes the key decisions, and energizes the troops is changing in learning organization. In learning organization leader's roles differ dramatically from that of the charismatic decision maker. According to Senge P. M. in learning organisation leader has to be a designer, a teacher and a steward. These new roles require new skills. Leader has to have the ability to build shared vision, to bring to the surface and challenge prevailing mental models, and to foster more systemic patterns of thinking. In short, leader in learning organizations is responsible for building organizations where people are continually expanding their capabilities of shape their future – that is, leader is responsible for learning. Leadership in a learning organization starts with

the principle of creative tension. Creative tension comes from seeing clearly where the leader and organization want to be – it is the vision and the position of the organization now – the current reality. As Senge P. M. states, the gap between the two generates natural tension. Creative tension can be resolved in two basic ways: by raising current reality toward the vision or by lowering the vision toward current reality. The leader's matter is to evaluate the abilities of current working team and to resolve which way to choose. Both ways are correct and both of them require the leader to come in new roles. The leader is expected to be prepared for the new roles: as it was mentioned above leader must be the designer, the teacher and the steward.

The first role of the leader in learning organization is **leader as a designer**. The functions of design are rarely visible; they take place behind the scenes. The consequences that appear today are the result of work done long in the past, and work today will show its benefits far in the future. Those who aspire to lead out of a desire to control, or gain fame, or simply to be at the centre, of the action, will find little to attract them to the quiet design work of leadership. (Senge, 1994)

While playing the role "leader as designer", the learning aim is to build a learning organization using personal mastery, mental models, shared vision, system thinking and team learning. Senge says that organizations cannot learn until their members begin to learn. *Personal mastery* applies to individual learning. Thus personal mastery seems to be one of the core disciplines needed to build a learning organization. Individuals who practice *personal mastery* experience other changes in their thinking. They learn to use both reason and intuition to create. They become systems thinkers who see the interconnectedness of everything around them and, as a result, they feel more connected to the whole. It is exactly this type of individual that one needs at every level of an organization for the organization to learn. Organizations learn through the synergy of the individual learners. (Senge, 1990)

The next discipline is *mental models*. A mental model is one's way of looking at the world. It is a framework for the cognitive processes of individual's mind. In other words, it determines how individual thinks and acts.

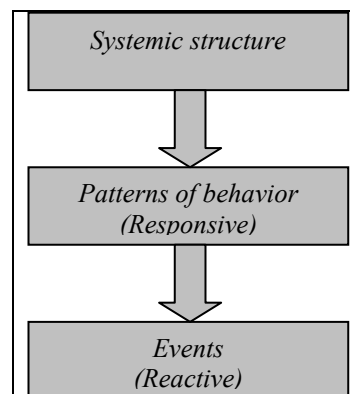


According to Senge, the definition of the third discipline *team learning* is: the process of aligning and developing the capacity of a team to create the results its members truly desire. It builds on the discipline of developing shared vision. It also builds on personal mastery; for talented teams are made up of talented individuals. Then it comes time to share a vision. It is fourth dimension. *A shared vision* begins with the individual, and an individual vision is something that one person holds as a truth. Mental image that is very important to individual, held within his heart. The vision is often a goal that the individual wants to reach. That goal is most often a long term goal, something that can be a leading star for the individual. The shared vision of an organization must be built of the individual visions of its members. What this means for the leader in the learning organization is that the organizational vision must not be created by the leader, rather, the vision must be created through interaction with the individuals in the organization. Only by compromising between the individual visions and the development of these visions in a common direction can the shared vision be created. The leader's role in creating a shared vision is to share vision of his own with the employees. According to Senge P. M. this should not be done to force that vision on others, but rather to encourage others to share their vision too. Based on these visions, the organization's vision should evolve.

The fifth discipline is *system thinking*. System thinking gives a more accurate picture of reality, so that it works with a system's natural forces in order to achieve the results are desired. It also encourages think about problems and solutions with an eye toward the long view. Finally, system thinking is founded on some basic, universal principles that will begin to detect in all arenas of life once it is learned to recognize them. In short, leader's aims in this role are: to develop personal mastery, to use mental models, to share the own vision with the others and encourage the others to share their visions and also to think systematically. All the aims are unimplemented without team learning – so it is necessary to learn the team work together and to learn together.

The next role is **leader as a teacher**. Leader as teacher does not mean leader as authoritarian expert whose job it is to teach people the correct view of reality. Rather, it is about helping everyone in the organization, oneself included, to gain more insightful views of current reality. This is in line with a popular emerging view of leaders as coaches, guides, or facilitators. In learning organizations, this teaching role is developed further by virtue of explicit attention to people's mental models and by the influence of the systems perspective. According to Senge P. M., the role of leader as teacher starts with bringing to the surface peoples' mental models of important issues. No one carries an organization, a market, or a state of technology in his or her head. What individuals carry in their heads are assumptions. These mental pictures of how the world works have a significant influence on how individual perceives problems and opportunities, identifies courses of action, and makes choices. But working with mental models goes beyond revealing hidden assumptions. Reality, as perceived by most people in most organizations, means pressures that must be borne, crises that must be reacted-to, and limitations that

must be accepted. Leader as a teacher helps people restructure their views of reality to see beyond the superficial conditions and events into the underlying causes of problems – and therefore to see new possibilities for shaping the future. Specifically, leader can influence people to view reality at three distinct levels: events, patterns of behaviour, and systemic structure (see figure 1).



**Figure 1.** Levelled reality conceptualizing model (Senge, 1994)

By and large, leaders of our current institutions focus their attention on events and patterns of behaviour, and, under their influence, their organizations do likewise. That is why contemporary organizations are predominantly reactive, or at best responsive – rarely generative. The leader's prime aims in this role are to pay attention to all three levels, but focus especially on systemic structure; largely, by example, they teach people throughout the organization to do likewise.

The third role is **leader as a steward**. This is the subtlest role of leadership. Unlike the roles of designer and teacher, it is almost solely a matter of attitude. It is an attitude critical to learning organizations. While stewardship has long been recognized as an aspect of leadership, its source is still not widely understood. Leader's sense of stewardship operates on two levels: stewardship for the people they lead and stewardship for the larger purpose or mission that underlies the enterprise. The first type arises from a keen appreciation of the impact one's leadership can have on others. People can suffer economically, emotionally, and spiritually under inept leadership. If anything, people in a learning organization are more vulnerable because of their commitment and sense of shared ownership. Appreciating this naturally instils a sense of responsibility in leaders. The second type of stewardship arises from a leader's sense of personal purpose and commitment to the organization's larger mission. People's natural impulse to learn is unleashed when they are engaged in an endeavour they consider worthy of their fullest commitment. The learning aim for the leader as a steward is to lead correctly and to resign the idea of being lead. (Senge, 1994)

Assuming all discussed above we can state that new roles of a leader in learning organization require the leader to act differently and learn new skills. In other words, within each role different leader's activities are supposed to be performed in order to create a learning organization. The leader who seeks to perform effectively has to realise new

learning aims. Literature analysis allows stating that the leader's learning process and learning aims depend on the role he is playing.

## 2. Leader's learning aims and learning model

Learning model was created on the basis of scientific literature analysis. In the model leader's learning aims depend on leader's role (see figure 2).

It is important to mention, that all three leader's roles can be played at the same time, but there always will be the

one prime role. Three roles make three blocks of aims. Main goal of a leader as designer is to build a learning organisation. Thus learning aims for the leader as a designer are to develop personal mastery, to use mental models, to share the own vision with the others and encourage the others to share their visions and also to think systematically. All the aims are unimplemented without team learning – so it is necessary to learn the team work together and to learn together.

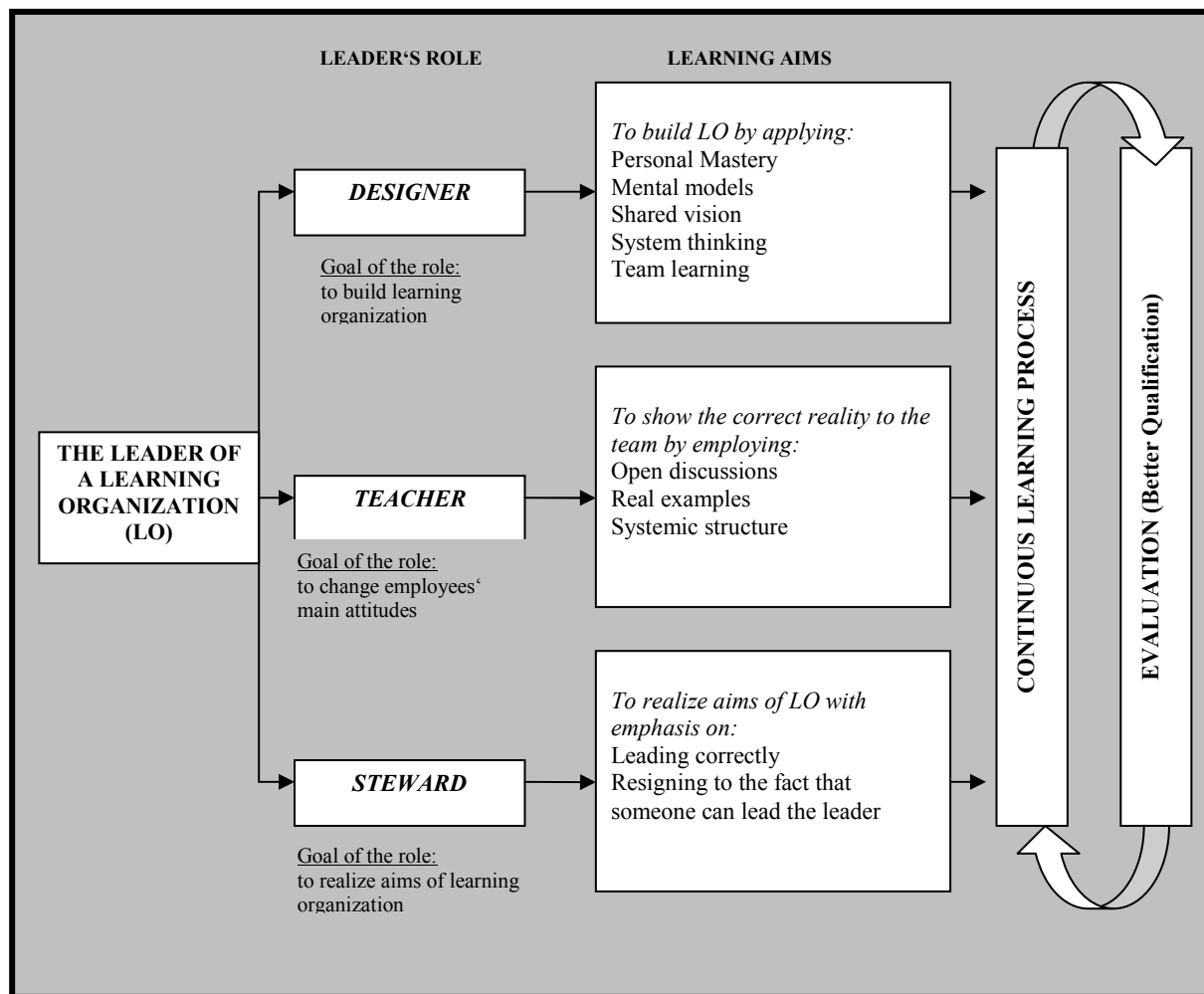


Figure 2. The model of leader's learning in learning organisation

The leader's prime aim while playing the teacher's role is to change employees' main attitudes. For effective realisation of this role leader has to learn to show the correct reality to the team by using open discussions and real examples as well as systemic structure. While playing the steward's role leader has to realize aims of learning organisation. Consequently his learning aims become following: lead correctly and to resign the idea of being leaded by other people.

New learning aims lead to the continuous learning process, which has to be evaluated continually.

## Conclusion

In learning organization leader's learning aims differ from usual learning aims because they are focused on learning organization building principles and disciplines. Leader's learning aims have to be formulated accordingly to the role he is playing: leader as a designer, leader as a teacher or leader as a steward.

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## LYDERIO VAIDMENYS IR MOKYMOSI TIKSLAI KURIANT BESIMOKANČIĄ ORGANIZACIJĄ

Santrauka

Greitai kintančioje šiandieninėje verslo aplinkoje organizacijai sunku suspėti su naujų technologijų diegimu, išlikti konkurencinėje kovoje. Viena iš išiečių organizacijai įveikti kliūtis – tapti besimokančia organizacija. Tiesa, besimokanti organizacija Lietuvoje yra siekiamybė, tačiau daugelis organizacijų yra organizacijos tapimo besimokančia organizacija procese. Šio proceso pagrindinis iniciatorius ir vykdytojas yra organizacijos vadovas, o nuo vadovo sugebėjimų ir jų tobulinimo – nuo mokymosi – priklauso viso proceso sėkmingumas. Vadovo nuolatinis mokymasis yra besimokančios organizacijos kūrimo prielaida. Kuriant besimokančią organizaciją keičiasi vadovo mokymosi tikslai, kuriuos galima būtų sugrupuoti pagal naujus vadovo vaidmenis. Straipsnyje analizuojami nauji vadovo mokymosi tikslai, kurie modeliuojami pagal naujus vadovo vaidmenis, atsirandančius besimokančioje organizacijoje.

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# COOPERATION BETWEEN SMALL AND MEDIUM SIZED COMPANIES

Birutė Daraškevičiūtė, Egidijus Žukauskas

## Abstract

The focus of organization innovation has changed from attempting flexibility through complex internal arrangements, like matrix designs, to attempting flexibility in external relations. The focus of this paper is on an aspect of entrepreneurial innovation, which is gaining increased recognition as a means for injecting greater flexibility into all types of multilateral cooperation between organizations and interorganizational networking. The objectives of the paper are to describe the different approaches and selected discussions of inter-firm cooperation, to bring out possible advantages and prerequisites of successful cooperation.

## Keywords

Networking, innovative clusters, inter-firm cooperation, and partnership.

## 1. Introduction

Recent shifts in the organizational environment have launched many organizations into what appear to be new realms of organizational structure, strategy and design. However, networking is not a new idea – it only appears to be such, because so many formerly vertically integrated organizations are now using networks. Networking also seems to quite innovative, because the form can be so rapidly assembled, distributed, and reassembled. Networking has existed in one form or another for centuries. For example, the construction industry has utilized networking in the form of subcontracting since the era of the Roman Empire. The British Commonwealth was another important global network example, or group of networks, in the mid-twentieth century. This example demonstrates that network concept can illuminate macroeconomics as well as microeconomic relationships.

Because of the popularity and vast range of network concept in the literature, we need to define rather closely what we intend to describe in our paper. Our focus is on the inter-firm cooperation between small and medium sized companies by creating various designs of network structure. For our purpose, a network may be defined as an economic organization that accomplishes the exchange of capital, products and /or knowledge without any member of the network having absolute power over relevant aspects of the activities of all the other members[1].

The three characteristics stand out. Firstly, although other types of networks are important in other contexts, we concentrate on networks that perform economic functions. Secondly, networks are organizations, which means that they have some sort of agreed purpose, defined core membership and partnership, and generalized rules of behavior. Finally, what distinguished a network from a hierarchy is that important members of the network must have some meaningful scope for influencing its activities in important ways. No single member of a network can be in a position consistently to dictate behavior to the others. Thus there must be two or more individual members who are able to influence the

policy in significant ways or be free to leave the network if they are disgruntled.

Many organizations are meeting the new challenges for flexibility by streamlining operations and engaging in more entrepreneurial innovation which is gaining increased recognition as a means for injecting greater flexibility into all types of organizations, i.e. interorganizational networking.

## 1.2. Interorganizational Networking

In general, interorganizational networking can be defined as clusters of business units held together, in network fashion, by market mechanism [2]. Increased emphasis on interorganizational networking in recent years has allowed market mechanism to be viewed in a new light. The short-term price advantages of playing one party off against another are no longer recognized. Instead, organizations are beginning to recognize the long-term relational advantages of establishing a dependable pattern of exchanges with one party rather than another.

A major dilemma confronting organization in the 21st century is that many no longer are able to meet the demands placed on them by rapidly changing environment. Increasing competition, both at home and abroad, changing marketing conditions, and rapid technological advances have created a complex and often unpredictable environment in which organizations must operate. The global environment is bringing more uncertainty to small and medium sized companies (SME), who might face the difficulties to compete and maintain their growth and prosperity.

The field of SME networking has become very popular since the 1990s among researchers and practitioners. Compared with earlier decades, multilateral cooperation between small and medium sized firms has increased. Limited resources of SMEs and increasing international competition have forced small firms to search for new flexible and effective forms of organization.

Under the conditions of an increasing globalization of trade, factor flows, enterprises and finance, innovation and learning are regarded as central mechanisms for maintaining the competitiveness of firms. It is mainly through innovation i.e. new and improved products, more

efficient and higher quality production processes, new ways of management and of organizing production, that competitiveness can be maintained in the long run in turbulent environments.

The innovation process has changed considerably in the past years. It is no longer the outstanding and independently acting entrepreneur or firm which are seen as main driving forces. Instead, innovation is considered as an interactive, cumulative and path-dependent process. Innovation and learning occur in various kinds of networks where different actors become involved such as large and small firms, knowledge providers, transfer agencies, other support institutions, and where different kinds of knowledge are exchanged and exploited.

There is a debate to examine, which firms actually engage in network and analyses with respect to their innovation activities and the networking of firms in the innovation process. The results show that innovation is for many firms still a rather internal affair. Reliance on internal competences and lack of trust in other firms and organizations are among the reasons for this.

Toddling comments that there is evidence that involvement of external partners and networking is quite important for another segment of firms. They drawn on ideas, know – how and complementary assets from customers, suppliers, consultants, universities, funding and training institutions [3].

### 1.3. Description of inter-firm cooperation

In the theory we can observe a great number of empirical examples of business firms entering into variety of cooperative inter-firm relationships, an impressive number of studies have focused on inter-organizational relations and networks during last decade. Gulati focuses on five key issues on inter-firm co-operation, which have been: (1) the formation of cooperation, (2) the choice of governance structure, (3) the performance of cooperation, (4) the effects of firms entering cooperative ventures, and (5) the evolution of cooperation [4].

In Vramaki's and Vesalainen's opinion academic discussion and the practical networking have not been linked sufficiently. One of the main reasons for quite poor results is the limited knowledge of how to manage cooperation and of successful prerequisites for different models. Entrepreneurs as well as the consultants do not have sufficiently effective tools at their disposal when trying to form networks and various cooperative groups. Therefore, the results of inter-firm cooperation have been often quite modest [5].

The structure and objectives of inter-firm cooperative may vary greatly and thus those who plan, promote or build up cooperative arrangements must know right from the begging what kind of cooperative model a group will create. A study has been done on bilateral relationships between two partners in a vertical chain including buyer-seller relationships, channel dyads, buyer-supplier alliances, and distributor-manufacturer partnerships, although new cooperative ventures increasingly involve multiple partners instead of only two partners. Inter firm cooperation can be understood through several different perspectives and theories. The most discussed theories are transaction cost theory, resource dependence theory,

strategic management, social network theory and network theory. These five theories are well known in the field of inter-firm cooperation and it is possible to classify them into such groups as resources and specialization, intensity of objectives and investments, formality of cooperation, uncertainty and use of power, and finally sociopsychological concepts (trust, commitment, friendship, shared values, personal chemistry.)

### 1.4 Different inter-firm cooperative types of SMEs

The different types of inter-firm cooperation between SMEs can be set on a continuum according to the intensity and tightness of cooperation. The following different types have been suggested [5]:

- 1) Development circle,
- 2) Loose cooperative circle,
- 3) Project group,
- 4) Joint venture,
- 5) Joint unit.

The description and characteristics of these types are offering potential advantages and assumed outcomes as follows: (1) Individual and organizational learning, (2) - Costs savings eventually costs benefits, (3) Critical mass, i.e. anything that helps the firms to achieve something together that they could not achieve alone, (4) Synergy, (5) Potential for new business such as finding and developing new businesses, (6) Risk sharing, (7) Credibility.

The main characteristics of the inter-firm cooperation types are described in the following table.

Each cooperative model has its own character. As cooperation intensifies, the possible outcomes are becoming more attractive as well. At the same time, however, the prerequisites of successful cooperation are tightening. As a remedy for many unsuccessful cooperative ventures the decision for those who plan, promote or build cooperative arrangements between SMEs must know right from the beginning what kind of cooperative model a group or firms will strive for, because different emphasis is laid on the prerequisites of successful cooperation in different types of cooperation. Of course the possibility of tailor made or shift from one model to another are not excluded. All types of the inter-firm cooperation concern network management, which is radically changing organizational structures. When strategic management and marketing have previously stressed the importance of market entry as success factor of business firms, the future world of networks and network management will emphasizes the network entry as the crucial success factor of business organization, especially SMEs.

Table 1

| Features                      | Development circle  | Loose cooperative circle  | Project group   | Joint venture   | Joint unit   |
|-------------------------------|---|---|---|---|--|
| Learning                      | From each other, through discussions and practical examples   | Utilize common resources in each partner's own business   | Develop a joint business by combining resources and skills                        | Start, develop and run new joint business   | Set up new company under common "cover"  |
| Network Management            | Very informal, based on personal bonds, gentleman's oral agreements   | Democratic decision-making, loose contract bonds (written or oral)                                | As strategic alliance, decisions made on consensus                                | Very formal as regards corporate arrangements   | The most formal and tightest cooperation   |
| Socio-psychological dimension | Trust based relations without any hierarchy<br>Strong leader carries the greatest responsibility for creating a spirit in a group | Commitment is not crucial, certain level of trust in regard to quality and reputation of partners | Careful company selection<br>To be able to reach consensus                        | Strong trust and commitment<br>Importance of reaching mutual understanding, be patient with results, friendship | Physical closeness between companies<br>Trust and commitment, communicate openly |
| Strategic Issues              | None  | Operative level   | Intensive arrangements for long term business                                     | Money consuming, risky and form long run behavior for innovative business concept                               | Anything from sharing information to the development of new business             |
| Resources                     | Just common interests, no competition between partners is recommended   | Sharing resources e.g. common export manager, premises, equipment                                 | Resources and skills can be different but still easily and sensibly complementary | Partners' resources and skills have to be different but still complementary                                     | No difference  |
| Critical mass                 | Vertical integration  | Sharing common resources  | Synergy advantages  | Find and seize new business opportunities together  | Careful selection of partners  |

Source: Author's own description based on enclosed literature, 2005

## 2. Innovative Clusters

Often, but not exclusively, innovation and learning networks are formed along industry clusters in Porter's sense including clients, suppliers, support industries and competitors within key industries [3]. Clusters are considered to enhance the competitiveness of regional and national firms not only through classical localization economies (transaction cost advantages, specialized inputs) but even more through dynamic learning effects. An important but unresolved issue in this context is whether those clusters get their dynamic performance more from local competition rather than from local cooperation, like literature on industrial districts and particularly examples of industrial parks.

Innovation systems serve as an umbrella to some concepts. Innovation systems are constituted by actors and elements which interact in the production, diffusion and the use of economically useful knowledge where interactive learning is in the center. Initially the concept of innovation systems was applied mainly to the national level where the formal institutions and regulations were seen as being important (such as research organizations, universities, financial institutions, etc.). More recently, the concept of innovation system has been found useful also in the regional level as well as in the supra-national

context, demonstrating the multilevel nature of these systems.

A new economic phenomenon represents the development of the export clusters which are established not only between cooperative partners but also between competitors. The export clusters contribute to increase the export, to exchange know-how, raise the employment on regional level and to implement the synergy effect. When SMEs closely cooperate they manage to decrease the costs, use bigger distribution channels, to add value to their product or services which provide an additional benefit to their customer.

## 3. Partnership Issues

Different types of networks, clusters, and preferred partnerships all allow SME's companies to punch above their weight and bid for bigger, more complex projects than they otherwise would. There is a number of studies concerning the critical success factors for any type of network organization. In the following part we give some practical advices what to search for while entering or creating a network organization.

In following table is shown the difference between traditional type of relationship and newly discussed partnership.

**Table 2**

Traditional type versus partnership type of cooperation

| Characteristics         | Traditional relationship | Partnership                    |
|-------------------------|--------------------------|--------------------------------|
| Time frame              | Short/term, renewable    | Long/term, sustainable         |
| Strategic orientation   | Subcontracting           | Strategic outsourcing          |
| Inter-firm relationship | Superior-subordinate     | Leader-team member             |
| Information flow        | One-way                  | Two-way                        |
| Decision making         | Precise, Unilateral      | Guidelines, Consensus oriented |
| Planning                | Few executives, experts  | Many managers, line and staff  |
| Product improvement     | Defined by contract      | Ever-changing, fluid           |
| Control                 | Traditional hierarchy    | Multi-disciplinary teamwork    |
| Primary objective       | Price                    | Quality, price, timing         |
| Profit orientation      | Buyer controlled         | Mutually controlled            |

Source: Author's analysis based on the enclosed literature, 2005

The partnership calls for a set of complex management skills and abilities, including relationships, negotiating mutually rewarding deals, finding the "right" partners, with compatible values and goals, and providing the partnered organizations with the appropriate balance of freedom and control. Managers will have to act as brokers, securing and negotiating relationships with other firms. Recognize their independence and be willing to share information and co-operate with their partners. Understand other interests and culture, accept other members' independence. Customize their product or service on a continual basis to maintain their position in the partnership. Invest in the development of inter-firm capabilities, human resources and trust at the individual, team, firm and partnership level.

Thus, understanding and the ability to manage inter-unit dynamics and interactions between partners become crucial for the success of such strategic partnership.

Negotiating and discussing the partnership deal is a long and difficult project. Some of the managers or owners of the companies who faced such a challenge admitted that creating partnership was learning and self-discovering process.

As part of the contracting process, the partnership project might be design with these four main goals in mind: (1) examine the underlying strategic rationale and business need driving the partnership; (2) evaluate its performance to date; (3) analyze the factors that have contributed to its relative success; (4) generate learning that could be used to enhance partnership

Partnering dictates creating a truly collaborative working relationship with strong social, economic, service and technical ties with the intent of creating mutual benefits to all partners.

Selection of the "right" partner is one of the most crucial variables in predicting partnership success. A number of people emphasized that, especially in its initial stages, the partnership's initial successes were more on luck and good fortune than on informed preparation and planning. However, in our research we focused on aspect of human factor influences for long run success of partnership.

Key aspects are clear communication and understanding between the firms, and that interactions between the companies are perceived as above-board, fair and ethical. We also became convinced that the firms were very open and honest to each other, sharing forecasting data and new ideas planning as well as interpersonal trust and confidence should not be in absence.

The constant interaction between firms encouraged the development of good working relationships. In addition, strong use of email links, telephone calls, direct internet links and meetings facilitated communication.

We have summarized a number of factors we have observed which contributed to the success of the partnership and positive results of the mutually agreed project. Obviously, they might not be readily replicated in all forms of alliances or networks. Factors:

- Initial timing of the relationship.
- Similar size and position of the companies (e.g. relatively small, emerging firms etc.).
- Similarity of cultures, assumptions, working styles.
- Rapid growth in the industry.
- Mutual understanding of the objectives of partnership.
- Mutually agreed inputs and outputs.
- Similarity on management styles.
- Co-financing of all activities.
- Agreed on types of communication and regularity.
- Regular exchange of the experience.
- Information sharing.

In the past years much material has been published, some instruments were introduced in accordance with the topics stated above. We try to propose systematic or comparative approaches by bringing together different papers and methodological approaches and perspectives. The following questions are raised: To what extend do firms rely on external contributions and partners in the network creation process? Which kind of firms are better networkers or potential partners? What do networks look like? Which actors are involved? What is the role of local/regional interactions compared to those outside the respective region? Which factors act as barriers for networking at the regional level? To what extend should regions focus their development strategy on networks or partnership? Which policy conclusions and recommendations can be drawing?

Critical to the effectiveness of informal structures is the degree of interpersonal trust among individuals participating in partnership or any network governance. One solution how to enter the network and to deal with certain fear of mistrust and is to work toward win-win solutions within a new network structure.

## Conclusion

Small business has a substantial and important role as a technological engine of innovative product and process development. It is widely recognized that small business increasingly represents significant contribution to the economic health and vitality to nation. In this paper our

focus was to consider specific types of network cooperation for small and medium sized companies.

Although networking may not be ideal solution for every organization, it is a highly innovative, flexible approach which can be adapted to meet a wide variety of needs. Even partial networking within an established, traditionally bureaucratic firm may provide the economic boost needed to compete in today's uncertain organizational environment.

Networking need not be the ultimate solution, but could serve as the necessary transition for traditionally bureaucratic organizations to evolve into more innovative firms. The network is an open system in that the form constantly reacts and adapts to external influences, but the form is also rational, like a bureaucratic organization, in that the network essentially operates as a closed system.

In today's uncertain economic environment managers will be forced to consider networking as a new and flexible model for their organizations. The relationships between different managers from the cooperative organizations will be crucial. The same may be said for the relationships outside the organizations. How will these new relationships be managed? For example, who will have the most power in a network, and what will determine the sources of power and how power is used among and between managers? These are the issues which must be addressed, if organizations are expected to overcome many of the risks and the uncertainty associated with this organizational transformation. Nevertheless, the network option appears to be a viable starting- point for organizations forced by circumstances into more innovative modes of operation.

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#### MITARBEIT ZWISCHEN KLEINEN UND MITTELGROSS FIRMEN

##### Zusammenfassung

Der Fokus der Organisation Innovation hat vom Versuchen von von Flexibilität durch komplizierte interne Vorbereitungen, wie Matrixdesigns, zum Versuchen von von Flexibilität in den äußeren Beziehungen geändert. Eine Vielzahl von Faktoren, einschließlich erhöhte Kosten und Qualität, Konkurrenz in hergestellten Märkten und die schnellen technologischen Fortschritte, die Produkt und Produktion System Innovation antreiben, fährt aus der Bürokratie und der Hierarchie, die mit traditionellen Organisationen zugunsten der erfinderischeren Formen verbunden sind. Viele Organisationen treffen diesen Stoß für Flexibilität, indem sie Betriebe glätten und in den unternehmerischeren Tätigkeiten sich engagieren. Der Fokus dieses Papiers ist auf einem Aspekt der unternehmerischen Innovation, die erhöhte Anerkennung als Mittel für das Einspritzen der grösseren Flexibilität in alle Arten vielseitige Mitarbeit zwischen Organisationen und Interorganisationsnetzwerkanschluß gewinnt. Die Zielsetzungen des Papiers sind, die unterschiedlichen Annäherungen zu beschreiben und vorgewählte Diskussionen über Zwischen-feste Mitarbeit, bringen mögliche Vorteile und Vorbedingungen der erfolgreichen Mitarbeit heraus. Die Hauptsache im Modellieren von SMEsmitarbeit soll Richtlinie zur Verfügung stellen, was die allgemeinsten Formen sind und was die grundlegenden Vorbedingungen für erfolgreiche Netzmitarbeit sind. Die grundlegende Herausforderung soll folglich die kleine oder mittelgrosse Firma veranlassen, seine erste kooperative Anordnung einzutragen. Die konstante Interaktion zwischen Unternehmen ist entscheidend und basiert auf der Entwicklung einer angemessenen Teilhaberschaft. Alle Netze, Blöcke und Teilhaberschaften lassen SMEs ihre zusammen vermischen Stärken und für grössere Projekte bieten.

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# THE ACCOUNTING OF HUMAN RESOURCES IN THE CONTEXT OF CHANGING ENVIRONMENT

**Fireescu Victoria**

## **Abstract**

The accountancy of human resources is an accounting model which aims at including the human capital in the process of evaluating both the performance and the company's patrimony. The human capital is one of the main components of the company which creates value, but unlike a normal capital it can not be controlled and evaluated exactly in monetary terms. We are aware of the cost of the human capital and its profit, but we do not know what it contains. It is still a difficult matter to evaluate the intellectual capacity of a company.

## **Keywords**

Human capital, intellectual capital, accounting treatment, employees' benefits, replacement cost, updating.

## **Introduction**

The present paper aims at presenting the advantages of the employees by means of IAS 19 accounting standard. Human resources accountancy is necessary because of three main reasons:

- to give information regarding the cost and the value of some persons which are human resources for the respective company;
- to facilitate the taking of some rational decisions regarding the recruitment, selection, training and dismissal of the staff;
- to make the employers manage correctly the labor force which comes from the employees.

IAS 19 accounting standard applies to all employee benefits including those provided under both formal arrangements and informal practices. The present paper presents the accounting recognition and measurement principles as well as the disclosure requirements for employee benefits.

## **1. Definitions and Concepts Regarding the Employees' Benefits**

The employees benefits come from providing services for the respective company. There are several types of benefits such as:

- short-term employee benefits ;
- post-employment benefits ;
- other long-term employee benefits;
- termination benefits.

Short-term employee benefits should be booked in the expense account when the employee has rendered services in exchange for the benefits or when the company has a legal or constructive obligation to make such payments as a result of past events. Mainly, short-term employee benefits refer to:

- wages and social fees;
- paid annual leave and paid sick leave;
- incentive and bonus systems;
- non-monetary benefits (medical assistance, accommodation, company car, free of charge or subsidized goods or services).

The accounting of wages and social fees is not difficult. Medical leaves are non-cumulated absences which are booked in the expense accounts when they occur. The cumulated absences are booked in the expense account when they are paid.

Incentive and bonus systems are expenses established on the basis of the result of the company; they are booked when the payments, which can be estimated reliably, are made.

Post-employment benefits are paid after ceasing the work. They include: pensions, life and medical insurances which are prior to employment, and other retirement benefits. There are two types of post-employment benefit plans: defined contribution plan and defined benefit plan. Defined contribution plan is a system in which the legal or constructive obligation of the employer is limited to the amount it agrees to contribute to the fund. The actuarial risk that the assets invested will be insufficient to meet the expected benefits, falls on the employee.

Defined benefit plan is a system in which the obligation of the company is to provide the agreed benefits to present and former employees. Actuarial risk (that benefits will cost more than expected) and investment risk fall on the company. The cost of the advantages which are subsequent to the period of employment are booked in the expense account during the employee's period of work. The updated value of the obligation regarding defined benefit plan is determined by means of the projected unit credit method that sees each period of service as giving rise to an additional unit of benefit and measures each unit separately in order to build up the final obligation.

For the category "other long-term employee benefits" the international accounting standard- IAS19- requires a provision whose value must not include the actuarial and cost differences of the past services.

Other long-term employee benefits such as long term invalidity allowances and leaves are characterized by the following:

- are not owed totally in the following 12 months after the date of the end of the financial year when the employees provided the respective services;

- the evaluation does not involve a degree of uncertainty as post-employment benefits;
- they do not generate a cost of the past services.

The company should recognize termination benefits only when it is demonstrably committed by a detailed and formalized dismissal plan, with no possibility of giving up on the respective plan.

Termination benefits falling due more than 12 months after balance sheet date should be discounted.

The following examples of termination benefits can be mentioned: the dismissal compensation, the offer made in order to encourage voluntary redundancy.

## 2. Applications for determining of the actualized value of the obligation resulted from the defined benefit plans by means of the projected unit credit method.

Under the defined benefit plans, the following rules apply:

- the projected unit credit method sees each period of service as giving rise an additional unit of benefit entitlement and measures each unit separately to build up the final obligation;
- an enterprise determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial state ment do not differ materially from the amounts that would be determined at the balance sheet date;
- in order to determine the cost of the provided services during the financial year, that is the increase of the present value, actuarial assumptions about demographic variables (e.g., employee turnover and mortality) must be used;
- the financial cost is established taking into account the financial variables such as: inflation, real interest rate, real increase of salaries;
- offsetting of assets and liabilities of different plans are not allowed;
- the difference between the fair value of any plan assets and the carrying amount of the defined benefit obligation is recognized as a liability or an asset;
- adopting a system with defined benefit plans or its modification influence not only the rights that the employees will have in the future but also those connected to the past activity;
- the modification of the acquired rights generates **the cost of the past services**;
- the cost of the past services must be booked in the expenses account immediately, if the respective rights have already been acquired in the moment of adopting and or modifying the system;
- if a condition must be fulfilled in order to benefit from the new rights, recognize past

service cost on a straight-line over the average period until the amended benefits become vested ;

- the net total of current service cost, interest cost, expected return on plan assets and any reimbursement rights, actuarial gains and losses, past service cost and the effect of any plan curtailments or settlements should be recognized as expense or income;
- recognize gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs;
- the company must admit the net profit or the loss that exceed the greater of 10% of the present value of the defined benefit obligation (before deducting plan assets) and 10% of the fair value of any plan assets;
- the actuarial profit or loss, which is not part of the 10%, are to be found in the medium period of the job which has left to the employees that take part in that plan.

### *Application no. 1*

*The X employee has a salary of 10,000 m.u. a year and will retire after 5 years in the financial year N+5.*

*It is estimated that this employee's salary will increase every year with 5% and the updated rate is 6 . Knowing that defined benefits plans establish that each employee should receive, when retiring, an amount of 1,5% of the salary of the last year of activity, establish:*

- a) the value of the liability for the advantage subsequent to the period of work, which will be booked in the balance sheet at debts;*
- b) the cost of the advantages subsequent to the work period which will be booked in the profit and loss account;*

### **Key:**

At the end of the activity, the salary of the x employee is estimated at the amount of:  $10,000(1.05) = 12,155$  m.u.

According to the projected credit units method, when the employee retires, each year of activity generates a right of:  $12,155 \times 1.5\% = 182$  m.u.

In order to determine the cost of the provided services in the financial years, the updating factor of 6% is taken into account.

For example, the cost of the provided service in the N financial year is:  $182 / (1.06) = 144$  m.u.

In the same way, it is obtained the cost of the provided service for the other years of activity of the employee.

The following table presents the actual value of the liability at the end of the financial year by means of two components:

- the cost of the services provided in the course of the financial year;
- the financial cost.

The evolution of the current value of a liability and of the market value of fund assets generates actuarial differences. Having in mind that these differences compensate on the long term, the "corridor" rule sets an interval inside which the liability variation is not accounted for.

Table 1

| Company liability as in the balance sheet                 |                        |                        |                        |                        |                        |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| <i>Specification</i>                                      | <i>N</i>               | <i>N+1</i>             | <i>N+2</i>             | <i>N+3</i>             | <i>N+4</i>             |
| <i>Cost of services offered during financial exercise</i> | $182 : (1,06)^4 = 144$ | $182 : (1,06)^3 = 153$ | $182 : (1,06)^2 = 162$ | $182 : (1,06)^1 = 172$ | 182                    |
| <i>Financial cost</i>                                     | 0                      | $144 \times 6\% = 9$   | $306 \times 6\% = 18$  | $486 \times 6\% = 29$  | $687 \times 6\% = 41$  |
| <i>Liability value as in balance sheet</i>                | 144                    | $144 + 153 + 9 = 306$  | $306 + 162 + 18 = 486$ | $486 + 172 + 29 = 687$ | $687 + 182 + 41 = 910$ |

The cost of after work period advantages is determined as a sum between the cost of services offered during the financial exercise and the financial cost and is present in the income statement as in table no. 2.

Table 2

| Cost of after work period advantages as in the income statement        |          |            |            |            |            |
|--|----------|------------|------------|------------|------------|
| <i>Specification</i>   | <i>N</i> | <i>N+1</i> | <i>N+2</i> | <i>N+3</i> | <i>N+4</i> |
| <i>Cost of services offered during financial exercise</i>              | 144      | 153        | 162        | 172        | 182        |
| <i>Financial cost</i>  | 0        | 9          | 18         | 29         | 41         |
| <i>Cost of after work period advantages as in the income statement</i> | 144      | 162        | 180        | 201        | 223        |

### Exercise no.2

Table 3

| Evolution of liability's current value and of the market value of assets |          |            |            |
|--|----------|------------|------------|
| <i>Specification</i>   | <i>N</i> | <i>N+1</i> | <i>N+2</i> |
| Current value of liability as of 01.01.                                  | 4500     | 4850       | 4980       |
| Employees' average residual activity duration                            | 8        | 10         | 13         |
| Unaccounted cumulated actuarial differences as of 01.01.                 | 550      | 560        | 290        |

Solution:

The corridor limit as of 01.01 is determined by applying 10% to either the current value of the liability or to the market value of the fund assets.

The current value of the liability as of 31.12 N is determined using the following algorithm:

- Liability current value as of 01.01. N
- ( + ) financial cost
- ( + ) the cost of offered services
- ( - ) services paid during the exercise
- ( -/+ ) actuarial gain or loss

The market value of the fund's assets as of 31.12.N is determined using the following algorithm:

- Market value of the fund's assets as of 01.01.N
- ( + ) expected yield for the fund's assets
- ( + ) contributions of the period
- ( - ) services paid for in the current exercise
- ( +/- ) actuarial gain or loss

The actuarial gain or loss accounted for in the exercise is calculated in the table below. The fraction that must be accounted for is the ratio between the respective excess and the employees' expected average residual activity period.

Table 4

| Actuarial differences (gain or loss) accounted for in the exercise        |          |            |            |
|---|----------|------------|------------|
| <i>Specification</i>  | <i>N</i> | <i>N+1</i> | <i>N+2</i> |
| Corridor limit as of 01.01.   | 450      | 485        | 498        |
| Unaccounted cumulated actuarial differences as of 01.01.                  | 550      | 560        | 290        |
| Excess  | 100      | 75         | 0          |
| Employees' average residual activity period                               | 8        | 10         | 13         |
| <i>Actuarial differences (gain or loss) accounted for in the exercise</i> | 13       | 8          | 0          |

The forecast cost effectiveness of assets is calculated by multiplying the medium cost effectiveness forecasted for

the long term with the assets par market value during the exercise, while considering the changes generated by profits and by the payment of contributions.

## Conclusions

The defined benefit plans are registered in both the balance sheet and the income statement. A provision is accounted for as debt in the balance sheet and is calculated using the following formula:

*liability actual value at exercise closing date – cost of unaccounted past services + actuarial gain – market value of assets*

The income statement will recognize an expense calculated as follows:

*cost of offered services + financial cost + accounted actuarial differences + cost of past services expected yield of covering assets*

The cost of past services is due to changes with retroactive effects on the employee benefit plans. An example of cost of past services is the effect of probable retirement age change.

The cost of a defined benefit plan doesn't depend directly on the paid contributions but on the evolution of the balance.

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# INTERNAL CONTROL, FINANCIAL ETHICS AND BANKRUPTCY

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## Abstract

This research examines the information content, usable for bankruptcy prediction.

Several studies in Lithuania have addressed this issue of bankruptcy. However, these studies were conducted to test the suitability of bankruptcy prediction models, created by foreign researchers.

In this article we examine financial statements of bankrupt Lithuanian firms as a source of insolvency prediction. This study adds to recent research that assesses the value of internal control and ethics in finance in case of fraudulent accounting reports.

## Keywords

Bankruptcy prediction, internal control, ethics.

## Introduction

Twenty-first century business companies operate in an rapidly changing environment. New forces such as Internet and globalization create new opportunities for business around the world. This leads much more uncertainty too.

These new factors create new issues related to risk, and risk management culture. On the other hand investors and bankers have to deal with the incidence of business failure is increasing.

Nowadays in Lithuania every tenth newly established firm goes bankrupt. Only during the first 6 month of 2006, there was more than 400 Lithuanian firms' bankruptcy cases. The level of bankrupt firms remains similar- about 600-800 cases during 2002-2005.

The number of bankruptcy filings by publicly traded companies of USA has risen sharply since 1997. A record 257 publicly traded companies went bankrupt in 2001, representing a 46 percent increase over the prior year's record. Most of recent bankruptcy was unpredicted.

Distress of any business unit has potentially significant consequences for those who do business with it. That is why predicting the business failure gives rise to extensive studies in the accounting and finance literature.

Our paper focuses more on the economic and cultural factors that correlates with possibility of more accurate bankruptcy predictions. This study attempts to show what link exists between the availability to predict bankruptcy more accurate, company cultural level and risk tolerance. There are two original contributions in this paper. The first one introduces the thought (idea) that bankruptcies in Lithuania can be concern as by designed , intentional.

The second one concern the analysis of links between the corporate culture, finance ethics and bankrupt abilities.

## Bankruptcy prediction methodology

The term bankruptcy refers to a variety of circumstances. One is the condition of negative net assets – where the market value of assets is less than total liabilities. Another is the inability to pay debts in time. The term bankruptcy also applies to a legal condition under which a firm continues to operate under court protection.

Bankruptcy has multiple objectives. ( V.Pastena and W.Ruland)

One objective is to protect the rights of creditors. A second objective is to provide time for the distressed business to improve its situation. Bankruptcy prevents creditors from additional action to collect on debts or to foreclose on property. A third objective in extreme cases is to provide for the orderly liquidation of assets. Bankruptcy can be initiated either by the firm or its creditors.

The topic of bankruptcy prediction is popular in finance and accounting literature. As writes B.Prusak ( Prusak,2004) the first author who tried to describe this problem was W.Rosedale. In his publication "Credit Department Methods" (1908) he stated that liquidity and current assets have a big influence on solvency of the company.

Interest in insolvency prediction has long been confined to academics, with most of the published material restricted to business and accounting journals.

Much research in predicting the failure of companies has been done utilizing financial statement data. The primary focus has been on using standard statistical techniques in which it appears that the financial ratios are generally valid discriminators between bankrupt and nonbankrupt companies.

The well-known researcher of the bankruptcy prediction professor Edward Altman in 1968 published an article ( Altman, 1968) in which he described the new bankruptcy prediction model. To develop this model Altman used the technique called multiple discriminant analysis. Many researchers recognized that Altman's model was a breakthrough in this research area.

Altman introduced the Z score formula. He built a model that covers several key performance ratios into a single score.

The Altman model uses a technique called multivariate discriminant analysis which takes into account all ratios in one model at the same time. So at the end there is one score which clasifies a company as a bankrupt or nonbankrupt.

The original Altman bankruptcy prediction model was intended for use in cases for publicly-traded manufacturing companies. After he use the same approach and developed other models for privately-held manufacturing and for non-manufacturing firms.

Many practical tests corroborated that Altman's models are very effective to predict bankruptcy of USA companies. With the wide spread use of personal

computers and the internet, the utilization of an insolvency prediction model is now practical and available to all. Today Z score models are used by auditors, management consultants, courts of law, and as part of many databases used for loan evaluation. Quite a few Z score models were then revised by the researchers in many countries.

Later alternative methods have been proposed. These models are known as Springate, Fulmer, Blasztk System, Ca-Score and others ( Bankruptcy Prediction Models, [www.BankruptcyAction.com](http://www.BankruptcyAction.com))

Springate model was developed in 1978 in Canada by Gordon L.V. Springate, following procedures developed by Altman used step-wise multiple discriminant analysis to select four out of 19 popular financial ratios.

Fulmer in 1984 also used step-wise discriminant analysis to evaluate 40 financial ratios. He uses nine financial ratios to calculate H-score.

Blasztk system was developed in Canada. This business bankruptcy prediction model was not developed using multiple discriminant analysis. This system was developed by William Blasztk in 1984. The essence of the system is that financial ratios for the company to be evaluated are calculated, weighted and then compared with ratios for average companies in that same industry as given by Dunn&Bradstreet. This comparison is the main strength of this method.

Ca-Score model was developed under the direction of Jean Legault, using step-wise multiple discriminant analysis and financial data from last two periods. This model is restricted to evaluating manufacturing companies.

In Poland researchers using discriminant analysis to estimate financial condition of company went further and developed many new models adoptive to regional companies. Tomasz Korol (Korol 2004 takes note of warning that financial ratios used in western economies are not appropriate for transition economy of Poland. Korol recommends an *Artificial neural network* model. This model differs from conventional discriminant analysis techniques in that the analyst is not required to specify the nature of the relationships involved. The analyst simply identifies the inputs and outputs. T.Korol has conducted a comparative analysis between created artificial neural networks models and existing discriminant analysis models. The results of that analysis show that artificial neural networks models have better effectiveness in analysis in one year and two years before bankruptcy.

What is common for the reviewed bankruptcy prediction models? All these models are based on financial statement information. Models of bankruptcy focus mainly on three areas: profitability, cash flow generation and leverage. The results have been robust with respect to the predictive power of financial statement data.

However, the last year studies show (W.Beaver, M.McNichols, Jung-WuRhie, 2005 ) that financial ratios are still valuable tools in predicting bankruptcy. The significance of financial ratios found in statements was explored in a special study examining their predictive value. The premise of this study was motivated by regulatory organizations, such as the Financial

Accounting Standards Board and the Securities and Exchange Commission, seeking to increase the usefulness of information found in financial statements.

W.Beaver, M.McNichols, Jung-Wu Rhie examined secular changes in the ability of financial statement data to predict bankruptcy from 1962 to 2002. They identified three trends in financial reporting that could influence predictive ability with respect to bankruptcy: financial accounting standards, the perceived increase in discretionary reporting behavior, and the increase in unrecognized assets and obligations. The results of their study are mixed. The one finding is that the robustness of the predictive models is strong over time.

When financial ratios and market-related variables were merged into a hybrid model, the predictive ability increased. This seems to show that market prices may compensate for slight decreases in the predictivity of financial ratios. These results further indicate that the market draws upon additional information not available in financial ratios.

All developers of bankruptcy prediction models noted that the technique should be considered as just another tool of the analyst and that it is not intended to replace experienced and informed personal evaluation.

G.Eidleman (Eidleman, 2006) found that many scoring systems can behave strangely; when ratios take on abnormal values they often produce erroneous results. It is dangerous to use these sophisticated tools by untrained. Models often do not give a clear result. Whenever there is doubt, necessary to look to intangibles and address the qualitative exactly.

If we take into account Lithuania, where differences in economic background, accounting systems exist and in many situations this can lead to obtain faulty results of company's health. During the last 10 years Lithuanian researchers ( Bivainis, 2000; Mackevičius, Poškaitė (1999); Mackevičius, Rukštelienė, 2005; Purlys, Rainys, 2001; Tvaronavičienė, 2001) continue to examine the opportunities of Altman methodology to predict business bankruptcy. The findings are mixed and are subject to diverse interpretations. By the way these models are not popular in practice in Lithuania.

Although not a few studies in Lithuania have documented the usefulness of financial accounting data in predicting bankruptcy, no research has been conducted on the potential information value of these and other data in distinguishing between in bankruptcy versus those that are successful.

## Research results

The data used in this research consist of financial statements, income statement and balance sheet of bankrupt Lithuanian companies during 2004-2005. Financial statements data was obtained from Department of bankruptcy management of Ministry of Economics. We analysed two groups of bankrupt companies. One consist of data 160 firms that were bankrupt in 2004. Other 41 financial statements belong to firms that were bankrupt in 2005. All financial statements were only numbered in their title place.

The accuracy of the bankruptcy prediction was evaluated using the Altman's methodology. We used a revised

model applicable for private firms and nonmanufacturers. The resulting model is:

Z score= 6.56 Net working capital/Total assets + 3.26 Accumulated retained earnings/Total assets + 1.05 EBIT/Total assets + 6.72 Book value of equity/Total liabilities

Where  $Z < 1.23$  indicates a bankruptcy prediction,

$Z \leq 2.90$  indicates a grey area,

$Z > 2.90$  indicates no bankruptcy.

The first step of our analysis was to determine the value of each financial statement variables in the revised Z-score model. The next step was to calculate the Z-score for each bankrupt company.

Table 1 summarizes Z-score of firms, bankrupt in 2004.

**Table 1**

Z-score for sample bankruptcy cases in 2004

| Z-score measure | Bankruptcy prediction                      |         |  |         |
|-----------------|--|---------|--|---------|
|                 | According to 2002 financial statement data |         | According to 2003 financial statement data |         |
|                 | Number of firms                            | Percent | Number of firms                            | Percent |
| $Z < 1.23$      | 103  | 64.4    | 132  | 82.5    |
| $Z \leq 2.9$    | 24   | 15      | 12   | 7.5     |
| $Z > 2.9$       | 33   | 20.6    | 16   | 10.0    |
| Total           | 160  | 100.0   | 160  | 100.0   |

Data from table 1 shows that not all actually bankrupt firms were classified as bankrupt according to Z-scoring model.

Table 2 presents analysis of other group bankrupt firms. In this case we use more old time period before bankruptcy. Z-score of 41 bankrupt firms was calculated using financial statement that of 2 and 3 years before actually failure.

**Table 2**

Z-score for sample bankruptcy cases in 2005

| Z-score measure | Bankruptcy prediction                      |         |  |         |
|-----------------|--|---------|--|---------|
|                 | According to 2002 financial statement data |         | According to 2003 financial statement data |         |
|                 | Number of firms                            | Percent | Number of firms                            | Percent |
| $Z < 1.23$      | 23   | 56.1    | 25   | 61.0    |
| $Z \leq 2.9$    | 4  | 9.8     | 9  | 22.0    |
| $Z > 2.9$       | 14   | 34.1    | 7  | 17.0    |
| Total           | 41   | 100.0   | 41   | 100.0   |

An examination of the z-score measures as shown in table 1 and table 2 suggests no surprise change during two years. For example, there appeared to be a substantial decline in all three z-score measures during later on the last years before bankruptcy. This tendency is consistent with the Altman's bankruptcy hypothesis.

Table 3 reports the results of change main risk measures – operating results and owners equity on time.

**Table 3**

Financial data of bankrupt Lithuanian firms

|                            | 2002            |         | 2003            |         |
|----------------------------|-----------------|---------|-----------------|---------|
|                            | Number of firms | Percent | Number of firms | Percent |
| <b>Bankruptcy in 2004:</b> |                 |         |                 |         |

|                            |     |      |     |      |
|----------------------------|-----|------|-----|------|
| Operation profit           | 57  | 35.6 | 29  | 18.1 |
| Operating loss             | 103 | 64.4 | 131 | 81.9 |
| Negative retained earnings | 108 | 67.5 | 134 | 83.8 |
| Negative owners equity     | 50  | 31.3 | 91  | 56.9 |
| <b>Bankruptcy in 2005:</b> |     |      |     |      |
| Operation profit           | 11  | 26.8 | 12  | 29.3 |
| Operating loss             | 30  | 73.2 | 29  | 70.7 |
| Negative retained earnings | 29  | 70.7 | 29  | 70.7 |
| Negative owners equity     | 13  | 31.7 | 16  | 39.0 |

For the firms bankrupt in 2004 the decline of profitability measures is evident. However, there is slightly opposite tendency for the firms bankrupt in 2005. The percent of bankrupt firms with positive operating result was increasing during 2 years.

Despite of the controversial tendency in operating profit the number of negative ownership cases was increased during two years. The interpretation of the above result is complicated by the fact that such situation is not always distinctive to business failure.

#### **The new tendency in bankruptcy. Necessary focus on internal control**

Beginning in 2000, numerous corporate special misdeeds were uncovered and disclosed by various regulatory bodies. The misdeeds derived from two main types of issues:

- 1) false disclosures in financial reporting and other information releases, and
- 2) undisclosed conflicts of interest between corporations and their analysts, auditors and between corporate directors, officers, and shareholders (Gitman, 2006)

World Com case, the largest unpredicted bankruptcy in USA history shows, that the “white-collar” crimes were new tendency in the last two decades. These scandals resulted in a loss of public trust in accounting and reporting practices. Therefore such bankruptcies have a title “accounting scandals”. (Crawford, 2005)

Up until the mid-1980s, sentences for white-collar crimes tended to be lax. The laxity given to corporate scandals began to change a series of insider trading scandals shook Wall Street in the mid-1980s. Bankrupt companies took advantages of “gray” areas that were inherent in accounting practices and SEC regulations, and primarily relate to overstating the value of assets and hiding liabilities “off the books” in other, non-consolidated companies (R.Yanak, J.Wells, 2005). Added to this was the failure of Arthur Andersen, the largest public accounting firm in the world and significant damage to investor confidence, especially in the equity market.

In accordance US Congress put into place in part to stop judges from going easy on white-collar criminals.

After Enron's accounting scandal in 2001, Congress significantly upped the civil and criminal penalties that

corporations and their top managers face for cheating investors.

The Public Company Accounting and Investor Protection Act, or more common titled the Sarbanes-Oxley Act of 2002, is regarded by many as the most sweeping piece of legislation impacting public companies since the Securities and Exchange Act of 1934 .

The central purpose of this law was to restore confidence in the accounting profession and improve the quality of financial reporting to make the accounting numbers accurate. Securities and Exchange Commission requires all firms to document – and an external auditor to confirm- that adequate controls are in place to ensure that financial statements filed with the SEC paint a realistic picture for investors. One of the most important provision in an effort to eliminate the many disclosure and conflict of interest problem of corporation.

A critical part of this law was the creation of the Public Company Accounting Oversight Board (PCAOB). The purpose of this not-for-profit organizations's is to regulate the accounting industry relative to public companies that they audit. PCAOB recently published a set of ethics rules to police its own set of activities ( [www.money.cnn.com](http://www.money.cnn.com))

Sarbanes-Oxley law contains 11 sections ranging from additional Corporate Board responsibilities to criminal penalties and requires Security and Exchange Commission (SEC) to implement new rulings on requirements to comply with this law.

Section 404 “Management Assessment of Internal Controls” is one part of the landmark Sarbanes-Oxley Act. There is a requirement to test the company's internal controls by managers and issue reports on their findings. A statement from managers of its responsibility for creating and maintaining adequate internal controls must be included in the annual financial report. Managers must base their evaluation on testing of these internal controls, and support it by demonstration , as well as describe their own responsibilities for the criteria they used as a reference.

An internal control is broadly defined as an activity or practice that is designed to reduce the risk of error of misreporting that transaction risk of fraud , or risk that the transaction is nor properly authorized. Internal controls over financial reporting are processes that a company puts in place to provide reasonable assurance (not quarantees) of the reliability of its financial reporting and financial statement preparation. They are part of a company's overall internal control process, which does not ensure a companu's success, but yet important procedures to help keep the company on course toward its profitability goals and to minimize any surprises along the way ([www.fei.org](http://www.fei.org)).

What is different about Section 404 is that it requires new, more demanding testing and reporting requirements for management and the independent auditor. Independent auditor are required to issue an opinion on the effectiveness of the company's internal controls over financial reporting and to attest to management assertion. That means auditor must state whethet he agree with

management's opinion about the company's internal control. Previously, auditors issued opinions only on a company's financial statements. This report will not change. Instead, to comply with Section 404, auditors will now issue an additional opinion on whether they believe management's report of internal controls is fairly stated.

## Conclusions and remarks

We discussed the most commonly used models for business bankruptcy prediction, paying attention to their underlying assumptions and weaknesses. The performance of the Altman model was evaluated through a Lithuanian bankrupt companies case. The result of analysis did not show that Altman model produces the accurate estimates of bankruptcy availability. During the sample period examined it was found that there is no denying the fact that filing for bankruptcy in Lithuania can be intentional. In addition, there are other factors which influence the accuracy of predictions need to be estimated. They are mostly nonfinancial and related to firms governance culture, internal control and ethics.

We introduced the new worldwide tendencies in business failure and regulations that following up. The Public Company Accounting and Investor Protection Act of 2002 was passed to eliminate fraudulent financial disclosure and conflict of interest problems.

Examples in western countries and in Lithuania specifically include paying bribes to government officials to secure contracts, polluting the environment to avoid the cost of emission controls, and so on. As a result of recent years the ethics of actions taken by business managers have received major media attention (for example, publication in “Verslo žinios”).

Integrity and ethical behaviour are particularly important within the finance function. If numerous public companies have publishing inaccurate and misleading financial reports, stock exchange further distort the investment information. These ethical lapses have serious implications for investors and for the value of the stocks.

A March 2004 survey of finance executives by CFO magazine asked financial managers to put themselves in the role of investing their own money. Their responses were highly revealing: only 27 percent would feel “very confident” that they were getting high quality and complete information from public companies.( Gitman, 2006). Ethicals dilemmas are everywhere in finance. We agree with the notion that financial markets can function effectively only in societies where most people are honest .The students of USA universities, for example, may have taken the new courses, like “Cooking the Books” or may enroll in a class showing how accounting numbers can be altered by manipulation. Such courses may help deter future accounting fraud. Knowing which accounting and finance practices are proper is key to keeping companies honest, as is the personal integrity of accountants and financial managers.



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# ORGANIZATION AND MANAGEMENT OF THE PUBLIC RELATIONS PROCESS

Rasa Glinskienė, Gema Umbrasienė

## Abstract

A continuous process of communication marketing is essential to a modern organization, which strives to successfully operate in the market. This aspect plays a more and more important role in countries with developed market economy and replaces isolated, and very often incidental, cases of communication attempts, for example, annual advertisements in a newspaper. Since Lithuania is a member of the European Union, it is inevitable that the competition will increase and if the organizations wish to survive then they will be forced to learn how to coordinate, integrate and plan their communication actions.

Public relations are one of the elements of the promotion, which aid in solving the problems of communication. For a long time public relations, as an effective marketing tool, have been considered as not very significant. Today the public opinion must not be disregarded since society has a direct impact on the success of politics and businesses. Therefore, the future of the company is dependant on the created image. The experts indicate, that public relations is one of the best weapons for reaching a goal, which can be turned into an effective means for ensuring the success of business.

## Process of public relations

An accurately planned and implemented public relations campaign may bring many benefits. Moreover, it requires less investment than a traditional advertising campaign. The available methods of public relations activities are more accurate and have a long term impact. According to V. Pranulis and others (2000), if we wish to methodically apply public relations in marketing, it is essential to foresee its objectives and tasks, prepare a program, implement it and evaluate the results. It is necessary to have certain objectives set for every public relations campaign. Public relations may help in reaching the following objectives: to win recognition, create trust, promote sales services and salespeople or reduce the promotion costs. Public relations implementation program consists of the selection of the measures and setting of the application time. Furthermore, the prepared program must be consistent with financial possibilities. It is rather difficult to determine the effectiveness of public relations, since they are difficult to be constantly cultivated together with other promotion measures. The simplest indicator of the effectiveness of public relations is the effectiveness index of contact indicators' on informing about events. In evaluating the public relations work it is also important to determine, how, while implementing one or another measure, the recognition and the opinion of the target group changed towards the produced goods.

According to Boven, Makens and Kotler (1998), public relations process must be integrated into the general strategy of marketing organization; the authors indicate several stages of the public relations process.

**Research.** The company must determine, what are public relations, which assist most in reaching the objectives of the organization, understand, what are the conditions and possibilities of such means and analyze internal environment of marketing.

**Identifying the objectives for public relations.** After identifying the possibilities of the organization, it is necessary to determine the objectives of the activity (introduction, creation of trust, promotion of sales agents, etc.).

**Definition of the target audience.** If the information reaches the target audience, it may confirm the success of the public relations campaign. The plans of public relations must cover all possible target audiences: investment companies, shareholders, franchise owners, travel agencies and the users of the services of the private sector hospitality industry.

**Selection of means for public relations.** When a professional is arranging a public relations campaign, he or she must decide on how to communicate the information to the consumers about the company and its products or services. In this case there are two possible alternatives: a report or measure. However in a particular case the choice depends on what are the objectives the company is striving to reach, what news are presented, etc.

**Implementation of the public relations plan.** The implementation of the plan requires attentiveness and great efforts. In order to achieve as great interest as possible and in order for the ideas to gain access to the public view, all public relations ideas must be distinctive and interesting.

**Evaluations of the results of the public relations activity.** The abovementioned authors presume that the precise evaluation of the influence of public relations is complicated, since this promotion activity is usually performed together with other elements of the promotion complex. Kotler (2001) present three dimensions of the evaluation of the public relations: exposition, impact on the volume of sales and profit.

The proposed process for organization of the public relations, in opinion of A. Bakanauskas (2004), may be applied for the implementation of any measure of public relations.

It must be also mentioned, that the company also needs to take into consideration the fact that everything does not always work in accordance with the prospective public relations activity plan. There are often unforeseen and unpleasant incidents happening during the actual activities, to which the company must respond accordingly. Public relations at the time of a crisis are a negative popularity. At the time of a crisis there is a demand for immediate sustainable public relations activities. Moreover, in such situation it is important to

assign a representative for maintaining public relations, to contact the organization, representative agency of public relations and also to inform the media about the events. All personnel must be acquainted with the program for crisis management, so that if there are any troubles, all issues will be solved as effectively as possible and without sustaining heavy losses of the activity and on the company's image. For these reasons Buttle (1993) observes, public relations during the activity of the promotion of the company play two roles: solving problems and avoiding them.

### Public relations process management

In its most modern form public relations represent scientifically manageable aspect of the processes for solving the issues and changes, which take place in all public relations organizations. That is the type, which is widely used in the activities as the four stage process for problem solving.

1. Determination of the problems (or the possibility). The first stage includes verification and control of knowledge, opinion, estimation and behavior of those, who are one way or another involved in the activities and politics of the organization and who are influenced by the aforementioned activities and politics. Basically, it is an "exploratory" function of an organization (or information collection function). In answering the question "What is going on?", it provides the basis for all following stages of the process for problem solving.

2. Planning and programming. Information, collected during the first stage, allows highlighting social groups, which should be covered by the program, establishing the objectives of the program, generating the action and communication strategy and the tactics of the program. Adoption of these resolutions includes the application of the analysis results of the information, collected during the first stage, while modeling politics and the program of a particular organization. This second stage of the process must provide the answer to the question: "What must we change, do or say in the light of the facts, which have become known to us about the situation?"

3. Taking measures and implementation of communication. The third stage of the process for problem solving is related to the implementation of the activities and communication program, oriented towards reaching the defined objectives for each social group, and that should ensure the implementation of the objective of the program. During the implementation of the third stage

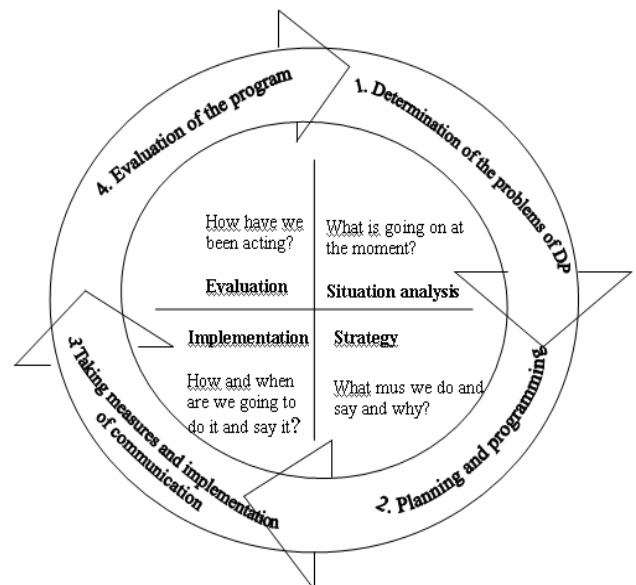
### Conclusions

1. A continuous process of communication marketing is essential to a modern organization, which strives to successfully operate in the market. Public relations are one of the elements of the promotion, which aid in solving the problems of communication. Today there is ignoring the public opinion, since the society directly influences the success of business or politics. Therefore the future of the company depends on the creation of its image. It is

it is essential to answer the following questions: "Who, when, where and how must do it and say it?"

4. Evaluation of the program. The last stage of the process for problem solving is related to the evaluation of the preparation, realization and results of the program implementation. Coordination of the program is performed during its realization basing on the feedback signals, which show the effectiveness of the operation of the program. Implementation of the program is continued or stopped after the answer to the following question is obtained: "How are we doing (How have we been doing)?"

All stages are of the same importance as the others, however the process as a whole is begun with the collection of information with the purpose of determining the problem. Information and understanding of the problem, which are provided as a result of the completion of the second stage, motivate and direct all following stages of the process. Of course in practice it is impossible to as clearly distinguish stages of diagnostics, planning, implementation and evaluation, since the process for problem solving is of uninterrupted and cyclic nature; moreover it is being implemented in a dynamic environment. Diagram 1 illustrates continuous, overlapping and cyclic nature of the public relations problem solving.



**Diagram 1.** Four stage process for public relations problem solving (S.M. Katlip, A.H. Senter, .M. Brum, 2005, p. 379)

believed that public relations are one of the best weapons for reaching an objective, which may become an effective means for ensuring the success of business.

2. An accurately planned and implemented public relations campaign may bring many benefits. Moreover, it requires less investment than a traditional advertising campaign. The available methods of public relations activities are more accurate and have a long term impact. In the science literature various authors define several stages of the public relations process, the basic stages of which are these: to foresee public

relations objectives and tasks, prepare a program, implement it and evaluate the results.

3. It has been noted that the company also needs to take into consideration the fact that everything does not always work in accordance with the prospective public relations activity plan. There are often unforeseen and unpleasant incidents happening during the actual activities, to which the company must respond

accordingly. At the time of a crisis there is a demand for immediate sustainable public relations activities. It has been determined that public relations during the activity of the promotion of the company play two roles: solving the problems and avoiding them. The four stage process by S.M.Katlip, A.H.Senter, G.M. Brum is suggested for public relations problem solving.

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### ОРГАНИЗАЦИЯ И УПРАВЛЕНИЕ ПРОЦЕССОМ СВЯЗЕЙ С ОБЩЕСТВОМ

#### Резюме

Для современной организации, желающей успешно действовать на рынке, необходим постоянный процесс коммуникации маркетинга.

Связи с обществом являются одним из элементов спонсорства, которые помогают решать проблемы коммуникации. Как действенный инструмент маркетинга связи с обществом долгое время считались не очень важными. Сегодня уже нельзя не обращать внимание на публичное мнение, поскольку общество прямо влияет на удачу политики или промысла. Точно спланирована и воплощена кампания связей с обществом может принести много пользы. Кроме того, требует меньше инвестиций чем традиционная рекламная кампания. По мнению Бовен, Макенс и Котлер (1998) процесс связей с обществом должен быть интегрирован в общую стратегию организации маркетинга и выделяют несколько этапов процесса связей с обществом: исследование, установление целей связей с обществом, установление целевой аудитории, подбор инструментов связей с обществом, воплощение плана связей с обществом, оценка результатов деятельности связей с обществом.

В своей наиболее современной форме ПР (паблик рилейшен) представляют собой научно-управляемый аспект процессов решения проблем и изменений, происходящих в любой организации. РК специалисты именно такого типа широко используют в своей деятельности четырехэтапный процесс решения проблем: определение проблемы (или возможности), планирование и программирование, принятие мер и осуществление коммуникаций, оценка программы.

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# ORGANIZING THE LODGING INDUSTRY: THE CASE OF SOUTH CAROLINA, USA

Tuncay Guloglu

## Abstract

The hospitality industry has become one of the most aggressively pursued targets for union organizing. In this study we examine the union organization of this sector. Particularly, we try to understand how this industry has experienced a great deal of success in unionizing workers. For this reason, we choose the hospitality industry in Myrtle Beach in South Carolina and the Hotel Employees and Restaurant Employees Union (HERE). At the same time we chronicle the history of the union, provide an overview of the industry and work environment before offering a feasible organizing plan for hospitality workers to win representation through UNITE-HERE

## Keywords

Hospitality, Union, Industry.

## Introduction

The hospitality industry has become one of the most aggressively pursued targets for union organizing. The hospitality industry has 265,000 union members in the Hotel Employees and Restaurant Employees Union (HERE). This is one of the few industries that has experienced a great deal of success in unionizing workers.

The hospitality industry is exceedingly lucrative. It produces \$86.5 billion in annual sales. The union density is 11.7 percent in this industry. In the nineties, the hospitality industry experienced a 28 percent growth rate, climbing from 78 billion to 100 billion in revenues. During this same decade, employment increased from 1.55 million to 1.85 million (Center on Wisconsin Strategy, 2005). Consolidation and concentration of ownership became major trends among owners of hotel properties, as did niche marketing strategies. Turnover is exceedingly high in this industry, with annual rates of over 150 percent. This creates a dilemma for any union hoping to run a traditional election campaign: "The need to organize and constantly reorganize in response to high turnover because of protracted delays in elections and certifications has made traditional NLRB election procedures practically unworkable in many instances" (Waddoups and Eade, 2002: 150).

Employment in the hospitality industry includes a large proportion of relatively unskilled service workers. Without union support, employees are often paid poverty-level wages, with few benefits. Workers in this area also and face the continual threat of part-time, contingent, and seasonal employment. In addition to the great shortcomings in wages and benefits, the industry is marked by high levels of occupational segregation by gender, race, and citizenship (Waddoups and Eade, 2002: 161).

Organizers divide the hospitality industry into four segments - by price and quality of service: high priced upscale properties, mid priced full service hotels, lower priced economy establishments and budget motels (Waddoups and Eade, 2002:140). The first two are ideal targets for unionization because they are located in urban centers, cater mostly to clients seeking quality service and accommodations, and have the most employees.

Economies of scale dictate that these targets can be organized more efficiently and can have contracts administered at lower costs. Furthermore, their managements place a higher premium on low turnover, a characteristic of unionized environments, and may be less likely to fight unionization (Waddoups and Eade, 2002: 140).

Myrtle Beach, South Carolina, known as America's "Grand Stand," is a resort town with roughly 25,000 residents. Its labor force is densely populated with 3,500 workers employed in the hospitality industry. In many ways, it embodies the perfect location for union infiltration. Both strong ties to organized religion and informal social networks provide an avenue for community engagement. In examining the Here's position in the Myrtle Beach hospitality industry amidst the anti-union climate of the city, this paper provides a plan of action for an organizing campaign across this sector of Myrtle Beach. Building up to this proposal, we chronicle the history of the union, provide an overview of the industry and work environment before offering a feasible organizing plan for hospitality workers to win representation through UNITE-HERE.

## 2. The History Of Unite-Here

Guidance for the future of UNITE-HERE is best derived from its historical successes and failures. With its earliest roots in the Waiters and Bartenders National Union, formed in 1891, the union has experienced cyclical bursts of success and crippling blows to its numbers throughout its presence in the industry (HERE, 1991:3). Given the elasticity of demand for hospitality services, the union's gains and losses flow in tandem with the success of the American economy. Booms in the railroad industry, war time economic gains, and the proliferation of chain restaurants and hotels have all added to the union's strength and numbers. Conversely, prohibition, economic depressions in the 1930's and 1970's and the declining dining car industry have all resulted in losses in union membership. During difficult times, the union has found strength in well-planned, wall-to-wall organizing efforts. The union's success is attributed to both the large numbers and widespread rank-and-file support that defined it, but also by the sense of solidarity created by

support of other union members-butchers, bakers, teamsters, musicians, and stationary engineers. The discipline and passion of the participants during a long, scabless strike simultaneously shut down fifteen hotels in San Francisco at once in 1937, and led to a twenty percent gain in wages, equal pay for men and women, hiring based on union membership, an eight-hour day, and union work rules for all crafts (HERE, 1991: 14). These gains, amidst national depression, speak to the importance of deep rank-and-file mobilization, community support, and solidarity within the union. The union experienced similar success in Miami, Florida during the 1950's using an almost identical strategy (HERE, 1991:17).

The Frontier Strike in Las Vegas during the 1990's reveals the importance of tenacity, financial investment, and widespread public support. The strike involved five hundred and fifty workers and was supported by the CWU, bartenders unions, the Teamsters, the operating engineers, and even carpenters. During this time, non-striking union members doubled their dues to pay for strike pay, made donations of \$26 million and rallied six thousand rank-and-file members to shut down traffic on the Las Vegas strip in 1992 (Alexander, 1998). After six years, the union won its victory, and all five hundred and fifty striking employees were offered their jobs back, on top of seniority consideration and back pay.

The union gained this wide-spread support by petitioning both local community members and government in the city. HERE earned the outspoken support of Nevada's governor, Robert Miller, U.S. senators Harry Reid and Richard Bryan, and the Reverend Jesse Jackson (Alexander, 1998). Rallying local support led to political awareness and involvement, integrating labor issues with community issues. Solidarity among the rank-and-file successfully shut down fifteen hotels and sustained strikers for over six years, ultimately resulting in a union victory.

### **3. The Hospitality Industry In Myrtle Beach, South Carolina, Usa**

Located in Horry County, just sixty miles south of Wilmington, North Carolina, Myrtle Beach has thrived for decades among the most popular beach resort towns in the United States. With a population of just over two hundred thousand with thirty percent working in the hospitality, the county workforce is heavily invested in this sector of the Myrtle Beach area. Unemployment doubles from 3.5 percent during the summer months to 7.1 percent in the winter. Wages, too, are particularly unstable, ranging from six to eight dollars in the service sector. For example, while the national average annual salary for a hotel housekeeper is \$17,090, the corresponding salary for Myrtle Beach is \$16,580 (Bureau of Labor Statistics, 2006). Though they make up only six percent of the population in this area, this workforce is well represented by African American women, a demographic with an exceptionally high propensity toward unionization.

Given the unfriendly labor environment, it is not a surprise that there are virtually no unions representing service sector employees in Myrtle Beach. Housekeeping

staff, bartenders, waitresses, and cooks go to work each day with the threat of seasonal unemployment, withheld wages and unfair labor practices. While UNITE once held a significant presence in neighboring textile communities in the South, union factories relocating abroad have rendered workers in the South with little representation. The lack of union presence, leaving behind no residue of corrupt leadership and rank and file disenchantment, makes Myrtle Beach ripe for an industry-wide organizing campaign, building on community the networks among the several thousand workers. Drawing from the foundation laid by the Charleston Five struggle and the gains made by recent card-check victories, this hospitality town can be organized successfully as long as bottom-up support is permitted the chance to ferment and rise to a head.

### **4. The Context Of Organizing In South Carolina**

Just as employees of the hotel industry in Las Vegas use card-check elections to avoid problems with their state's Right to Work laws, industry counterparts in Myrtle Beach, South Carolina, must do the same to win recognition. However, workers in South Carolina face a solid tradition of anti-union tendencies that has kept it as the state a union density of three percent, second lowest only to North Carolina. In this state that gains international investors by paying its workers wages that are twenty percent lower than the national average, businesses in South have a lot to lose by honoring union contracts – and they fight against organizing vehemently (Bureau of Labor Statistics, 2003). The hospitality workforce in South Carolina, largely comprised of African Americans, cannot look to the state government for support. Instead, it must rely on grassroots support from local religious and community networks as a means of building successful campaigns (Bacon, 2001).

Several events have occurred in the South Carolina in recent years that have focused attention on working conditions in this area of the country and have helped to shape the methods used by unions in this area. The first incident to do this involves the struggle of African American workers from the International Longshoremen's Association (ILA) who were unfairly charged for picketing with their union against ships employing non-union labor in the port of Charleston. At the end of this incident, the South Carolina Attorney General Charlie Condon charged five of the longshoremen, four of whom were African American, with felony riot, assault, resisting arrest and conspiracy (Bacon, 2001). It was not until late 2001 that the five longshoremen were acquitted of the charges against them (Alacron, 2002).

The Charleston Five incident marked a turning point for contemporary labor in the South because the ILA was able to deflect the efforts of the anti-union state of South Carolina by galvanizing a broad-based network of dense support. First reaching out to the local working-class and religious communities, then gaining the support of workers across the country and ultimately receiving official solidarity from workers in sixteen countries, the longshoremen drew much needed attention to the hostile climate persecuting workers in this area of the country.

The gains made by the mobilization surrounding the Charleston Five have put in place the necessary foundation for organizing the hotel industry in South Carolina.

Advances made by these labor coalitions have brought victory to other industries in this part of the South. In the spring of 2002, the Communication Workers of America (CWA) used its weight with SBC Communications and BellSouth Corporation to force Cingular Wireless into neutrality and card-check agreements, allowing workers to vote for a voice at work without facing an anti-union attack from their employer. This advance resulted in union wins for nearly four thousand workers in over ten states (LRA, 2002). Card-check agreements, as advocated by HERE President John Wilhelm, offer an effective way for unions to organize workers in states with tough Right to Work laws (Waddoups and Eade, 2002:149). Using leverage against corporations on a national scale permits workers to respond to the union vote honestly, deciding for themselves the future of their workplace.

## 5. Recommendations For Moving Forward

The task of brining a union campaign to workers in Myrtle Beach is long and challenging and will not survive with the solid support of the local community, those who hold stake in the financial assets of hotel establishments, and, most importantly, the backing and participation of the hotel employees themselves. This campaign will take the form of a dual approach to actions, and will encompass both vertical and horizontal pressure tactics. In place of elections, the union will endeavor intensive organizing efforts among workers within the hotels while simultaneously attempting to secure neutrality agreements. These agreements must precede the vertical and horizontal components of the union's effort.

To be truly effective, neutrality agreements should provide union organizers access to the work facilities, an agreement by the employer to not campaign against the union, card check recognition, arbitration of first contracts, an agreement that extends neutrality to all employer-owned properties, and full union recognition (Waddoups and Eade, 2002: 150). The union, in exchange, may agree to a no-strike clause.

These agreements must be first reached within a chain hotel that has met union demands in the past. Marriott, a notoriously anti-union organization, would not be an ideal target. Felcor Lodging Trust, however, succumbed to union demands during a strike in San Francisco during 2002 (unitehere2.org). It is also the newest and largest employer in Myrtle Beach. Through Kingston Plantation currently employs over eight hundred hospitality workers. The union must then concentrate on organizing to bargain and establishing a local coalition of support. Launching a campaign on the ground at the end of the peak summer season, HERE will employ forty organizers to build a worker-committee with an ideal target of 350 racially diverse employees representing the 3 major hotel chains. This is not a process that can be rushed. The first goal of these objectives will be to secure city-wide neutrality agreements.

The horizontal component of our strategy involves a grassroots, wall-to-wall organizing effort and coalition building across all of Myrtle Beach. While bargaining for a contract, we will petition for a wage comparable to 95% of the national hospitality wage, which is an increase from \$6.69 to at least \$8.50 (mbeach.com). This will put Myrtle Beach hospitality workers on the same level as their national peers regarding wages and cost of living. Additionally, the union should petition for increasingly stable employment relations as smart managerial planning may reduce instances of seasonal unemployment. Health care should be another topic of discussion. A key aspect of this campaign will be to paint worker concerns in the context of community concerns because a community so reliant upon and rooted in the hospitality industry should be deeply concerned with the welfare of these workers. Finally, regulatory agencies such as the NLRB, OSHA, and the Department of Labor's Employment Standards Administration should be appealed to for more widespread recognition of and support for the plight of the hospitality workers (Brown and Chang, 2004:226).

From a tactical perspective, the horizontal strategy will include escalating pressure maneuvers. Union paraphernalia such as buttons and bumper stickers will be passed out, rallies will be scheduled, pamphlets will be distributed to tourists and citizens, and everyone will be referred to the campaign website. Solidarity days, rallies, recognition demonstrations targeting management, and community engagement will all be essential components of this strategy. Organizers representing other unionized hotels, should also make appearances and participate in press conferences, community forums, and other high-profile, media-covered activities. Finally, the union must anticipate the employer's tactics, and dispel any rumors or misrepresentations the employer may make despite the neutrality agreement.

The vertical component of our strategy involves top-down pressure tactics aimed at the board of directors at the three major developers: Marriott, the owners of Seamist Properties, Felcor Lodgings Trust, owners of the new Kingston Plantation, and SSF, the owners of mid-priced properties like The Comfort Inn. These three investors indirectly employ roughly fifteen hundred of the thirty-five hundred hospitality workers in Myrtle Beach (mbeach.com). Corporate pressure tactics will include letter writing campaigns, phone campaigns, public demonstrations, consumer boycotts, and the launch of a website chronicling local developments (Brown and Chang, 2004: 25). The union must take a moral high ground during this dispute and argue for themes of fairness, quality of service, and collective representation (Brown and Chang, 2004: 25). It should emphasize that these investors have hundreds of millions of dollars, and that the unions invest in their developments.

Worker testimonials speaking to working conditions and poverty wages, information about local boycotts, labor statistics displaying the disparity between national hospitality wages and those paid in Myrtle Beach, and other relevant and persuasive information will be featured on the site. The main themes the union should convey will be universally appealing and resonate within the community: dignity, fairness, quality of service,

collective representation, and a voice at work. Additionally, the site will solicit rank-and-file support, post opportunities to volunteer and assist the union cause, inform members of future meetings and rallies, and feature an on-line petition that visitors can sign in support of the union. Finally, it will feature the contact information of local developers, business managers, and government officials so site visitors can urge them to support and recognize the union. It is also an ideal avenue to reach out to politicians, religious groups and prominent local figures, just as the successful HERE campaigns of the past have. As Margaret Levi relates, the tactics synthesized by this website encompass many key tactics: "The [ideal] campaign uses a rhetoric of dignity and fairness...involves research on the target firm and appeal to stockholders, board members, and lenders...avoid[s] the cumbersome NLRB election process...[and encompasses] the selection of a business based on its strategic centrality..." (Levi, 2003: 54). These tactics all approach the goal of combating the region-specific customs of managerial and even worker resistance (Waddoups and Eade, 2002: 142). Ultimately, labor and management, once adversaries, can work toward common goals. One effective means of accomplishing this was utilized by management and unions through the San Francisco Hotels Partnership Program (SFHPP). This initiative provided job training to unionized hotel employees and resulted in better service, higher employee loyalty, and lower turnover. A

program like this aims at mutually beneficial goals: "As these partnerships show, both employers and workers can benefit by devising 'high road' solutions to common problems. But so far, the record has proved most promising in high-end facilities, whose managers recognize that investing in a skilled workforce can lead to long-term financial success" (Center On Wisconsin Strategy, 2005). Even more importantly, this would be a tangible example of labor/management cooperation, and demonstrate mutual good will and a commitment to stable and amicable relations.

## 6. Conclusion

Organizing in the south poses many salient obstacles, but also carries the promise of tremendous gains for the labor movement. The successful unionization of private sector jobs in the south could bring about substantial political change. Integrating pro-labor attitudes into the collective community conscious of the south has the potential to result in widespread political approval, and an agenda that favors labor's interests. Efforts like this might reconcile the current debate between political action and organizing within the AFL-CIO. Indeed, successful organizing now will bring about political change later. This development, in turn, will ensure a more labor-friendly political and legal environment, one in which worker's rights are recognized, valued and supported.

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# THE UNITED STATES FEDERAL FOOD STAMP PROGRAM AS A SOCIAL AID PROGRAM

Tuncay Guloglu

## Abstract

Nowadays social aid systems are getting more important against poverty. In this study we examine the United States Federal Food Stamp program as a social aid program. We try to understand how this program functions with historical background. In addition, we discuss the problems of the program and what solutions of the problems are for the program.

## Keywords

Social Aid, Poverty, Food Stamp.

## 1. Introduction

Poverty is a drastic socio-economic problem. It is defined when a person is not able to provide his indispensable needs. Of the 1.3 billion people in the world that live in poverty. Most of this population lives in Africa and Asia. Poverty is complex and insoluble global problem (Sharp, 2005: 9a). Poverty is conventionally defined in terms of income poverty (i.e. number of people below the poverty line) and is measured in different ways, predominantly in terms of inadequacy of income to procure a minimum level of calories. The poverty line is defined at international levels, by considering US\$1 and US\$2 per head per day as alternative minimum levels of income (Tilak ,2002:191).

In contrast to the Africa and Asia countries, the United States is one of the most affluent countries in the world. It is highly industrialized as well as developed country and one of the leaders of the knowledge age. However, the United States has a large percentage of needy. Many people, particularly foreigners, may think it is unthinkable and unacceptable that some people live in poverty, or are in need in such a wealthy country. For these it is a contradiction.

A family is counted as poor if its pretax money income is below its poverty threshold (Walt, Proctor, and Lee, 2005:52). The 2004 poverty threshold in the United States for a mother and two children is \$15,219. The methodology for calculating the thresholds was established in the mid-1960s and has not changed in the intervening years. The thresholds are updated annually to account for inflation (Walt, Proctor, and Lee, 2005:52).

| 2004 Poverty Thresholds, Selected Family Types |                  |           |
|--|------------------|-----------|
| Single Individual                              | Under 65 years   | \$ 9,827  |
|  | 65 years & older | \$ 9,060  |
| Single Parent                                  | One child        | \$ 13,020 |
|  | Two children     | \$ 15,219 |
| Two Adults                                     | No children      | \$ 12,649 |
|  | One child        | \$ 15,205 |
|  | Two children     | \$ 19,157 |
|  | Three children   | \$ 22,543 |

SOURCE: Walt, Carmen DeNavas, Bernadette D. Proctor and Cheryl Hill Lee (2005), Income, Poverty, and Health Insurance Coverage in the United States: 2004, U.S. Department of Commerce Economics and Statistics Administration, U.S Census Bureau, p.52.

In 2004, 12.7 percent of all persons lived in poverty in the United States. In 1993 the poverty rate was 15.1 percent. Between 1993 and 2000, the poverty rate fell each year, reaching 11.3 percent in 2000. After 2000 it rose again. In the late 1950s, the poverty rate for all Americans was 22.4 percent, or 39.5 million individuals, in 1973. Over the next decade, the poverty rate fluctuated between 11.1 and 12.6 percent, but it began to rise steadily again in 1980. By 1983, the number of poor individuals had risen to 35.3 million individuals, or 15.2 percent. For the next ten years, the poverty rate remained above 12.8 percent, increasing to 15.1 percent, or 39.3 million individuals, by 1993. The rate declined for the remainder of the decade, to 11.3 percent by 2000. Since then, it has risen each year, to 12.7 percent in 2004 (Walt, Proctor, and Lee, 2005:52).

There are millions of people in the United States without adequate means of affording food for themselves and their families. Homeless and unemployed people are not the only members of the society who go hungry. Many employed people do not earn enough money to cover their expenses and afford adequate food at the same time. Limited amounts of food lead to health problems associated with starvation and malnourishment. This is a problem which affects the rest of the society, on both a governmental and social scale.

There are frequent charges of widespread hunger and malnutrition in the United States. To understand these assertions, it is important, first of all, to distinguish between hunger and the more severe problem of malnutrition. Malnutrition, also called undernutrition, is a condition of reduced health due to a chronic shortage of calories and nutriment. Hunger is far less severe condition: a temporary but real discomfort caused by an empty stomach. While hunger due to a lack of financial resources does occur in the United States, it is limited in scope and duration. According to the United States Department of Agriculture (USDA) on a typical day, fewer than one American in 200 will experience hunger due to a lack of money to buy food. Also, according to the USDA, some 6.9 million Americans, or 2.4 percent of the population, were hungry at least once during 2002 (Nord, Mark, Margaret Andrews and Steven Carlson,

2004: 7). Some 92 % of those who experienced hunger in 2002 were adults, and only 8 percent were children. Overall, some 567.000 children, or 0.8 percent of all children in the U.S. were hungry at some point in 2002. In a typical month, roughly one child in 400 skipped one or more meals because the family lacked funds to buy food (Nord, Mark, Margaret Andrews and Steven Carlson, 2004: 7).

In brief, approximately 97 % of the U.S population lived in families that reported they had enough food to eat during the entire year, although not always the kinds of foods they would have preferred. Around 2.5 percent stated their families “sometimes did not have enough food to eat” because of a lack of funds. On the other hand, it is widely believed that a lack of financial resources forces poor people to eat low-quality diets that are deficient in nutrients and high in fat.

To combat the hunger problem in the United States, legislators and policy makers have struggled to find a program that adequately addresses this issue since the 1930s. This seeking created The United States Food Stamp Program. The Food Stamp Program is a Federal/State program to help low-income families buy the food they need to stay healthy, and be productive members of society. It provides low-income households with coupons or electronic benefits they can use like cash at most grocery stores to ensure that they have access to a healthy diet. The Food Stamp Program is the cornerstone of the Federal food assistance programs.

## **2. Background Of The United States Federal Food Stamp Program**

The United States Federal Food Stamp Program has been in existence, in some form, since the late 1930s. The program provides a basic safety net for millions of people who would be unable to provide themselves and their families with adequate nutritious food items.

The idea for the first Food Stamp Program (FSP) is credited to Secretary of Agriculture in 1939, Henry Wallace, and the FSP's first administrator, Milo Perkins. Of the program, Perkins said, “ We got a picture of a gorge, with farm surpluses on one cliff and undernourished city folks with outstretched hands on the other. We set out to find a practical way to build a bridge across that chasm.” (USDA, 2006A)

The program operated by permitting people on relief to buy orange stamps equal to their normal food expenditures; for every \$1 worth of orange stamps purchased, 50 cents worth of blue stamps were received. Orange stamps could be used to buy any food; blue stamps could only be used to buy food determined by the Department to be surplus. Over the course of nearly 4 years, the first FSP reached approximately 20 million people at one time or another in nearly half of the counties in the U.S. at a total cost of \$262 million. At its peak, the program assisted 4 million people simultaneously. In 1943, the program was terminated because unmarketable food surpluses and widespread unemployment, the factors facilitating the need for the program, no longer existed (USDA, 2006A).

After the 18 years, in 1961, President Kennedy issued an Executive Order calling for expanded food distribution

and he announced a food stamps pilot program that would be initiated. After the 3 years, on January 31, 1964, President Johnson requested Congress to pass legislation making the FSP permanent and the bill eventually passed by Congress was H.R. 10222 on April 17, 1964. The major provisions of the act were:

1. The State Plan of Operation requirement and development of eligibility standards by States;
2. The requirement that recipients purchase their food stamps, paying an amount commensurate with their normal expenditures for food and receiving an amount of food stamps representing an opportunity more nearly to obtain a low-cost nutritionally adequate diet;
3. The eligibility for purchase with food stamps of all items intended for human consumption except alcoholic beverages and imported foods;
4. Prohibitions against discrimination on bases of race, religious creed, national origin, or political beliefs;
5. The division of responsibilities between States and the Federal Government with shared responsibility for funding costs of administration (Wikipedia, 2006:2).

Geographic expansion throughout the 1960s and 1970s led to massive participation in this program, reaching 15 million people in 1974.

The early 1970s also saw the first major legislative changes to the program. These changes were focused around the question of how to balance program access with program accountability. On January 11, 1971 established uniform national standards of eligibility and work requirements; required that allotments be equivalent to the cost of a nutritionally adequate diet; limited households' purchase requirements to 30 percent of their income; instituted an outreach requirement; authorized the Agriculture Department to pay 62.5 percent of specific administrative costs incurred by States; expanded the FSP to Guam, Puerto Rico, and the Virgin Islands of the United States; and provided \$1.75 billion appropriations for Fiscal Year 1971. The Agriculture and Consumer Protection Act of 1973 required all states to expand the program to every political jurisdiction, and expand the program to drug addicts and alcoholics in treatment and rehabilitation centers, as well as a few other requirements. Finally in 1974 authorized the Department of Agriculture to pay 50% of the cost for each state for administering the program.

In 1977, both the outgoing Republican Administration and the new Democratic Administration offered Congress proposed legislation to reform the FSP. The Food Stamp Act of 1977 was the elimination of categorical eligibility, and the establishment of statutory income eligibility guidelines at the poverty line (USDA, 2006A).

In addition, the Food Stamps Act of 1977 included several access provisions:

1. Using mail, telephone, or home visits for certification;
2. Requirements for outreach, bilingual personnel and materials, and nutrition education materials;

3. Recipients' right to submit applications the first day they attempt to do so;
4. 30-day processing standard and inception of the concept of expedited service;
5. Notice, recertification, and retroactive benefit protections; and
6. A requirement for States to develop a disaster plan.

The integrity provisions of the new program included fraud disqualifications, enhanced Federal funding for States' anti-fraud activities, and financial incentives for low error rates (Wikipedia, 2006:4).

Due to its large scope and big budget, legislation in the early 1980s made cutbacks on the program. However, an increase in domestic hunger in the late 1980s led to incremental improvements in the program. Major legislation in 1981 and 1982 enacted cutbacks including:

1. Addition of a gross income eligibility test in addition to the net income test for most households;
2. Temporary freeze on adjustments of the shelter deduction cap and the standard deduction and constraints on future adjustments;
3. Annual adjustments in stamp allotments rather than semiannual;
4. Consideration of non-elderly parents who live with their children and non-elderly siblings who live together as one household;
5. Required periodic reporting and retrospective budgeting;
6. Prohibition against using Federal funds for outreach;
7. Replacing the FSP in Puerto Rico with a block grant for nutrition assistance;
8. Counting retirement accounts as resources;
9. States option to require job search of applicants as well as participants; and
10. Increased disqualification periods for voluntary quitters (Wikipedia, 2006:4).

It is important to discuss The Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA), which had major consequences for all welfare programs. Under this act, the Food Stamp Program was scaled back. Basically major changes to the program were enacted through PRWORA. Among them were:

1. Eliminating eligibility of most legal immigrants to food stamps;
2. Reduction in maximum allotments by setting them at 100 percent of the change in the Thrifty Food Plan (TFP) from 103 percent of the change in the TFP;
3. Freezing the standard deduction, the vehicle limit, and the minimum benefit;
4. Permitting States to make use of the standard utility allowance mandatory (Wikipedia, 2006:5).

As participation in the program declined after the 1996 welfare reforms, legislators began to worry that this decrease was more extreme than they expected, even

when considering the changes from PRWORA. In May 2002, the Food Security and Rural Investment Act of 2002 (The Farm Bill) was enacted, including reauthorization of the Food Stamp Program. The Act aimed to remedy program access and simplify rules and eligibility requirements. This act ultimately reversed many of the 1996 changes in the program. As a result, participation in the program started to increase and has continued to do so through 2005 (USDA, 2006A).

### **3. Who And How Benefit From The Food Stamp Program**

There are various standards and rules to benefit from the Program:

1. **Income and Resources:** Households must meet eligibility requirements for both resource limits and gross and net monthly income levels, and provide proof of their statements about household's circumstances. In this stage applicants have to prove their economic situations. About economic situation there are many questions in eligibility test. For instance, the number of household, whether any household member a seasonal or migrant farm worker, whether applicant is homeless or living in a shelter, type of asset, type of earned income and monthly payments like mortgage, rent and utilities. Before application if one want to find out whether he or she could be eligible, should check out the internet Employment Support Institute, 2006:1-4).

2. **Work Requirements:** In order to benefit from the program with some exceptions, able-bodied adults between 16 and 60 must register for work, take part in an employment and training program to which they are referred by the food stamp office, and accept or continue suitable employment. Failure to comply with these requirements can result in disqualification from the Program. Moreover, able-bodied adults between 18-50 who do not have any dependent children can get food stamps only for 3 months in a 36-month period if they do not work or participate in a workforce or employment and training program other than job search. Other members of the household may continue to get food stamps even if this person is disqualified. This requirement is waived in some locations.

3. **Citizenship Status:** Basically U.S. citizens are eligible for the program. Eligible household members can get food stamps even if there are other members of the household that are not eligible.

On the other hand, the 2002 Farm bill restores food stamp eligibility to most legal immigrants if they have lived in the country for 5 years, or they are receiving disability-related assistance or benefits, regardless of entry date.

From 1969 to 2005 the Program has recorded considerable development from both participation and cost. In 1969 the number of participant was \$2,878,000 and the number of participant has reached \$25,673,000 during that period. This means during the 36 years period the number of participant increased approximately nine times (USDA, 2006B).

Table 2

## Food Stamp Program Participation and Costs in the United States (1969-2005)

|   |               | Average             |                               | All                |          |
|---|---------------|---------------------|-------------------------------|--------------------|----------|
| Fiscal  | Average       | Benefit Per         | Total                         | Other              | Total    |
| Year  | Participation | Person <sup>1</sup> | Benefits                      | Costs <sup>2</sup> | Costs    |
|   | --Thousands-- | --Dollars--         | -----Millions of Dollars----- |                    |          |
| 1969  | 2,878         | 6.63                | 228.8                         | 21.7               | 250.5    |
| 1970  | 4,340         | 10.55               | 549.7                         | 27.2               | 576.9    |
| 1971  | 9,368         | 13.55               | 1,522.7                       | 53.2               | 1,575.9  |
| 1972  | 11,109        | 13.48               | 1,797.3                       | 69.4               | 1,866.7  |
| 1973  | 12,166        | 14.60               | 2,131.4                       | 76.0               | 2,207.4  |
| 1974  | 12,862        | 17.61               | 2,718.3                       | 119.2              | 2,837.5  |
| 1975  | 17,064        | 21.40               | 4,385.5                       | 233.2              | 4,618.7  |
| 1976  | 18,549        | 23.93               | 5,326.5                       | 359.0              | 5,685.5  |
| 1977  | 17,077        | 24.71               | 5,067.0                       | 394.0              | 5,461.0  |
| 1978  | 16,001        | 26.77               | 5,139.2                       | 380.5              | 5,519.7  |
| 1979  | 17,653        | 30.59               | 6,480.2                       | 459.6              | 6,939.8  |
| 1980  | 21,082        | 34.47               | 8,720.9                       | 485.6              | 9,206.5  |
| 1981  | 22,430        | 39.49               | 10,629.9                      | 595.4              | 11,225.2 |
| 1982 3]   | 21,717        | 39.17               | 10,208.3                      | 628.4              | 10,836.7 |
| 1983  | 21,625        | 42.98               | 11,152.3                      | 694.8              | 11,847.1 |
| 1984  | 20,854        | 42.74               | 10,696.1                      | 882.6              | 11,578.8 |
| 1985  | 19,899        | 44.99               | 10,743.6                      | 959.6              | 11,703.2 |
| 1986  | 19,429        | 45.49               | 10,605.2                      | 1,033.2            | 11,638.4 |
| 1987  | 19,113        | 45.78               | 10,500.3                      | 1,103.9            | 11,604.2 |
| 1988  | 18,645        | 49.83               | 11,149.1                      | 1,167.7            | 12,316.8 |
| 1989  | 18,806        | 51.85               | 11,702.4                      | 1,231.8            | 12,934.2 |
| 1990  | 20,049        | 58.96               | 14,185.9                      | 1,304.5            | 15,490.4 |
| 1991  | 22,625        | 63.87               | 17,339.4                      | 1,431.5            | 18,770.9 |
| 1992  | 25,407        | 68.57               | 20,905.7                      | 1,556.7            | 22,462.3 |
| 1993  | 26,987        | 67.95               | 22,006.0                      | 1,646.9            | 23,653.0 |
| 1994  | 27,474        | 69.00               | 22,748.6                      | 1,745.1            | 24,493.7 |
| 1995  | 26,619        | 71.27               | 22,764.1                      | 1,855.5            | 24,619.5 |
| 1996  | 25,543        | 73.21               | 22,440.1                      | 1,890.9            | 24,331.0 |
| 1997  | 22,858        | 71.27               | 19,548.9                      | 1,936.5            | 21,485.4 |
| 1998  | 19,791        | 71.12               | 16,890.5                      | 1,997.7            | 18,888.2 |
| 1999  | 18,183        | 72.27               | 15,769.4                      | 1,941.0            | 17,710.8 |
| 2000  | 17,194        | 72.62               | 14,983.3                      | 2,070.7            | 17,054.0 |
| 2001  | 17,318        | 74.81               | 15,547.4                      | 2,242.1            | 17,789.5 |
| 2002  | 19,096        | 79.67               | 18,256.2                      | 2,386.6            | 20,642.8 |
| 2003  | 21,259        | 83.90               | 21,404.3                      | 2,417.1            | 23,821.4 |
| 2004  | 23,858        | 86.00               | 24,622.2                      | 2,516.9            | 27,139.0 |
| 2005  | 25,673        | 92.73               | 28,567.3                      | 2,561.1            | 31,128.4 |
| All data are subject to revision.   |               |                     |                               |                    |          |
| 1] represents average monthly benefits per person.  |               |                     |                               |                    |          |
| 2] Includes the Federal share of State administrative expenses and Employment and Training programs. Also includes other Federal costs (e.g., printing and processing of stamps; anti-fraud funding; program evaluation). |               |                     |                               |                    |          |
| 3] Puerto Rico initiated Food Stamp operations during FY 1975 and participated through June of FY 1982. A separate Nutrition Assistance Grant was begun in July 1982.   |               |                     |                               |                    |          |

Source: United States Department of Agriculture (USDA) Food and Nutrition Service (2006), Program Data, <http://www.fns.usda.gov/fsp>, [Accessed May 22, 2006]. On the other hand, the cost of the Program reached \$31,128,400,000, and also monthly average benefit became \$92, 73 for person in 2005.

#### 4. The Critiques Of The Food Stamp Program

The food Stamp Program was initially implemented over 60 years ago to help reduce the occurrence of malnutrition and hunger among people in the United States. According to the official United States Department of Agriculture website, "The Food Stamp Program serves as the first line of defense against hunger. It enables low-income families to buy nutritious food with coupons and Electronic Benefits Transfer cards. Food stamp recipients spend their benefits to buy eligible food in authorized retail food stores. The program is the cornerstone of the Federal food assistance programs, and provides crucial support to needy households and to those making the transition from welfare to work". The policy problem at hand is the question of whether or not the Food Stamp Program has been successful in this stated goal. One of the largest problems facing the program is the number of people actually enrolled in the Food Stamp Program out of the total number of people eligible for the Program. Statistics vary widely among states, with participation among those eligible ranging from a high of 89% in the West Virginia, to a low of 45% in Massachusetts in 2001 (Castner and Schirm, 2004).

Despite the few states where participation is high, the issue of eligible people not enrolled in the program is one that policy-makers have been studying for years since the program was first implemented. FNS estimates that nationally only 59% of eligible people participated in the Program in 1998, which was down from 71% in 1994. More pressing is children's participation rates in the program, which have dropped more sharply than the number of children living in poverty. This is indicative of a growing gap between need and assistance (Robertson, 2001:2). In 1999, only about 77% of eligible children received The Food Stamp Program (Appendix).

This leaves 23% of children without adequate food. This is simply unacceptable, especially considering that enough money, \$20.1 billion in 2001, has been allocated to the Food Stamp Program to efficiently provide service to all of those who are eligible (Robertson, 2001:2-3).

Many analysts see this program as a failure in policy. Although it can be good for emergency situation, implement it for a long period perpetuates dependency. It is against the principle of self-reliance. Some think that certain food companies get benefited, and they do not provide a real healthy food, which is worse in the long term. It is claimed it would be more effective to tackle some educational policies, or other policies empowering the low-income population in the long run, than a program of free food like this one.

The lack of affordable housing in urban areas means that money people would have spent on food is going towards housing expenses. Housing is generally considered affordable when it costs 30% or less of the total household income. However, for example, according to an estimate by Community Service Society, 65% of New York City families living below the federal poverty line are paying more than half of their income toward rent.

The purpose of the Food Stamp Program as laid out in its implementation was to assist low-income households in obtaining adequate and nutritious diets. According to

Rossi, "the program rests on the assumption that households with restricted incomes may skimp on food purchases and live on diets that are inadequate in quantity and quality, or, alternatively skimps on other necessities to maintain an adequate diet (Rossi, 1998:28). Food stamps, as many like Rossi, MacDonald and Eisinger contend, are not only used for increasing food, but as income maintenance as well (Rossi, 1998:36).

On the other hand, after the 1996 welfare reforms scaled back the program, participation dropped by a greater percentage than predicted. This prediction already factored in the number of participants who would be affected by the reforms and deemed ineligible, so it became evident that there were other problems with the program. As eligible participation rates continued to decline over the next five years (Appendix), legislators realized that the low-income population was being hurt more by food stamp reforms than helped. The 2002 Farm Bill reversed many of the 1996 changes in the Food Stamp program. Predictions show positive results, but concrete data from 2003 and 2004 are not yet available, so it is hard to gauge whether or not the bill was effective in enrolling more eligible people.

To complement the Farm Bill legislation, the United States Department of Agriculture unveiled a national campaign in 2003 aimed at increasing food stamp enrollment. It included media tools helping low-income families understand eligibility rules, and the implementation of a web-based food stamp calculator to show potential clients the amount of food stamps for which they could be eligible. A renewed public-private partnership between federal and state government, local hunger-relief organizations, charities and community groups has also been instrumental in helping the program ([www.secondharvest.org](http://www.secondharvest.org)).

Although legislation is certainly an effective tool in helping policy, other methods are available, prior to the Farm Bill, the Subcommittee on Department Operations, Oversight, Nutrition, and Forestry, along with the Committee on Agriculture commissioned a group to examine the problem of participation and eligibility rates. The Education, Workforce, and Income Security Issues Board recommended in 1999 that states be required to inform each applicant for any type of welfare assistance of their right to apply for food stamps. The Board also recommends that sanctions within the Food Stamp Program be limited only to individuals who do not comply with welfare requirements, and not to their entire household (Rossi, 1998:36).

In addition to the problem of awareness and public visibility, some eligible people do not participate because of the perceived difficulty of the program. The most commonly cited difficulties were related to administrative burdens of applying, especially the time and cost involved. One survey found that, on average, applicants spent nearly five hours and made at least two trips to the local food stamp office to apply for the program (Ponza and others, 1999).

#### 5. Conclusion And Recommendations

In recent years the major problem identified is participation among eligible candidates, and pending

feedback stemming from the 2002 Farm Bill will soon illustrate whether or not this issue has been improved. It is certainly possible to get 100% participation among eligible people, but it is certainly possible to improve on the situation from where it stands currently.

Looking at one set of intra-societal system, the lower-income group of people who are the ones actually receiving benefits from the Food Stamp Program, it is evident that some of the most effective changes to the program come in the form of administrative changes. The reforms made due to the advice from the Education, Workforce, and Income Security Issues Board were effective, but only slightly. Further reforms and renewed dedication are necessary in order to truly make the program as efficient as possible. The administrative process needs to be made easier for both the application and recertification process. Extending office hours beyond the normal workday and staffing bilingual and multilingual staff can ease two major problems with the Food Stamp Program for possible participants; lack of time to go to the office and apply, and fear of communication barriers. In 1999 and 2000, The United States Department of Agriculture Food and Nutrition Service (FNS) started a beneficial media campaign to end misconceptions about the program and make a distinction between Food Stamp Program (FSP) and Temporary Assistance for Needy Families (TANF) program. Currently, this media effort has not been maintained. So this campaign should be re-started, focusing on local radio and television stations in states with the lowest rate of eligible participation rates. These areas are largely in the southern and western parts of the country (See Appendix D).

Stationing Food Stamp Program employees at other local social service offices is another way to publicize the program. This type of outreach can be used not only to inform people about the program who may not have had complete information about it, but also to inform people that they may be eligible for the program when they did not even realize it. The federal government offers states matching funds for these types of outreach activities, and nine states applied for these funds in 1999. It is imperative that each state reaches out particularly to families that left welfare, and inform them of their potential eligibility for food stamps (Zedlewski, 2001:26).

Placing FSP employees in other offices is one way to do this, as is a new method being used where social service workers check back with welfare leavers to see how they are doing. To ensure that new policies effectively increase program participation, families will also need to be informed about any changes made in the Food Stamp Program, such as in the recent 2002 Farm Bill. Statistics from the post-1996 welfare reform period and predictions for 2003 and 2004 (after the Farm Bill reforms were implemented) imply that participation rates rose after the Farm Bill reversed many of the 1996 changes, such as remedying program access and simplifying rules and eligibility requirements. It is impossible to know this for sure until the final data reports are released in the upcoming months, but this is a positive sign for the program.

To address one other issue—steadily declining participation rates in the past eight years among legal immigrants and citizen children living with non-citizen. The authorities have already taken a step in the right direction by reinstating food stamp eligibility for legal immigrants. Now, the authorities must publicize this so that legal immigrants seek aid. In order to help children of non-citizens, food stamps should be made available for their parents so food may be provided for the children. One issue that opponents have with this is that there is no guarantee that illegal immigrant parents will use their food stamps on their children. However, statistics show that in households where food insecurity with hunger is reported, children are the last group to report hunger. It is usually the parents or other adult members of the household who report hunger, since most adults put the needs of children before their own. Although, this is not true in %100 of cases, it is my opinion that the benefits of feeding hungry children outweigh the cost of wasting funds for the program on the small percentage of cases where parents use the food stamps for themselves and not their children.

Overall, these changes in the Food Stamp Program require little money when compared to the billions already allocated for the in general. These small costs are well worth the money if it means that fewer individuals will experience hunger.

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# **BUSINESS ETHICS AND A RESEARCH FOR ETHICS CULTURES OF THE COMPANIES TRADED ON THE ISTANBUL STOCK EXCHANGE MARKET**

**Ali Halici**

## **Abstract**

The aim of the study is to determine the ethics cultures of the companies in Istanbul Stock Exchange Market. Therefore, content analysis with quantitative methods were applied to official and written documents of 192 companies. Consequently, statements were determined for 36 different subjects. Among these, 'high quality production' is the most, 'supplier satisfaction' and 'union relations' are the least frequently mentioned subjects. Also 'human resources' is the most, 'environmental issues' are the least examined subjects within the business functions. Research results show that companies mainly have behavioral ethics cultures. Also, they intimately follow the modern approaches in marketing ethics.

## **Key words**

Ethics, business ethics, ethics code, ethics culture.

## **1. Introduction**

The theoreticians have specially discussed ethics for about 2500 years. During this period, many different approaches can be seen about what is good and right or what is bad and wrong.

Business ethics is, something, which includes the practicing of ethics in working world that we face with everyday. At the same time, in the last recent years it had become one of the subjects often discussed about in the world and in our country. It is such that the people, who are interested about it on England and America, become a sector and it's seen among the fastest developing sectors. Today you can face with such institutes and organizations, which are only working on business ethics. Business ethics is taught as a lesson in many universities and its rules are mentioned in companies.

There are 2 reasons for the increasing interest to business ethics. Firstly, working life is increasingly shaped by the science and technology and law systems lacking behind. The second one is, because of people's interior worlds coming to forward in the years of 2000. Because when knowledge increases, the problems become more subjective. For this reason, needs for improving special humans' or groups' moral awareness levels came forward. First step to provide this is to define the current situation now. For this reasons, it is practiced at the firms in ISE which are most affected from the Turkey's daily life conditions, where the capital is distributed to base and where Turkey's leading firms exist. The practice is in general towards companies' related areas and their scopes within the limitations of business ethics.

By this way, ethical cultures of the firms, which are working under ISE, are discovered. Although companies can create their own philosophy or criteria; these would be compared with other companies. Also consumers and investors would have more information about the subject.

## **2. Contemporary Definition of Ethics and Business Ethics**

In dictionary definition the ethics is interpreted as "the branch" (Ana Britannica, 1997:414) of the philosophy

analyzing the values behind the relationship between humans, the significance of good or bad, right or wrong out of morals.

In Webster's' 3<sup>rd</sup> new International dictionary, the ethics is explained as below (Websters' Third New International Dictionary, 1993:780):

1. It is the discipline, which considers what is good and bad, or right and wrong, or moral duties and responsibilities.
2. It is a set of moral values or principles.
  - The system of moral values or theories
  - It is the principles, which divert one's, or a jobs behavior or behavioral standards of it.
3. It's the ideal character presented by an individual or a group.

So ethics includes the philosophical approaches on moral principles that humans are expected to follow. These approaches state both the discipline explaining the reliability of the moral values and the causalities and the principles of behavior and the subjects of the same discipline covering physical values (Solomon, 1984:2).

Business ethics is a part of practical ethics. So, explanations about ethics in its practice in companies give us information about business ethics. Business ethics is used with the same meaning as business morals. As mentioned before, in the relation between ethics and moral, moral is calling human behavior subject. On the other hand, ethics puts forward the dimension of the moral theory. Therefore, the evaluation behavioral principles or their codes in the business field are explained in terms of ethics more professionally.

According to another approach business ethics is a behavior guide in the business world's moral principles and standards (Ferrell and Fraedrich, 1994:6). In the same way Win Hoffman and O.M.Moure says that business ethics is something, which works on what is good and right (Hoffman and Moore, 1990:1).

## **3. Business Ethics' Increasing Importance in Companies**

Every company that acts in the same environment has three common goals regardless of their own, private aims.



These are (Can, Tuncer and Ayhan, 1998:16); a- Gaining Profit b- Providing social benefit (utility) and c-continuity. Nowadays, although the aim for social benefit is discussed in a very broad sense, it is assumed in the general aims of the companies. In recent years, under the social utility framework, it doesn't only consist of consumption and utility arising from the production of goods and services serving to their demand, distributing them to the required places and pricing them according to the purchasing power so that consumers will be able to buy (Halıcı, 1997:1).

In the long run, this approach takes care of the consumers' and the societies' comfort in relation with the "social responsibilities" of the company. By doing so the company has to develop measures to protect the peoples' benefits as their general purposes (Halıcı, 1997:1). The survival for companies depends on realizing this understanding. Especially in modern societies, companies having high moral standards are something that what today companies are asking for (Schermerhorn, 1996:18). On the other side, the high level of moral standards needs to be questioned much more in the developing societies. The reasons behind the increasing importance and the development of the business ethics can be listed as (Lozano, 1996:227-236):

- The increasing national and international power of the companies
- Increase in the societies' pressure towards some activities
- Increase in the importance of management power within the firms
- The other groups becoming aware of their share over the company activities
- The increasing need of the organizations to re-regulate themselves. Of course, in today's dynamic business world, the moral values are not the only thing for the companies to be able to survive.

Above functions can be categorized in different ways in business literature. But, in many cases the general foundations of management function have the characteristics of covering all the other functions like production, marketing, finance or financing, staff or human resources and accounting. In addition to these functions, which are generally accepted, the importance of the subject of "protecting the environment" could also be taken into attention.

To be able to understand ethics subjects, it is important to analyze the interest groups and business functions that are brought up by these concepts (Ferrell and Fraedrich, 1994:35). The ethics subjects are evaluated according to the interest groups and their scopes in business functions. Therefore, the classical business functions take place as management, production, marketing, finance, human resources, accounting and protection of environment. The management function takes place at the end because of its characteristics of covering and controlling other functions.

## 4. The Aim, Methodology and Data

### 4.1. The Aim and Content of the Research

'Degeneration' or 'Putrefaction' words are used to express this situation and it has bad effects on social and economic lives. The legal regulations that are made by the rulers of the countries to create and protect peace in social and economic lives are not enough. Because, firstly there is no way to be able to explain every action by the laws. Secondly, the rapid developments in every field are always ahead of the laws and rules, and most of the time, precautions taken against these facts are insufficient (garildi.birnumara.com.tr, 1999).

Therefore the companies and their administrations didn't adequately explain the importance of ethics, which has been evaluated for 2500 years. The interest to the business ethics, which is an application area for the companies, has been limited. It has to be mentioned clearly that frequent use of the ethics term and their intention in this direction in statements of the managers do not possess an ethical result. The important thing is to reflect these statements to the action. But methods, which are used in analyzing the ethical sides of actions, do not always come up to the same conclusion.

When business ethics is taken into account from the ethics theories, reaching to a simple and global approach is almost impossible. By doing so, the objective evaluation of whether it is ethical or not in company activities or the actions of managers and workers is very hard. In addition to this, there is a business ethics system where every company creates its form of business ethics in the course of time (Soydemir, 1998:7). This system can only be evaluated by specific theory or theories. In these evaluations, the possibility of people's subjective approach and company or managers approach on cultural ethics should not be forgotten.

Because of the above reasons that are mentioned, in the researches on business ethics, firstly an ethnographic output is needed. So the research will include an ethnographic study. Moving from this point, the research is made on the official and written documents presented by the companies for the exterior environments and other companies in the context of ethics. In this field, the general researches are targeted to the contents about the ethical principles. A research made by Robert Chatov (Chatov, 1980:20-29) determined which statements are used for which fields, by applying the content analysis in ethics principles of the companies. In the same way D.Cressey and C.A.Moore (Cressey and Moore, 1983:53-57) had found the managerial values and business codes of ethics and their content according to the interest groups. C. Mathews (Mathews, 1987:107-130) made content analyses to Codes of Ethics and found out the relation between ethical contents and behavior. B. Stevens (Stevens, 1992:261-271) on the other hand, made content analyses on ethical codes of hotel managers and found out what explanations had been made in which field.

The main aim in this research is to understand the ethics culture of companies traded on the ISE. Next to these, the structural characteristics of the companies are correlated with the determination of the fields that the firms made

statements about with their interpretations. By doing so, the differences and similarities on the methodologies of the companies on explaining ethics would be seen, an order should be given according to the importance, discussions could be made about the reasons. To serve these aims, the following steps are applied:

To name the content and add meaning to the official and written documents of companies which carry ethical characteristics

- Classifying the contents which are named and add meaning by giving them a code
- Put the classified subject in an order of importance
- To analyze the relation between the contents and company's structural characteristics.

As it's mentioned in the above research, companies' written and official documents are taken into consideration. These characteristics will show the company's level in ethics subject so, it will be easier by the interior or exterior environments to question the subjects about which the companies have given statements. Doubtlessly it will contribute to one of the important features of 'trust' in developing countries in time of globalization.

#### 4.2. Information about Research Population

When the research was carried out on 14.01.1999; there were 278 firms in ISE. So the sampling in the research is composed of official and written documents of 278 companies (İMKB Dergisi, 1999) working under ISE.

To be able to gain reliability in the research, a total counting way was aimed to reach all the 278 companies. In other words it was aimed to reach all the official documents of all firms.

#### 4.3. Data Collection

16 companies were studied to find out what are these documents and how to reach them. Out of this the followings have been accepted as official documents in the context of ethics principles:

- a- Mission and vision explanations
- b- Business values
- c- Ethics principles
- d- The legal explanations made by the general manager or the chairman of the board of directors

Companies evaluate the mission and vision sentences as the most important thing in business ethics. Because these sentences, at first has the analysis for the workers' values and the differences in organizational behavior. Secondly, the relations are collected under naming the new value systems' symbol and carrying out the strategies. Lastly, it provides discussion of the organizational decisions among its suppliers and comparison of the decisions with high-level targets (Campbell and Yeung, 1991:145). Ethics also takes place among the 8 management initiatives in the 1997 business ethics research of KPMG (www.kpmg.ca/ethics, 1997).

As official explanations, activity reports are accepted. These reports include financial information and messages of general managers and they are legally enforced to be published. Because these activity reports come as the

companies' main document for which they publish and distribute for the exterior environments.

To be able to collect those documents, interview method with the companies is chosen. These interviews were made by phone because of the reason that the companies spread on a very large geographical area and money/time limitations. These interviews, which are done by the telephone, are done between 01.04.1999 and 15.07.1999. They are implemented to increase the ability to reach and to get more reliable information during the week and between the hours 10.00-12.00 and 14.00-16.00. In the telephone interviews, firstly the communication department is contacted by estimating that it has knowledge about the documents and they should know where the right address is for information. But if there isn't any, contacts were made with human resources or staff administrators. If it wasn't able to contact anybody responsible, contact was made with one of the persons from administration departments. The aim was to reach the right document in the shortest time period.

These people who are contacted by the phone according to their statues are: 108 heads of the communication, 48 heads of human resources, 8 vise managers, 5 accounting managers, 2 managers, 2 administrative coordinators, 2 managers of education, 1 distinct manager, 1 company manager, 1 manager of stocks and bonds and 20 unknown people.

For the managers whose names are given in the table, they were asked for their private explanations about themselves and then they were asked for having the documents named above and when they get a positive answer they were requested to send it to the provided address. Some of the companies accepted to send documents whereas some of them wanted a written application. The written applications are handled in by fax. Next, those companies, which couldn't be contacted by the phone, they were sent letters and faxes. Also 3 documents have been taken by hand from companies in Ankara. 18 of the companies said that the information could be found on their web page. An Internet survey was done for these companies.

As can be seen in Table 4, 298 phone calls were made. During the phone calls, apart from the central connections, 90 diverted calls were made, by different reasons. Also for the unreachable telephones, the unknown number service (118), was used 11 times. 104 of the companies, in which phone calls were made, requested a written application and 61 were sent fax. For 22 companies, which couldn't be reached by phone or fax, a letter was sent. For the companies, which have more than one company treded on the ISE, only their general centers were contacted.

Accordingly, the way of contacting and collecting data is shown in Table 5: with 78 of them only phone calls were made, in addition to phone calls fax was sent to the 104 of them, web page were analyzed for 18 of them and for 8 of them were sent letters. In addition to these for 31 companies, which could not be reached by the phone, they were sent fax and for the ones which could not be reached by fax, letters we sent to the 14 of them.

When the study was made on 1.08.1999, answers were received from 192 companies. The percentage of receiving answer is %69.01.

#### 4.4. Methodology in Evaluating The Data

As it is mentioned before, the activity reports for 1998 are asked from the companies in ISE, which included statements about vision, mission explanations, values, ethical principles and messages of high-level managers. Companies have replied by 79 activity reports, 32 philosophy documents and introductory booklets, which include vision, mission, values, the documents on quality. 25 companies were accepted as replied since the company groups, which they belong, have replied 18 companies were scanned through the web pages on the philosophical group documents. 86 companies have not replied when the evaluation of data began on 1.08.1999. 35 companies have replied by saying they have no written documents about the topic. The classification of the documents sent by the companies can be seen in Table 6. Content analysis is the method used for evaluation of the philosophical group documents and activity reports.

The content analysis includes analyzing questions such as from whom to whom, by what purpose and tool, by which condition and situation, what it is especially saying (or what it is not saying) related analysis description, therefore it analyzes the content analysis of content (Erdoğan, 1988:81).

Within this context, the aim of the research is to understand and give meaning to the areas related with business ethics. The content analysis method is used. In addition to the content analysis, since the explanations used under ethics the ethical statements will be coded evaluated, and comparison with structural characteristics will be applied. A quality testing method will also be applied.

The frequency distributions and percentage calculations are used in the evaluation of ethical statements. And correlation test is applied to see the relationship between the ethical statements and company's structural properties. Lastly, chi-square test is used to enrich the evaluations and to contribute to the research for analyzing specific relationships.

##### **The following steps were followed in order to determine and evaluate the companies' statements:**

- 1- Reading and evaluating for trust and classification of the files which are sent by the company and determined from web sources by 01.08.1999 which are ; a) vision, mission statements, b) business values, c) ethical principles, philosophical group documents, activity reports as activity report group document.
- 2- When coming across with a philosophy group documents in between activity reports we put 84 companies named under the philosophy group and 73 companies were evaluated by activity reports.
- 3- Out of 8 holding companies, which include other companies within their structure, 2 documents belong to activity report document and others to the philosophy group.
- 4- 35 of the companies as mentioned before said they don't have the written document.
- 5- So 157 companies documents were analyzed.
- 6- The companies, which had more than one business working under ISE, were evaluated according to the

explanations done by headquarters about vision, mission or business value.

7- The documents were read and analyzed according to the measurement that was mentioned in the first step.

8- The readings were evaluated sentence by sentence since the aim of the analysis was to find out the field of explanations and contents.

9- A specific ethics definition has been considered in order to provide equality in the ethical evaluation of the sentences and to remove individual values and approaches. The explanations are found in the Webster's 3rd New International Dictionary, which says that ethics, is the principles and behavior standards that divert the behaviors of individuals or companies.

10- The sentence is considered as ethical statement if it specifies a principle or behavior standard towards the company as a whole or its functions.

11- For each company (n=278), the sentences about ethics were given a page number and listed separately. The source of the sentence was also written down on the same page.

12- By doing so, on 278 pages, ethical explanations about companies come out as a document.

13- A table was made according to the general companies and to its separate functions.

14- The pages, which are prepared for each company, were taken and the sentences explaining the general management function, the sentences about functions were written under their own functions. During the analyze the sentences were re-checked.

15- Company, the ranking number of the company and the ethics statement were written completely.

16- The lengths of the sentences vary between 2 and 30 words (ex. environment friendly).

17- So, in same sentences different business functions were found. These were taken as whole sentences and they were analyzed separately.

18- The companies, which are under the same group and have common statements, were put into the same table.

19- On the managerial table, the sentences were divided into two as "general organizational principles" and "public approach".

20- By doing so, 7 tables were prepared for the sentences within the context of ethics.

21- Tables were checked.

22- Under this frame, 39 sentences about finance, 40 about environment, 71 about production, 105 about marketing, 107 about human resources and 162 sentences were found under administration in which 72 were found about general organizational principles and 90 in public approach.

23- The sentences, which are classified according to their functions, were coded according to the messages.

24- The classification of coding was done together with 2 researchers.

25- The classification was checked and controlled.

26- According to the classification, 3 on production, 4 on marketing, 3 on finance, 9 on human resources, 3 on environment, 7 on organizational principles and 7 on the explanations to the public, 36 different fields as a total were seen.

27- Lastly, the data were typed in SPSS according to whether the companies have statements toward these

classifications and according to their demographically characteristics.

28- For the data under SPSS, frequency and percentage distributions, chi-square and correlation tests were applied.

## **5. The Findings of the Research**

The findings of the research are divided into 3 main groups according to the aim of research. On the 1<sup>st</sup> part, according to the aim of research demographically characteristics of the companies traded on the ISE were studied. On the 2<sup>nd</sup> part, the fields were found that they had statements about ethics. On the 3<sup>rd</sup> part, the relationship between the companies' demographic characteristics and ethical statements were analyzed.

### **5.1. The Findings Related with Demographically Characteristics**

The followings had been examined during the research for 278 companies in ISE; their establishment dates, number of staff, their market value in the US\$, if for having ISO 9001-9002 certificates and the place of industrial firms in the first 500-industrial companies in Turkey.

Establishment dates of the companies vary between 1924-1996. Distribution is implemented in the same way to avoid any missing data. But to be able make a distinction for the ones built before the establishment of ISE, the distinction in table 7 is made to put forward their differences from their ethical statements.

According to this, 201 companies were operating before 1985, 47 of them started to operate and make transactions under ISE after 1985. No information was found about the establishment dates of 30 firms. The number of staff of the firms has been examined to determine their size. The staff number changes from 4 to 6587. To make it easier to understand, blocking scale are used which were used by SPO. The aim is to understand the differences in understanding ethics when number of staff changes. As the number of staff increases, especially the ethical statements of human resources are expected to increase. As can be seen in table 8, 12 companies are in between 1-24, 11 has 25-49, 12 has 50-99, 37 has 100-199, 59 has 200-499, 33 has 500-999 and 41 has over 1000. Also the staff number of 73 firms is not known.

The dollar-based market values of the firms were evaluated for the ones who work under ISE (Gedik Yatırım Borsa Bilgileri, 1999:19-276) The market value of the firms differ from 380.000\$ and 5.423.570.000\$. The blocking system was used again. The evaluation was done with the real values in order not to miss any data.

As it is seen in table 9, total number of firms having market values between 1.000-10.000.000\$ is 63, 139 has 10.000.000-100.000.000\$, 45 has 100.000.001-1.000.000.000.000, 11 over 1.000.000.000.001\$.

The firms were checked for having ISO 9001 or ISO 9002 certificates. As it's explained below, the written documents about quality control were needed. These documents put down the firm's every stage of work. So the firms, which have these documents, are expected to have more ethical explanations than the others. In other

words, the firms having ISO certificates are accepted as being aware of ethics.

As it's known, ISO is short writing of 'International Organization for Standardization'. These quality control standards, ISO 9000, are accepted worldwide (Başlıklarla ISO 9000 Kalite Güvence Sistemi, 1998:12). These standards define the minimum requirements that are necessary to have an internationally accepted quality management system

ISO 9001; quality assurance model about quality systems-design/develop, production plant and service  
ISO 9002; quality assurance model about the quality control of production, plant and service. As it is seen in figure 2, these standards include each other.

According to these, out of 278 companies, 33 companies had ISO 9001 certificates, 51 companies had ISO 9002 certificates. There are 26 companies that had both. So a total of 58 have ISO certificates. But 196 of the companies have no ISO certificate at all.

### **5.2. Companies' Statements in the Context of Ethics**

The official and written documents of the firms in ISE about ethics are considered under the framework of five business functions mentioned before. These were: management, production, marketing, finance, human resources and environment. Accounting function is not included since independent people who are specialized on this subject check them.

The distribution of ethical statements associated with philosophical group documents and activity reports are given in table 12 according to the 7 fields considered. The frequency of the firms in the financial function of philosophy group is 49, 5 in activity report, 54 as a total, in the production function of philosophy group it is 49, 29 in activity report having as a total 78, in the marketing function of philosophy it is 62, 25 in activity, as a total 87, 66 in human resources of philosophy group, 30 being on activity report as a total 99, in environment function of philosophy group 30, 10 on activity report as a total 40, 54 in managerial function of philosophy group, 17 activity report as a total of 71 and for the managerial function for philosophy group 60, 26 in activity report, and 86 as a total.

#### **5.2.1. Findings about Production Function**

The ethical statements of the firms in ISE are evaluated in 3 categories:

1. Quality in production
2. No-loss and zero mistake production
3. Product Safety or reliable products

In the classification made as it is shown in table 13, 73 (%38.0) in high quality production, 15 (%7.8) in no-loss production, and 14 (%7.3) in trust for the product have been observed. It was seen that 114 companies (%59.4) didn't make any statements.

#### **5.2.2. Findings Related with Marketing Function**

The findings about the marketing function are divided into 4:

Customer satisfaction,

Service after sale and distribution,  
Communication  
Consciousness of Consumer.

According to the classification made according to the fields where those companies made explanations, 66 (%34.4) companies had statements for customer satisfaction, 24 (%12.5) companies on communication with consumer, 16 (%8.3) companies on consciousness of consumers, and 13 (%6.8) companies on service after sale. 70 of those companies, which sent documents for the research, did not include anything about marketing.

### 5.2.3. Findings Related with Finance Function

The companies traded on the ISE, are classified in 3 categories on ethical statements in the context of finance function. These are:

- Being honest and fair to shareholders
- Providing profit to the shareholders
- Low cost/ efficient production

According to the classification, 50(26%) on providing profit to the shareholders, 8(4.2%) on being honest and fair and 12(6.3%) of the companies on efficient and low cost. The distribution can be seen in table 24.

### 5.2.4. Findings on Human Resources Function

Companies traded on the ISE have explanations on this subject under 9 titles:

1. Giving importance to the workers
2. Creating happy and healthy environment
3. Education of workers
4. Satisfaction of workers
5. Communication with the workers
6. Career opportunities of workers
7. Financial opportunities for workers
8. Cooperation between workers
9. Union relations

The dimensions of human resources come forward in detail and are one of the most frequently mentioned subjects by many companies. As it is seen in table 28, majority of the companies give importance to work executors 60, creation of happy and healthy environment 52, education of the work executors 44, satisfaction of the needs for the work executors 36, communication with workers 28, career opportunities 17, the workers' financial opportunity 13, cooperations between work executors 12, and 11 from related with unions.

### 5.2.5. Findings about Environmental Protection

The firms in ISE have 3 ethical approaches on the subject. Even though the heading of environment and nature protection covers other approaches, it argues the requirement of the subjects which needs to be taken by the firms. These are;

- The protection of environment and the nature
- Recycle
- Improving consciousness about the environment

When the statements are analyzed, as can be seen in table 38, there are 39 firms (%20.3) supporting "protecting

environment/nature", 4 (%2.1) on recycle, and 4 (%2.1) on "improving consciousness about the environment". Recycling subject is generally related with industry sector so 143 industrial firms have been selected in the evaluation.

### 5.2.6. Findings on General Cooperation Principles

As mentioned before, the statements found in management function table are divided into two titles of which are "general organizational principles" and "public approaches". The general organizational principles have 7 statements:

1. Having moral values
2. Transparency
3. Honesty
4. Respect for human
5. Trustworthiness
6. Prestige
7. Strength in principles

These statements made by the firms can be seen in table 40. According to the table, 35 firms (%18.2) have been found on the first, 28 (%14.6) on the second, 22 (%11.5) on the third, 21 (%10.9) on the forth, and others.

### 5.2.7. Findings Related with Public Approach

The statement on "public approach" shows the responsibilities of the companies, which work under ISE to the public. These statements are evaluated under ethics and divided into 6 parts. These are:

- 1- Contribution to the society
- 2- Social and cultural facilities
- 3- Obeying laws
- 4- Bringing power to the economy
- 5- Patriotism
- 6- Obeying traditions
- 7- Having good relations with the state

Also in companies, by taking into account the sectoral and geographical distribution of companies traded on the ISE, relations with suppliers are related to ethical statements

Among the subjects mentioned 68 (%35.4) on "Contribution to the society", 49 (%25.5) in "social and cultural facilities", 38 (%19.8) in "obeying the laws", 36 (%18.8) on "bringing power to the economy", 29 (%15.1) on "patriotism", 23 (%12.0) in "obeying the traditions", 7 (%3.6) in "relations with the state" and 12 in "satisfying the suppliers" subject was written in official documents. In table 47, the distribution according to the fields can be seen.

## Results and Recommendations

Once having alternative behavior opportunities and chance to select among these alternatives, people will be able to consider events right or wrong, and good or bad. But there is no simple and global rule about what is right or wrong and good or bad. The same actions or events have different evaluations or approaches on them.

On the other hand, there is a need for an order, which prepares business world life. The legal laws on the subject are weak, especially in our country. To solve this,

there is a need for the concept of “ethics” and “business ethics” in companies especially when there are no sufficient laws. The importance of what it is ethics or business ethics is that it means “something”. That something’s meaning is: “moral”.

But companies and their managers always face with difficulties in understanding what is right or wrong in trade relations apart from the legal documents. Therefore the manager has to make the best combination of trade and ethical decisions.

Some principles or rules need to be followed by managers and workers to save the company from subjectivity in their ethical expressions. In general meaning these are ethical codes. Ethical codes, first of all, are important for putting down the aim of the companies. Because, not only the action but also the aim must be in the same way for ethical behavior. To be able to evaluate; the ethical codes have to be written down. Therefore, interest groups can evaluate companies easier. In addition the existence of ethical codes will decrease the level of uncertainty so it will be more trustable.

The main subject in creating ethical codes is the ethical problems faced by companies. Ethical problems have to be put forward according to the business functions not only among upper level managers but also among middle and lower level of managers.

One of the important issues in putting forward the written ethical codes is ethical problem that are experienced by companies. There are some advantages of analyzing ethical codes according to business functions. One of them is the work division or specialization among upper, middle and lower levels of management in ethical responsibility. Another one is to make controlling period work well by specifying the responsibilities of lower levels of management in system approach.

The firm should improve its ethical measures in specifying ethical codes. To do that, the firm should determine real principles or rules by testing and defining them for a long time. More healthy way is to analyze and use the same actions that have been used before. The aim is to avoid surprising the interest groups and themselves by putting forward the whole principles and rules. The next step is to know who will be affected from the actions and how they will be balanced by the companies. Knowing from the beginning who will be affected from what will help choosing the ethical codes. It should not be forgotten that ethical codes are not made of a group of virtuous statements put under each other.

The research has been planned according to the ethical codes that have been mentioned before. The previous researches showed that only the firms, which have foreign roots, had written statements on ethical codes. Therefore the research has been expanded to search on vision, mission, and values under ethical philosophies of the companies. As a research field, the firms in ISE have been selected which are on agenda of the nation by any kind of activity and are effective on creating equilibrium in the market.

It is possible to generate the followings in order to be able to analyze mission, vision, values and ethical principles which has arisen from the study:

**Mission (Reason to evolve):** To be a corporation in its field which creates a value for the customers, personnel,

partners, suppliers and nation with the help of all workers and personnel.

**Vision (Target to be achieved):** To be a world leader in its field.

**Values (way of performing work):** Concentration on customers and quality, appreciating human resources, being proactive and creative, being open to changes and learning, being efficient and profitable, being honest and true to state, customers, shareholders, workers, public, etc., being in good relations with others, obeying laws, traditions and principles of business ethics, being open and trustable, being careful on business peace, protecting the nature and balance within the firm in all of the activities, behaving equal for all the personnel, contributing to social, cultural, sportive and art activities, always being faithful to these values.

#### **Ethical Principles**

**Production:** Aiming high quality product or service, trying to reach better quality in production and producing trustable products, no-loss and non-mistake production, producing hygienic products for health, and creating hygienic conditions in production.

**Marketing:** To avoid from incorrect, exaggerated, deceived or pressured activities, to avoid manipulation in product, to avoid to put pressure on distribution channel, to create a wide distribution system, to follow a stable and honest pricing policy, to remove all the risk associated with the use of goods and services, to make customers know all the factors affecting their buying decision, to avoid incorrect presentation of marketing researches, to create values for customers by innovative and creative approaches, to give importance for after sale service, to minimize customer complains, to solve complains in a shortest period, to meet consumer wishes completely, creating a wide service network; giving importance to the protection and consciousness of consumer; satisfying customers without any stipulation.

**Financing:** Meeting the expectations of shareholders, taking precautions for this; being honest and equal to shareholders; realizing and distributing profits required for the shareholders; finding low cost credits and inputs.

**Human resources:** Establishing human resource systems so to unite cooperation targets with worker targets; providing such an organizational structure that participation and creativity will be attracted, it will be dynamic, it will be dynamic, facilitate communication, participation; to support the personal and professional development of workers by personal development plans, to identify business values together with workers’ profiles; providing equal opportunities for workers in those subjects; to guide them; to create the environments which would make them fuse with themselves and with their families; to organize social activities; to give priority to workers’ health and safety; to promote development everytime by reflecting new technologies and ideas of workers into applications; to motivate all the workers by specific methods: to create the best physical working environment.

**Environment:** To obey the rules, to follow new technological developments and to improve environmental elements overtime; to protect global sources by planned activities, to apply effective return techniques and to minimize the waste in its sources; to

keep the effects of products and production activities on environment under control, to release new investments and projects as sensitive to the environment; to contribute to the consciousness of workers, their families and public about the environment.

**Organizational Principles:** To have ethical or moral values, transparency, brightness, honesty, to keep promises, respect to human, trustworthiness, esteem, to be perfect, social responsibility, strength in principles, equality, satisfaction in work.

**Public Approaches:** To be open, honest and trusty in the relationships with the public and legal institutions in every field of activities; to support such activities which play an important role in improving the life standard as education, culture, art, science, sport and health, and to contribute to the consciousness of the public; to share information and experience about perfect work with different parts of nation; to cooperate with voluntary institutions, to contribute them; to take continuity and continual improvement in relationships with the nation; to be in good relations with the suppliers.

The above statements that have been mentioned in general to guide the companies can be improved and adopted accordingly by the companies. But as mentioned earlier, the own characteristics of the companies will be the most important factor on determination of ethical scopes.

In this scope, when the consideration of ethical statements of the companies included in the study according to their business functions is made, it will be seen that the most worked out subject is human resources, and the least one is protection of environment. This is in reality parallel with the results made in academic studies in Turkey. Behlül Üsdiken (Üsdiken, 1999) who puts forward the mentioned research; proves that behavioral thoughts gain more importance and are given priority out of management statements in Turkey. As a result of this study, the same type has been investigated in the written documents of company owners or managers. So there have been similarities between the written statements of the companies out of behavioral approaches according to the results from academic studies. Benefiting from academic results and behaving accordingly has been effective on this similarity rather than putting forward their own characteristics in formation of their philosophies. This shows that the companies in Turkey couldn't constitute their own values or principles yet.

There are 36 main subject titles mostly talking about high quality production. The most considered one among these is high quality production. The least talked one is relation with the suppliers and unions.

"Concentration on customer" strategies, which came out in recent years, say that satisfying the needs of the customers is the most important factor to continue the life of companies. High quality production without a question is important everywhere when its benefits are examined; it is the most beneficial field for interest groups. Under

this, consumers will have the opportunity to buy what they want. Satisfaction of the needs of consumers will make them continuous for the companies. The result will make the work executors happy, when there is a production and work. The companies will benefit too. This will affect everyone in the firm like a chain somehow from customers to shareholders and lastly to the environment. So when the subject of quality in production is examined on their benefit provision way, it is evaluated totally under ethical concepts.

Among one of the most forgotten subjects comes the relations with suppliers. The companies that are traded on ISE do not care about the subject. The main reason is that the companies give importance to the satisfaction of the customers and that they expect that importance provided by their suppliers towards them since they assume themselves as customers of suppliers. This behavior may seem right but also might be defined as non-ethical behavior if it is used as a means for authority of capital power in trade relations. So the firms have to protect the rights of the suppliers too. Another subject, which is not mentioned, is the relation with the unions. The reason should be evaluated not only out of companies or managers views but also out of some interest groups that have little or no positive thoughts about the structure and function of unions. The glance on the subject is because of the events happened before 1980 in Turkey and the positions of the related institutions. It is known that the same view about the unions will continue unless their image on the nation changes.

The classifications arisen from the research specifies the ethical cultures of the firms in ISE. The 36 listed classifications made in the research show their general fields mentioned by themselves.

Those firms will be able to compare themselves with others and understand their weaknesses and strengths at the end of this study. These will help them create, develop or improve their ethical principles.

When the subject is considered out of academicians, 36 subjects specified in the research will guide them in their academic studies. So this study will also contribute to the determination of the scopes of those studies and putting forward the fields according to their importance. As known before, the classifications have been made according to the functions of human resources, finance, marketing and etc.

As a future study, it is worth of studying the consistency of the mission and vision statements of the firms, and their business values or ethical concepts derived from ethical principles with their company activities. Because, the activities should be in the same direction with purposes as it is expected. These studies will create pressure on the firms at the same time that will help those firms to behave more sensitive.

But the last aim naturally is to make many people present the ethical behaviors frequently that some people show frequently and many people show rarely.

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# BENCHMARKING FOR ASSESSING PERFORMANCE OF LOCAL AUTHORITIES

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## Abstract

The development of democratic and effective government at national levels remains one of the central tasks of transition in Central and Eastern Europe and the former Soviet Union. The sharing of expertise between countries can contribute significantly to the reform process in the region. Pursuing this goal, the Local Government and Public Service Reform Initiative has launched a series of discussion papers, which are distributed widely throughout Central and Eastern Europe. One important instrument of local government reforms has been benchmarking. Compared to the realm of national public administration, benchmarking at the local level is methodologically relatively easy and not as politically contentious. Local services are usually benchmarked against some generic excellence model or compared to the service provision of similar local authorities. However, most of the benchmarking criteria, models and methods which are currently available and which are being used to assess local service delivery no longer suit the needs of localities. Good local management implies high performance not only in managing local services so that they satisfy customers and taxpayers but also in enabling local communities to solve their own problems and to create better futures for their stakeholders. The article suggests that local government reforms need to go beyond the improvement of local service delivery.

## Keywords

Benchmarking model, benchmarking criteria

## Introduction

Through a process called benchmarking, local authority wants to improve its performance may do so by adapting and implementing key practices that make other local authorities outstanding. Borrowing from the terminology of surveyors, those who use this technique assess their own operations or condition in relation to a carefully defined benchmark usually, the condition or achievement level of an outstanding counterpart or, in some cases, a recognized standard and proceed to find ways to elevate their own organization's performance toward that benchmark. Benchmarking has been defined in simplest terms as "learning from the process." Benchmarkers decide which of their own processes hold the keys to future success, identify "best in-class" performers of those crucial operations, examine the practices of best-in-class performers, note differences that distinguish those practices from their own operations, and adapt key practices for their own use in an effort to close the performance gap. Projects often focus on quality, cost, and/or speed of operation. The impressive results achieved through this process have made benchmarking an important element in many applications of total quality management. The objectives of benchmarking learning from top performers and adopting "best practices" are consistent with the drive for continuous improvement common among many leading public and private sector organizations.

## 1. Definitions of benchmarking

Often, benchmarking is understood as a process of simply comparing numerical performance levels across different organisations. However, if benchmarking is understood as a tool for improvement, it is more than just comparing and ranking. It goes beyond the establishment of benchmarks, standards and norms, and investigates the practices that support the benchmarks. The philosophy

of benchmarking is very well expressed through the following statement:

Benchmarking is the practice of being humble enough to admit that someone else is better at something, and being wise enough to learn how to match and even surpass them at it'.

Benchmarking is about finding out why there are differences in performance and about learning from others' best practice. The concept of benchmarking was pioneered by the Xerox Corporation to meet the Japanese competitive challenge of the 1970s. There is an array of definitions of benchmarking. Nearly all emphasise the importance of learning from others through a systematic method of identifying best practices for a particular process or activity.

Almost any process or activity of an organisation is a candidate for benchmarking, such as :

- work processes;
- products and services;
- support functions;
- organisational performance;
- strategies.

Often, the terms benchmarking and performance assessment are used interchangeably, even though they are not exactly the same. Performance measurement for assessment could be defined as the initial work done to specify and gather data on the criteria that account for the performance of a programme or service. Knowing the factors that are important in effectively performing a particular service or function is the foundation of benchmarking practice.

It could be said that benchmarking per se is the next step, which is taken to discover what those identified as having best practices are doing that you are not doing. It also has to be noted that there is often a confusion made between a benchmark and the actual process of benchmarking. A benchmark is simply a standard of performance. The standard may be established by the organisation as a goal or expected level of performance or for various other reasons. Benchmarks may also be established by looking

outside the organisation. However, setting benchmarks does not necessarily have to imply a benchmarking process, since benchmarks can be used for other management tools, such as quality management or environmental management.

An important element of the definition of benchmarking is best practice. Best practice, in the more traditional uses of benchmarking, is defined by Robert Camp as 'those practices that please the customer most'. Thus it is argued that the goals of a benchmarking study should be based on customer needs, whether the customers are internal (departments within an organisation, higher management levels, employees) or external (consumers, citizens, regulators, legislators, local and national environmental groups, investors). Conducting a benchmarking study is immaterial if it is not designed to meet a specific customer requirement.

## 2. Types of benchmarking for local authorities

There are a wide variety of types of Benchmarking identified in the literature, however, for the purposes of this discussion the following types are suggested (Local Government Resource Handbook, 2002):

- **Internal Benchmarking** compares performance and practices within your organization between different departments. This is the least expensive and time consuming for a local authority as it involves data and information available within the local authority organization. One advantage of this type of benchmarking is the ease with which you can access the data therefore requiring fewer resources. The disadvantage of this type of benchmarking is that the possibility of learning new methods is limited. Viewing how customer service is provided in the various functional areas of the local authority, including over the counter service, telephone service, electronic service to the public, private industry, other government agencies and the other departments of the local authority is an example of Internal Benchmarking.

- **Process Benchmarking** compares the process or how things are done to achieve an end product. It seeks the best practice for conducting a particular business process, which is considered to be the best in the field. Once the best practice is identified and understood it may then be adapted and improved for application in another organization.

- **Performance Benchmarking** compares the performance or how well the process is done. Generally, performance benchmarking compares a number of indicators. These could measure the performance of just one process, but usually this type of benchmarking covers a wider range of the organization's processes.

- **Sector Benchmarking** involves making comparisons with organizations in the same industry. This form of benchmarking is particularly relevant for local authorities as it allows local governments to network to determine what is working well in other localities and adopt best practices for their own units.

- **Generic Benchmarking**, or „best in class“ benchmarking compares practices that are independent of the industry. This type of benchmarking has been identified as the one which can result in a paradigm shift

leading to innovation and creativity in the function or process. A good example of this would be the application of bar-coding, which use ranges from product identification to tracking shipments of material or billing.

- **Strategic Benchmarking**, which looks at the organization, identifies the long term strategies, and the needs served. Finally, strategic benchmarking identifies the resources and the skills required to fulfill those needs. This may involve consideration of core competencies, and skills development. This type of benchmarking can be most relevant combined with a review of the mission and mandate of an organization.

- **Informal Benchmarking** is the practice of comparing our performance with the performance of other organizations similar to our own. This type of benchmarking has been carried on through attending workshops, conferences and other activities where there is an opportunity to compare one organization with others of a similar nature. This can be useful but will not be effective for developing strategies for improvement.

## 3. Benefit of benchmarking

Benchmarking can have a strong positive effect on the maturity of local authorities. The benefits of benchmarking include a stronger consensus on the community's research goals, greater collaboration between laboratories, more rigorous examination of research results, and faster technical progress.

Others have also observed the benefits of benchmarking. Walter Tichy wrote, "...benchmarks cause an area to blossom suddenly because they make it easy to identify promising approaches and to discard poor ones" (Walter F. Tichy, 1998). In his Turing Award acceptance speech, Raj Reddy wrote about the success of benchmarks in speech recognition, "Using common databases, competing models are evaluated within operational systems. The successful ideas then seem to appear magically in other systems within a few months, leading to a validation or refutation of specific mechanisms for modelling speech" (Raj Reddy, 1998). Creating a benchmark requires a community to examine its understanding of the field, to come to an agreement on what are the key problems, and to capture this knowledge in an evaluation. Using the benchmark results in a more rigorous examination of research contributions, and an overall improvement in the tools and techniques being developed. Throughout the benchmarking process, there is greater communication and collaboration among different researchers, leading to a stronger consensus on the community's research goals.

## 4. Benchmarking process

What can a local authority hope to accomplish by establishing a benchmarking process? Benchmarking enables a local authority to define what it could accomplish, set goals, and develop a realistic plan for achieving those goals.

- **Connect goals to results:** Benchmarking can enable a community to develop measurable outcome indicators relating to each specific local authority municipal department or function, and identify the

section responsible for each goal. The process helps develop clearly defined long term goals for each section, and provides a mechanism for attaining those goals.

• **Build an inventory of local authority data:**

Information is key to improving performance. Benchmarking enables an organization to gather relevant data, identify areas where data is currently unavailable or incomplete, and develop procedures for acquiring the desired data.

• **Use the data to achieve goals:** Making use of the data collected in the process of benchmarking enables local authorities governments to assess the progress they are making towards accomplishing tasks, and achieving their goals. For private and public sector organizations benchmarking focuses on how to improve any given business process by exploiting a “best practice” rather than merely measuring the best performance. It is this exploitation of best practices that result in the best performance. Studying best practices provides the greatest opportunity for gaining a strategic, operational and financial advantage. It is an example of a continuous improvement tool that can:

- Provide meaningful performance information;
- Improve strategic planning and provide an assessment of the organization’s strengths and weaknesses;
- Establish challenging performance goals and stimulate better financial management;
- Foster implementation of best practices and lead to increased efficiency in the use of resources; and
- It promotes the emergence and evolution of a “learning culture” throughout the organization, a key to continuous improvement, total quality and competitiveness over the long term.

Benchmarking is linked very closely to strategic planning, as it provides the long-term focus of the organization to become the best in their class. It also provides the action plans for implementing the results of the study to achieve the strategic goals.

There is an extensive body of research and literature on benchmarking, while the literature is varied, and at times specific to a particular situation, there are elements that are applicable to most situations. Rather than recreating an extensive review on benchmarking, the purpose of this guide is to present an overview on benchmarking, its benefits, procedures, methodologies and direction for further study. Benchmarking requires significant resources in terms of time, money and staff. It is not easy and can be daunting for those who have never been involved in such an exercise. The key is to convince potential participants that the benefits gained from benchmarking will repay the effort/expenditure put into the process. The more one puts into benchmarking, the more he will get out of it. In addition, there is a clear management imperative for benchmarking: the user needs to know what is happening in your activity or business, otherwise he cannot expect to manage it as well as others.

*These are being considered as the key benefits for the use (Francois Burhin, Krassimira Paskaleva -Shapira and Silvia Santamaria, 2003):*

• Benchmarking will require you to start asking questions about how and why you do the things you do and to think of ways to do tasks better, whether it involves policy-making, strategic planning, administration, maintenance, operational processes or any other task.

- Benchmarking is practical and efficient:
- Benchmarking offers a valuable opportunity to gain insights into the practices of others, giving you an accurate and objective understanding of your own performance in relation to others. At the same time it encourages openmindedness to new ideas and ways of doing things.
- Benchmarking can help you to set targets and standards
- Benchmarking increases the involvement and commitment of stakeholders.

• Benchmarking enables you to build networks and partnerships, which often result in productive working relationships in the future.

• Benchmarking enables you to learn about the good practices of others, but also to promote or ‘market’ the successes of your own organisation, city, region etc.

## Conclusions

Benchmarking is an effective business tool that local authorities can use to achieve improvements in services, reduce costs, and improve efficiency. Certain factors will determine if your benchmarking efforts are successful. Management must of course be absolutely clear on what it is you want to achieve before you begin the process. Achieving improvements may involve changing the way you currently carry out service delivery, administration, management processes or even changing your fundamental organizational culture. Such changes are not always easy to accomplish and will require a concerted effort and cooperative attitude at all levels in the organization. Sufficient funding needs to be allocated in order to carry out the required studies and implementation of the resulting recommendations.

Everyone in the organization needs to be realistic about what can be accomplished by the benchmarking process. This is a powerful tool for improvement, but it is not a magic wand and there are a number of obstacles that can derail the process. Try to avoid concentrating so much on the collection of data that you lose sight of the overall objectives.

Perhaps one of the most important things to emphasize is maintaining clear and ongoing communications between management and staff throughout the benchmarking process.

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Margarita Išoraitė

## **LYGINIMO SU ETALONU MODELIO TAIKYMAS VERTINANT VIETOS SAVIVALDOS INSTITUCIJŲ VEIKLĄ**

### **Anotacija**

Straipsnyje nagrinėjamas lyginimo su etalonu modelio taikymo galimybės vertinant vietos savivaldos institucijų veiklą. Paskutiniiais dešimtmečiais svarbiausia iniciatyva pasaulyje tapo reformuoti ir modernizuoti vietos savivaldos institucijas. Nors yra specifinis nacionalinis vietos savivaldos institucijų reformos modelis, tačiau taip pat yra stiprios tarptautinės tendencijos vietos savivaldos paslaugų teikimo tobulinime – abiejų - veiklos standartų ir paslaugų planavimo ir įgyvendinimo tobulinimo mechanizmo. Viena svarbiausių priemonių vietos savivaldos institucijų reformoje yra lyginimo su etalonu modelio taikymas. Lyginant su nacionaliniu viešuoju administravimu, lyginimas su etalonu vietiniame lygmenyje yra metodologiškai santykinai lengvas ir nėra politiškai ginčytinas. Vietos savivaldos institucijų teikiamos paslaugos yra paprastai lyginamos su tam tikru bendrojo tobulumo modeliu arba palyginamos su paslaugomis panašių vietos savivaldos institucijų. Geras vietos savivaldos valdymas reiškia kokybišką veiklą net tik valdant viešąsias paslaugas taip, kad jos tenkintų vartotojų poreikius, bet ir įgalina vietos savivaldos administraciją išspręsti savo nuosavas problemas ir sukurti geresnę ateitį. Šiame straipsnyje siūloma, jog vietos savivaldos reformos turi vykti kartu su vietos savivaldos paslaugų teikimo tobulinimu. Šiam tikslui pasiekti yra nustatomi lyginimo su etalonu modelio kriterijai.

### **About the author**

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# THE “RESULT” SYSTEM: NEW EDUCATIONAL TECHNOLOGIES FIRM IDEOLOGISTS TRAINING



Alla Yushina

“Can you imagine that new technology of superbusinessmen moulding have been invented not in Seattle, not in Moscow but in unknown town of Lutsk”.

Academision Yu. Nosov, “Ekho planiety” magazine,  
№ 10 (621) of March 3-9, 2000.

## Abstract

The “Result” system (Certificate № 9454, issued by the state department of intellectual property and science of Ukraine on the 23<sup>rd</sup> February, 2004) is developed for accelerated intellectual training of social, political and business leaders and their team-members. The course is based on the following technologies:

- Intellectual technology of accelerated development of the management power of apprehension up to the required level.
- Social technology of firm reorganization into “Result” organizational system of maximum effectiveness.
- Political technology of accelerated development of political leaders and their team-members.

A combination of these technologies enables participants to constantly expose an extremely high power of apprehension to solve key organizational problems.

**Our goal** is to find business partners all over the world for the best realization of our product or to sell know-how.

## Keywords

Intellectual technology, social technology, ultra education, integrated education, the “Result” Packet of universal intellectual Back-up, the “Result” system of organization, or project, procedural mechanisms, firm ideologist, speeding thinking up, integrity-binary method, multiple block logic, philosophy of unity, platform of notions, a unite of culture and harmony, connection of personal and collective thinking; sense of knowledge, etc.

## Introduction

The “Result” system is a perfectly integrated system of knowledge, methods and procedural mechanisms, destined for personal and firm development.

Synthesis of the newest fundamental knowledge of the West and philosophical thinking of the East enabled us to work out a whole system of mutually complementary and linguistically, logically and mathematically correlated knowledge.

### The “Result” Packet of intellectual back-up consists of:

1. A Platform of key social and economic notions of “Maximum mutual understanding”.
2. A Philosophy of “Maximum Unity”.
3. A Methodology of “Maximum integrity”.
4. A Doctrinology of “Maximum guarantees”.
5. An Ideology of “Maximum intensive development”.
6. A strategy of “Maximum rationality”.
7. A policy of “Maximum consent”.
8. A tactics of “Maximum tactfulness”.
9. A practice of activation of a new organizational system of relations.
10. A universal mechanism of effective management.

At the base of the Packet is formed a multiple **course** of intensive intellectual development of the Administrative Executives’ Capacity for Organizational Activities, which has been recurrently approbated at a number of

educational institutions and companies in Russia, Ukraine and Europe.

Accumulated knowledge base is aimed at training highly skilled specialists – ideologists of a firm or a political party, able to operative work out a firm or party or personal ideology, strategy, policy and tactics and to activate a new highly effective system of relations - “The Result organizational system”.

The “Result” system of knowledge and organization highly motivates and activates human resources, accumulates collective sense of knowledge, creates conditions for non-conflict activity.

To accelerate acquiring of this system is possible due to two mutually complementary training technologies:

- intellectual technology of personal development;
- social technology of collective or firm development.

Matrix composed of key social notions is taken as a basis of the first technology.

Matrix composed of new tactical highly-effective procedures for solution of key organizational problems and effective development is taken as a basis of the second technology.

Both matrices are the base of the third technology – political technology.

These technologies found the basis of qualitatively **new education – ultra education**. That is whole-systemic education – integrated education.

Traditional educational systems fill a man with different knowledge. Its motto is generally known: "Knowledge is power". Ultra education kindles an aspiration for development of his personal abilities. Its motto is: "Thought is omnipotent".

The product of traditional education is an erudite man. The product of ultra education is a wise man. If an erudite man always find a way out of any intricate situation, a wise man wouldn't get into it. But there are no contradictions between traditional education and ultra education. They supplement one another. The latter is based on the former and develops it. They are the two sides of one coin, two consecutive stages of one developing process. At first knowledge are accumulated and analyzed, then their purposeful synthesis takes place. Erudite man possess well-developed analytical faculty and a wise man, in addition to it, possesses a faculty of purposeful synthesis of new ideas and optimal solutions. Old educational system gives general knowledge and helps to accumulate intellectual power. New educational system gives universal knowledge and helps to find an optimum point of their application. Complementary ultra education helps a man to pass a rather complicated stage of self-development easily enough. In point of fact it is a transition to the next stage of development envisaged and programmed by the Nature itself:

- from an erudite man, that is well-educated man, to a thinking man, that is a highly-developed or omnipotent man; from a man who remembers, that is consuming somebody's culture, to a man who creates, that is synthesizes new culture. They say knowledge make us sorrow, but these are separate, partial, incomplete knowledge that increases sorrow. Integrity system of knowledge, whole-systemic knowledge enables a man to have a highly-effective thinking and be happy.

#### **The product of intellectual technology:**

- Highly-effective thinking and intellectual abilities and the package of personal methodical provision (from personal philosophy to personal practice and orgproject) destined for speeding thinking up and solving personal problems.

#### **The product of social technology:**

- Highly-effective organizational system of maximum opportunities and the package of firm methodical provision (from firm philosophy to firm practice and firm orgproject) destined for efficient solution key organizational problems and effective firm development.

#### **Long description of the "Result" Packet**

- **The "Result" Platform** of key correlated and non-contradictory social and economic notions is presented in graphic form, easy for comprehension. Such are, for example, notions: "platform of notions", "problem", "task", "system", "sircle organizational system", "vertical or piramidal organizational system", "universal model of the process of development", "universal criterions of development", "social justice", "democratically-centralized mechanism of management", "unit of culture and harmony", etc.

Speak by notions that is speak by essence. We train to work out firm platform of notions in connection with our universal social platform of notions to get mutual understanding between different people, specialists or structural subdivisions.

Sufficient for concrete problem solution knowledge are amalgamated into blocks. Each block has its special, easy-to-remember picture, which characterizes the development of a concrete person or collective, helps to conceive, which problems have been already solved, which are to be solved and what knowledge you lack to solve them.

- **Philosophy of Unity** differs qualitatively from the philosophy of Struggle and competition.

It is based on procedural mechanisms, which helps to "switch on" collective thinking, connect collective and personal thinking and built really open society. It forms new mentality, much more effective than based on capitalist competition. It's the matrix of future development.

We train to work out a firm philosophy (firm laws, rules, principles and procedural mechanisms) and give an algorithm of carrying on highly effective negotiation. Firm philosophy is destined for forestalling crisis situations and enables make business without problems.

- **The "Result" methodology** (integrity-binarian method and multiple block logic) is destined for intensive development of leaders intellectual abilities. Here we give new universal algorithm of the analysis and synthesize. Integrity method of sense and knowledge in connection with multiple block logic helps to speed thinking in 2, 3, 4...10...16 and even 512 or more times (know-how).

- **The "Result" doctrinology** gives maximum guaranties for unproblem business due to matrix of 64 basic organizational problems and ideas of their solution we worked out. It enables to make problematization and next idealization of situation very quick and easy. Idealization is a mechanism of working out and choosing optimal idea for solution of a concrete problem.

- **The "Result" ideology** ("Reorientation of social consciousness from struggle to unity") naturally originates from Philosophy of Unity and enables maximum intensive and effective development. It is the next way of development.

Firm ideologist work out firm conception of effective development, that is stages of transition a firm into "Result" system of organization.

- **The "Result" strategy** of transition into "Result" system of organization. Here ideologist orients which structural subdivision is the first to transform into "Result" system and which is the next and distributes resources between stages of transition of the firm into "Result" system of organization.

- **The "Result" policy:** "Unite and rule" is based on the Philosophy of Unity and tactical procedural mechanisms of making optimal decisions and distribution of resources between structural subdivisions. Here ideologist distributes resources between structural subdivisions.

- **The “Result” tactics level** provides procedural mechanisms of making optimal decisions and distribution of any resources under centralized management.

- **Practical level.** Here we give a universal form of orgproject and train to work out the firm orgsystem of open architecture, which could be changed, developed or improved every time you need. Managers and firm owners say that application of the “Result” system rises the level of effectiveness by a power of 10.

#### **What differs us from other courses and trainings**

- The great amount of trainings and courses give good but special and incomplete or partial, separate knowledge. There is no any course, which would have been synthesize all the knowledge people have. That is very actual for today. The “Result” system perfectly realize the men’ dream to get the integrated knowledge system at once and as a whole. It is integral and practical, unique and universal. It has no analogs anywhere in the world, as say our clients.

- Our integrity-binar method (know-how) and multiple block logic (know-how) speed thinking into n-times.

- The “Result” system enables modern managers and leaders to solve the whole complex of organizational problems effectively and to form new style of management.

- We form new philosophy of management and mentality of personnel.

- We activate reorientation of consciousness from struggle into unity; organizational structure from piramidal to sircle; from hierarchicle-subordination to democratic-centralism relations (centralized management by democratic mechanizms is the most actual for today).

- We use the potentialities of the 4<sup>th</sup> dimation to accelerate self-development of mental faculties of modern social leaders, businessman, students and senior pupils to the level they need.

- Our system helps to effectively develop insight and comprehension of most anything and see the course and the reasons of any actions. It reveals implicit mental faculties of a man and shows how to use them in practice.

- Manifestation of insight takes place due to not hypnosis but an integration of different pieces of knowledge into one unit of open architecture. Here we deal with the law of emergentness, which predicts the emergence of qualitatively new characteristics of the system after “critical mass” of necessary knowledge would have been collected in it. Such system has absolutely new features, which don’t characterize any element as itself. It’s a peculiar algorithm, a matrix like a multiplication table, but a table of knowledge, not figures: the elements seem to be known but their aimed synthesis increases thinking speeding thus much that an absolutely new result may be obtained. If a multiplication table could be leaned by a child, why shouldn’t a grown

man learn the algorithm of knowledge multiplication for the solution of his problems.

- No one taught us to apply our individual knowledge to the solution of personal problems. We were given tasks in school while life raised problems. – We taught to make optimal solutions and to live without problems.

- We derived a unite of collective or personal harmony and culture and a formula of its account. It is based on the “golden section”.

- We gave the definition of such actual social and economical notion as social justice and derived the mechanism of its account to obtain objective results from subjective opinions (know-how) and others.

- Our technologies and mechanisms “switch on” collective thinking and connect collective and personal opinions.

- As a fact, we give mechanisms of building open society.

- Our training may begin with revealing the implicit mental abilities of the customers and may end with working out firm orgproject of new organizational system of relations of maximum effectiveness. We give organizational system and intellectual abilities training as a whole, in complex.

- Our mechanisms are very simple for using and comprehension.

- The “Result” training is successfully used in consulting and in educational spheres for training pupils, students, businessmen, general managers and firm owners, top managers and managers of medium level, social and political leaders and for application the “Result” organizational system of relations in private or state firms, enterprises, organizations, etc.

- Short terms of education and application, a wide sphere of application, low costs and quick incomes.

#### **Four main training levels of the “Result” system:**

**First level:** Introduction a new thinking and a new mentality (reorientation of consciousness from struggle into unity) on the base of a new philosophy and intellectual technology “Result”.

It continues 3 days (15 hours).

The cost is 350 euros per person.

**Second level:** Introduction a new organizational system on the base of new tactical procedures and social technology “Result”.

Training managers or firm ideologists to set up the “Result” system of organization (to work out firm orgprojects).

It continues 5 days (40 hours).

The cost is 2000 euros per person.

**Third level:** Training managers or firm ideologists to be able to work out the firm philosophy, ideology, doctrinology, strategy, policy and tactics on the base of “Result” system.

It continues 7 days (56 hours).

The cost is 5 000 euros per person.

**Fourth level task:** Training consultants of the “Result” system.

It continues 30 days (240 hours).

You can buy license on the “Result” system.

The cost of license on the “Result” system is: 1 000 5000 euros per person (it depends of the level of euros; royalty is 2%; training of consultants is 2 000- training).

**About the authors “Result” system**

- They are the owners of the intellectual idea: “Reorientation of social consciousness from struggle to unity by means of intellectual technologies. – M.: Academy notes, 96, № 2.
- The owners of know-how of February 11, 1997 on intellectual technology “Result” destined for thinking speeding and activation of mental activity.
- The owners of know-how of February 11, 1997 on the package of universal intellectual provision “Result” destined for efficient setting up of the new organizing system of maximum possibilities in the shortest time and with minimum expenses.
- Own unique method of intensive development of organizational abilities of a manager (Certificate IIA № 4739, given by the State department of intellectual ownership of the Ministry of Education and Science of Ukraine in October 24, 2001.
- The authors of the manual “The “Result” system” (Certificate № 9454, given by the State department of intellectual ownership of the Ministry of Education and Science of Ukraine on 23.02.2004).

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# DIFFERENCES BETWEEN GENERATIONS: MEASURING PERCEPTIONS TO ORGANIZATIONAL ENVIRONMENT

Rima Kalinauskaitė

## Annotation

The article presents results of empirical study in Lithuanian organizations. Three generations are analyzed using organizational climate test. Organizational climate test consists of 20 dimensions that measure employee's attitudes and perceptions to organizational environment. T Test analysis were used to indicate statistical differences between three structured generations – “young” employees (aged <30), “middle age” (31-50) employees, “elder” (51 =>) employees. As data analysis shows youngest generation differ with both – second and third generations, when both elder generations (second and third) differ very little. Thus hypothetically let assume that biggest tension at work are with youngest employees. One limitation of this analysis could be that generations were structured artificially (there is not a strong theoretical or empirical prove for mentioned partition).

## Keywords

Generations, organizational climate

## Problem

Importance to talk about generations, generational differences increased with talks about “ageing society”. It is intended that population of EU will stop to grow and ageing working society will have to support all elder people. Proportion of it could be from 24 % at 2004 till 47 % at 2050 year (8). There is an evidence of status conflict as well which is determined by demographical reasons (R. Grigas, 1995). Differences between younger and older generations' social status, also conflict and barriers of value system damage an integration of a society and its organizations, influences synergetic potential (R. Grigas, 1996). In traditional culture authority determines relationships between younger and older generations, but authority has devalued with other waning traditions (H. Arendt, 1995). Generations are commonly analyzed by different values, differentiation on attitudes. This article presents generational differences through organizational climate construct. As further in a text there is a wider explanation for the “organizational climate” construct, shortly could be stated that organizational climate measures individual perceptions on organizational environment. It is known that organizational climate influences outcomes and objective econometrical indexes. In turn negative climate reduces productivity. There is also known from a theory that generational differences are latent. Differences rather could be called as “tensions” not “conflicts”. Here is an attempt to set differences between generations using 20 organizational climate test's dimensions. Perceptual differences (this includes attitudes to work's environment) are compared between three generations – young, middle age and elder employees. Main **hypothesis** is that there are differences between generations on their perceptions to organizational environment.

**Aim** of this article is to analyze how generations differ through organizational climate construct.

**Research object** – generations.

**Research subject** – organizational climate dimensions.

## Theoretical implications

Each generation have unique point view to work (Breda Bova and Michael Kroth, 2001). Employees of every generation have similar view on what is attractive organizational environment, of which group member they prefer to be. For organizations that seeks to hand values, philosophy, knowledge and skills it is very important to understand generational differences, because mentioned factors determine smooth development of business. Different generations have different values in workplace, they prefer different thing. Thus chance for conflicts is bigger comparing with time when employees were more homogenous by age. Stephanie M. Skibo tells that different generations have different positions to work, to organizations and even to coworkers. These observable differences have influence to managers and leaders. Managers undertake actions that could be misunderstood by younger members of organization and lead to negative results.

R. Grigas (1998) tells that new technologies are changing relationship between generations and the communication gains new forms. For elder generations this adaptation process is even more difficult. Usually when we talk about generations we face with values. Any domain of behavior (or activity) could be researched through values. Values – are criterions in accordance with people choose and explain own behavior, rate oneself and other people, events (V. Liubinienė, M. L. Sander, 1997). T. Parsons talked about values as the highest principles that make certain consensus both a small group and a society. De Witte and de Cock (1988) tell that organizational climate represents a synthesis of perceptions about “a relatively stable set of value-orientations of the organization as a whole, which influences the behavior of the organizational members with respect to organizational effectiveness” (Paul R. Sparrow, Kevin Gaston, 1996).

Intergenerational differences, in accordance with ageism, negative stereotyping and discrimination at work creates a new phenomenon called intergenerational tension at work (Eng Choo Elaine Teh, 2002). Tension could be understood as a strained relationship between individuals

and groups. Intergenerational tension arises from difference of values and attitudes between different generations. Intergenerational tension could be so called as a reality of organizational life that exists as a hidden and peripheral organizational noise. In this context tension between generations is similar to gender or ethnic tensions that are recognized as decreasing organizational productivity.

Eng Choo Elaine Teh (2002) argues that ageing society change nature of work. One of the consequences is bigger amount of employees of elder age. Comparing with employees twenty years ago, employees at the moment are planning to stay at work longer than they planned. Many of elder workers already face that their staying is not very desirable. Thus they experience sharp or less sharp forms of discrimination (ageism and negative perceptions). Elder employees have to compete with younger employees. Also in contrary, elder workers stereotypes younger employees.

Authors Carolyn P. Egri, David A. Ralston tell that generation cohorts are social subcultures that reflect significant cultural, political, economical event passed in young age. In contrary to this approach, life stage theory suggests universal sequence by individual's periods of life (childhood, adolescence, early adulthood, middle adulthood, and old age). When ageing people become more collectivistic, conservative, self-transcendent, and become less individualistic, they are open to change, and self enhancing.

Age, as gender or marital status is considered as having influence of employees' productivity, turnover, and work satisfaction. Relation between worker's age and work performance become a huge problem for next decades (Stephen P. Robbins, 1993). There are few reasons for it: performance of work decreases with age. Second - reality of ageing. They say that skills as strength, coordination, velocity decreases with age, but literature shows that age and productivity are not connected. More over, this rule is for different type of jobs (skill and unskilled).

It is not easy to determine what "a generation" is. Common definition of generation possess 20-25 years period, when one generation (parents) is replaced by another generation (children). Also generation has to have similar values, live and experience the same historical events and so on. D. Finegold, S. Mohrman & Spreitzer M. Gretchen (2002) analyze age effects on commitment and turnover. Categorical variable was parceled into three groups – age 30 and under, 31-45, and over 45s. Authors appeal to a prior research on life-stage models of careers of Gould, Hall & Nougaim, Slocum & Cron. Smola and Sutton (2002) explore generational differences in a large sample survey study of worker values. They identify different generations in the workplace between "Baby boomer" and "Generation X" values and found that newer (generation X) employees desired more rapid promotion than older (Baby Boomer) employees and "were less likely to feel work should be central to life" (Robert P. Gephart, Jr., 2002). Baby Boomer, Generation X, Millennials are title to name different generations in USA.

Organizational climate is part of human resources management. Every manager has interest for positive climate and big productivity, good performance. They say

that new politics for elder workers also is necessary and soon will become critical to organizations that wish to survive (Margaret Patrickson, Rob Ranzijn; Chris Klossen).

James et al. describe psychological climate as perceptions that reflect environment of work, including organizational quality. This environment is assessed by individuals and represents what influence has to the employees. If people in organization have similar perceptions to psychological climate, then those aggregated perceptions makes organizational climate. Thus climate is an individual quality and refers to how individuals in common perceive the organization (M. Bear, M. Frese, 2003).

Dominant approach to study climate is social constructivism (Michael J. Burke, Chester C. Borucki, Jennifer D. Kaufman, 2002). Proponents argue that individual perceptions primary comes from interrelationship and organizational context Therefore construction of those believes occur in particular work place. Individuals' perceptions are seen as individual descriptions of work environment and these descriptions are a main base to get handle in a workplace, not especially possess emotional evaluation. Social constructivism approach to study organizational climate largely is grounded by choosing a certain problem or interest object and then measuring perceptions to the quality of work environment related to this object (i. e. routine, awards). Social constructivism approach epistemologically is more inductive then other climate approaches because dimensions and items usually are situational and content specifically.

This research allows estimate between which generations there are tensions at work and on what climate's dimensions generations differ significantly.

## Method and procedure

The data of normalization base of researchers group (G. Merkys al., 2005) is used analyzing differences between generations. Organizational climate test consists of 20 subscales and 147 items. The paper present results of 1299 respondents study (2005) of Organizational Climate Test data, regarding generational differences. The sample of test construction involves 36 different organizations and 147 work teams. There were different types of organizations – business, public sector and statutory (customs, police) analyses using this test. Some methodological characteristics of the test: a) quality of made scales were verified according to inner consistency analysis and factor validation. Outcome of secondary factor analysis shows that all 18 subscales composed one factor that variance reach 64 %; b) Cronbach- $\alpha$  score in all 18 scales reached 0,85, minimal – 0,71 and maximum 0,93. However all 20 subscales (including humour and men and women relationship) are used for analysis in this paper.

The Independent-Samples T Test statistic was used to find statistical differences between grouped generations and 20 dimensions of organizational climate. Z-scores of means (test's subscale) were used as indexes for every climate's dimension.

## Results

Results of a T Test statistic are shown in 1 Table. Z-scores are used for climate dimensions. Z-score (or standard scores) of each climate dimension were analyzed using T Test statistic between generations. There were three generations grouped according to an employee's

age: the 1st – 30 years and under, 2nd – 31-50 years old, 3rd – and over 51.

Analysis of data shows that there are just few statistically significant differences between 2nd and 3rd, however 1st generation has significant differences with both 2<sup>nd</sup> and 3<sup>rd</sup> generations.

**Table 1**  
Independent Samples Test (t-test for Equality of Means) for three generations and 20 subscales of Organizational Climate Test

| Subscale   | Levene's Test for Equality of Variances |      | 1 and 2 generations (< 30 and 31-50) | LTE* | 1 and 3 generations (<30 and 51 =>) | LTE* | 2 and 3 generations (31-50 and 51=>) |
|--|---|------|--------------------------------------|------|-------------------------------------|------|--------------------------------------|
|  |   | Sig. | Sig. (2-tailed)                      | Sig. | Sig. (2-tailed)                     | Sig. | Sig. (2-tailed)                      |
| Sense of safety/security, psychological climate<br>Equal variances assumed | EV** assumed                            | ,308 | ,523                                 | ,787 | ,745                                | ,197 | ,820                                 |
|  | EV not assumed                          |      | ,525                                 |      | ,745                                |      | ,823                                 |
| Verbal communication   | EV assumed                              | ,499 | ,159                                 | ,568 | ,227                                | ,960 | ,926                                 |
|  | EV not assumed                          |      | ,167                                 |      | ,227                                |      | ,926                                 |
| Non-verbal communication   | EV assumed                              | ,779 | ,152                                 | ,080 | ,654                                | ,075 | ,416                                 |
|  | EV not assumed                          |      | ,144                                 |      | ,655                                |      | ,437                                 |
| Conflicts  | EV assumed                              | ,892 | ,025                                 | ,860 | ,007                                | ,941 | ,303                                 |
|  | EV not assumed                          |      | ,024                                 |      | ,007                                |      | ,303                                 |
| Man and women relationship   | EV assumed                              | ,006 | ,031                                 | ,146 | ,141                                | ,339 | ,774                                 |
|  | EV not assumed                          |      | ,040                                 |      | ,140                                |      | ,776                                 |
| Control  | EV assumed                              | ,900 | ,458                                 | ,079 | ,015                                | ,063 | ,039                                 |
|  | EV not assumed                          |      | ,457                                 |      | ,015                                |      | ,029                                 |
| Humor  | EV assumed                              | ,201 | ,002                                 | ,957 | ,087                                | ,190 | ,337                                 |
|  | EV not assumed                          |      | ,002                                 |      | ,087                                |      | ,349                                 |
| Relations with managerial staff, administration                            | EV assumed                              | ,410 | ,044                                 | ,921 | ,025                                | ,486 | ,454                                 |
|  | EV not assumed                          |      | ,048                                 |      | ,025                                |      | ,458                                 |
| Motivating creativity and initiatives, measure of discipline/punishment    | EV assumed                              | ,978 | ,007                                 | ,879 | ,002                                | ,879 | ,315                                 |
|  | EV not assumed                          |      | ,007                                 |      | ,002                                |      | ,316                                 |
| Openness, tolerance  | EV assumed                              | ,300 | ,217                                 | ,817 | ,185                                | ,453 | ,683                                 |
|  | EV not assumed                          |      | ,227                                 |      | ,185                                |      | ,686                                 |
| Information sharing  | EV assumed                              | ,335 | ,012                                 | ,375 | ,002                                | ,970 | ,236                                 |
|  | EV not assumed                          |      | ,013                                 |      | ,002                                |      | ,227                                 |
| Rumors, slanders, hypocrisy  | EV assumed                              | ,434 | ,317                                 | ,749 | ,773                                | ,239 | ,515                                 |
|  | EV not assumed                          |      | ,316                                 |      | ,772                                |      | ,505                                 |
| Relations among different age groups                                       | EV assumed                              | ,193 | ,002                                 | ,222 | ,001                                | ,852 | ,378                                 |
|  | EV not assumed                          |      | ,003                                 |      | ,001                                |      | ,378                                 |
| Interrelations   | EV assumed                              | ,525 | ,088                                 | ,563 | ,006                                | ,960 | ,112                                 |
|  | EV not assumed                          |      | ,085                                 |      | ,006                                |      | ,111                                 |
| Management / management style  | EV assumed                              | ,511 | ,002                                 | ,784 | ,001                                | ,753 | ,431                                 |
|  | EV not assumed                          |      | ,002                                 |      | ,001                                |      | ,434                                 |
| Formation of non-formal groups, factions                                   | EV assumed                              | ,003 | ,005                                 | ,034 | ,004                                | ,769 | ,408                                 |
|  | EV not assumed                          |      | ,008                                 |      | ,004                                |      | ,414                                 |
| Environment disharmonizing relations and efficiency                        | EV assumed                              | ,128 | ,000                                 | ,278 | ,001                                | ,808 | ,713                                 |
|  | EV not assumed                          |      | ,000                                 |      | ,001                                |      | ,712                                 |
| Induction and resigning  | EV assumed                              | ,584 | ,024                                 | ,038 | ,758                                | ,052 | ,076                                 |
|  | EV not assumed                          |      | ,023                                 |      | ,758                                |      | ,087                                 |
| Values and culture   | EV assumed                              | ,630 | ,001                                 | ,125 | ,059                                | ,021 | ,468                                 |
|  | EV not assumed                          |      | ,002                                 |      | ,059                                |      | ,489                                 |
| Socializing/traditions, festivities  | EV assumed                              | ,905 | ,797                                 | ,168 | ,014                                | ,072 | ,006                                 |
|  | EV not assumed                          |      | ,798                                 |      | ,014                                |      | ,008                                 |

\* LTE - Levene's Test for Equality of Variances

\*\* EV – Equal variances

1<sup>st</sup> and 2<sup>nd</sup> generations differ on such organizational climate subscales as: *conflicts* (p=0.025); *man and women relationship* (p=0.040); *humor* (p=0.002); *relations with managerial staff, administration* (p=0.044); *motivating creativity and initiatives, measures of discipline/punishment* (p=0.007); *information sharing* (p=0.012); *relations among different age groups* (p=0.002);

*management style* (p=0.002); *formation of non-formal groups, factions* (p=0.008); *environment disharmonizing relations and efficiency* (p=0.000), *induction and resigning* (p=0.024), *values and culture* (p=0.001). (Total - 12 subscales). The survey showed no differences with subscales of: “*sense of safety/security, psychological climate*”, “*verbal communication*”, “*non-verbal*

communication", "openness, tolerance", "rumors, slanders, hypocrisy", "interrelations" and "socializing/traditions, festivities".

Significant differences between 1<sup>st</sup> and 3<sup>rd</sup> generations are with subscales: *conflicts* (p=0.007), *control* (p=0.015), *relations with managerial staff, administration* (p=0.025), *motivating creativity and initiatives, measure of discipline/punishment* (p=0.002), *information sharing* (p=0.002), *relations among different age groups* (p=0.001), *interrelations* (p=0.006), *management/management style* (p=0.001), *formation of non-formal groups, factions* (p=0.004), *environment disharmonizing relations and efficiency* (p=0.001), *socializing/traditions, festivities* (p=0.014). (Total - 11 subscales).

1<sup>st</sup> and 2<sup>nd</sup> generations have significant values on such organizational climate dimensions: *values and culture* (p=0,001), *induction and resigning* (p=0,024).

## Conclusions

Results indicate that the first generation (18-30 age employees) differ with the second and third generations by more than on a half of organizational climate dimensions. Hypothetically could be indicated that the biggest tension at work place is with a youngest generation. As the survey presents, second (31-50 age) and third (51 age and more) generations do not have big differences (they statistically differ only on 2 from 20 organizational climate subscales).

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Rima Kalinauskaitė

## KARTŲ SANTYKIŲ RAIŠKA PER ORGANIZACINIO KLIMATO KONSTRUKTĄ

Santrauka

Svarba kalbėti apie kartas darbe išaugo su atsiradusiu pagyvenusių žmonių diskriminacija (angl. *ageism*). Per pastarąją dekadą ypač išaugo domėjimasis senstančia visuomene ir darbo jėga. Kalbant apie skirtingas kartas darbe, svarbu paminėti, jog šis reiškinys yra latentinio tipo, arba kitaip - turi paslėpto konflikto formą. Dažniau kalbama apie įtampas tarp kartų, nei apie atviras santykių raiškos formas. Ir tai suprantama dėl šio fenomeno sudėtingumo. Kartų santykiai yra makro sociologijos objektas, tuo tarpu organizacinis klimatas dažniausiai traktuojamas kaip individo ar grupės lygmens konstruktas. Šiame straipsnyje siekta kartų skirtingumą parodyti per organizacinio klimato dimensijas. Kaip rodo tyrimo rezultatai (N=1299), daugiausia statistiškai reikšmingų skirtumų (z-įverčiai) yra tarp išskirtų pirmosios (< 30 m.) ir antrosios (31 – 50 m.), bei pirmosios (< 30 m.) ir trečiosios (> 50 m.) kartų. Tuo tarpu, vidurinioji ir vyresnioji kartos statistiškai skyrėsi tik pagal dvi organizacinio klimato dimensijas.

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# PUBLIC RELATIONS AS OBJECT OF MANAGEMENT RELATED SCIENTIFIC RESEARCH

Lina Kazokienė, Jurgita Stravinskienė

## Annotation

Nowadays public relations are one of the many elements related to development of organizational activities. The necessity of such activities is determined by public, its current complex structure that covers a lot of interacting elements. Public relations serve a lot of social institutes, such as: trade organizations, trade unions, legal organizations, voluntary associations, etc.. All these institutions may achieve their goals only upon developing mutual relationship with different auditoriums and groups from their public environment. Public relations help to adjust organizational and public interests, they allow to obtain public understanding and recognition, they help to effectively solve the rising conflicts between an organization and public.

In order to highlight public relations as object of management related scientific research, this article reviews the development of public relations, it presents interpretations of public relations conception, defines aims and functions of public relations, highlights fundamental differences among public relations and marketing, journalism and advertising.

## Keywords

Public relations, aims and functions of public relations.

## Preface

**Problem.** As professional activity, public relations interact with other management spheres. Public relations are very often linked to communication and functions in line up with functions of other activities, though they strive for different goals. The term of public relations is very often misunderstood and interpreted; it becomes a synonym of propaganda and use of trust. All this is emphasized by many scientists, such as Ph. Henslowe, S. M. Cutlip, V. Moiseev and other. Ph. Henslowe (2003) states that even specialists of mass media, belonging to a very close sphere by particularity wrongly assess specialists of public relations, because they do not understand the importance of public relations. Moreover, they think that public relations may be used in order to „improve“ bad reputation, unprofessional and dishonest activities.

**Work goal:** to highlight public relations as object of management related scientific research

**Object:** public relations.

Novelty: The scientific analysis of public relations is currently in the stage of development. Having performed a comparative analysis of scientific literature sources, the development of public relations has been unclosed practically and theoretically.

**Work methods** – comparative analysis of scientific literature sources and summing up.

## Conception of public relations

W. Agee and other (2003) relate the beginning of public relations to the beginning of inter-personal communication of people. D. Newsom and joint authors (1996) have highlighted the 5 stages in the development of public relations, naming the 1600 as the beginning. The authors, when making the chronology of public relations development, appealed to popularization of public relations related activities. An initial stage – this is the era of communication process development, the XVII – XVIII centuries, when only first efforts to use advantages related to communication with public were

made. The Second stage, the XIX century, is also called the period of communication/initiation. At this time, press agencies started to appear and were becoming popular, propagation and promotion techniques were improving too. During 1900 – 1939 (till the Second World War) begins the third stage – the era of reaction/response. Companies start to establish offices of public relations, the influence of public relations on company's results is perceived. The fourth stage, also called the era of planning/prevention, lasted till 1980. At this time, public relations were integrated into the system of company's management functions, the strategic character of public relations is perceived. The Fifth stage, to date, is also called the era of professionalism. This stage may be characterized by global communication, public relations are intensively analyzed in scientific aspect, and strategies of public relations are being developed.

Public relations related activities under current market conditions acquire a major role. More and more organizations, state institutions, nonprofit organizations perceive that it is necessary to maintain constant relationship with clients, suppliers, competitors, societies and social groups as well as purposive auditoriums, the ones company orientates its marketing related activities to, know what public opinion about them and their activities is and to properly plan their actions, in order to create and retain a positive image in the society (L. Šliburytė, 2001).

Before going deep into goals, spheres and means used of public relations, as well as other important issues related to it, it is necessary first of all to find out, what public relations are. There are a lot of definitions of public relations and new ones appear constantly.

W. Agee and joint authors (2000) present the most widely established interpretation of public relations: public relations- miscellaneous is a driving activity, responsible for the evaluation of public environment and social attitude. (W. Agee and other, 2003).

P. Kotler (2003), R. Virvilaitė and joint authors (2000), D. Griwold (F. P. Seitel, 2002), define public relations as a function of management at planning, coordination and

evaluation of the programme of actions that will allow to achieve public understanding and approval.

L. Šliburytė (2001) appeals to S. M. Cutlip and A. H. Center and states that the coming of different definitions of public relations reflects the evolution of this function in organizations and society. According to the author, this shows that this area requires an increasingly growing perception of its identity.

By analyzing the presented conception interpretations of public relations, we notice that public relations may be defined as art mastered by an organization and as science to influence public opinion and attitude, on the other hand, public relations may be defined as a management function, that tries to retain mutual relationship, communication and understanding between an organization and public and among its different groups. The goals of public relations in different organizations may be different and, depending upon situation, may vary. But firstly, they depend upon the goals of the relative organization. According to F. R. Seitel (2002), the goal of effective public relations is: striving for harmony in internal and external relationship in order to expect stability and further growth of the relative organization. W. Agee and joint authors (2003) state that the goals of public relations must be coordinated with strategic goals of the relative organization, purposive groups, goals of competitive public relations companies and information channels. In authors' view- the goals of public relations may be informative and motivating-stimulating ones. W.G. Zikmund and M. d'Amico (1993) highlight the 2 categories of public relations' goals: related to the relative organization (its image, recognition, public opinion) and related to products of the relative organization.

Public relations are a very wide sphere of activities that covers multiple creations of favorable activity related conditions and their support for the company concerned. There are a number of functions that allow implementation of all that. The following functions are common to public relations (H.L. Zankl, 1975):

- *Information.* Public relations help to disseminate information internally and externally.
- *Communication.* Public relations help to establish and to maintain relationship with all important public groups.
- *Management.* Public relations are useful when solving management tasks and problems; they help to avoid conflicts among company's administration and employees.
- *Image creation.* Public relations help to form and to maintain a positive image of the relative company, its products or services provided, they increase their popularity.
- *Coordination.* Public relations appear as mutual interaction with common feedback.
- *Promotion of sales.* With the help of public relations, we may induce public interest in new goods and willingness to purchase them.
- *Stabilization.* Public relations, with the help of modern crises management, help the relative company to prepare and overcome crises and problematic situations.
- *Continuity (unity).* Public relations help to retain

the same company's style.

Having summarized everything, we may state that public relations were regarded professionally only in XXth century, when companies of public relations began to appear. The analysis of scientific type is currently in the stage of growth, so it is likely that in future, scientific base of this sphere will be a lot more developed and it will generate new decisions to companies in the sphere of public relations support.

The conception interpretation of public relations has shown that this activity may be described as science or art able to influence public opinion and as a function of management, allowing development of mutual relationship and communication between an organization and public. The effectiveness of public relations may be expected only when the goals of the activity mentioned are coordinated with the strategic goals of the relative company that may be classified as: informative and motivation related – stimulating ones (L. Šliburytė, 2001, W. Agree 2003); related to the relative organization and its goods (W. G. Zikmund, H. D'Amico, 1993). The goal of public relations covers the creation of good-natured atmosphere related to organizational activity and its support, it develops the functions of information, communication, image creation, sales promotion and stabilization. But in practice, there are cases, when the goals of public relations are understood only very narrowly, they are identified as the goals of other spheres of activities. The usage of the same functions in order to achieve the goals of other spheres of activities brings even more confusion. This is why it is necessary to analyze the relationship of public relations and other spheres of activities in a more detailed way.

### **Relationship of public relations and other spheres of activities**

As professional activity, public relations interact with other spheres. Very often, public relations are related to or even confused with other spheres of activities, for example, marketing, lobbyism, journalism, propaganda, advertising and promotion. Among the above mentioned activities, there is a lot in common, but all they are grounded by different philosophy and strive for other goals. Due to this reason, public relations may not be identified as marketing, advertising or other related activities. They are relative by their communication nature.

Public relations are very often related to or identified as marketing. There is no clear limit between marketing and public relations, but there are several public relations and marketing distinguishing features. W. Agee and joint authors (2003), L. Šliburytė (2001), point out the goal of marketing and public relations as the main difference between marketing and public relations and names their goal. Marketing tries to sell first. Marketing rises from economic goals of an organization. Meanwhile, the goal of public relations is to create a favorable attitude to organizational activities and to create favorable environment to marketing activities.

P. Kitchen (2004) points out the 4 attitudes defining interpretation of public relations and marketing relations: 1. public relations may be understood as a part of

marketing, as one of marketing promotion complex elements. 2. Marketing is as a part of public relations; 3. Public relations are an independent function of management equivalent to marketing; 4. Public relations and marketing are understood as independent, but having a common „inter-linked sphere“ in their activities.

Every each of these activities brings unique and suppletory contribution to many relations that help organization to develop and survive, relation formation and support.

Another sphere, which is very often related to or identified as public relations, is advertising. Public relations and advertising solve some of the same tasks. This may be one of the assumptions, why both activities are sometimes identified. But public relations and advertising are separate and independent parts of marketing promotion programme. L. Šliburytė (2001) and V. Moiseev (2002) name the goal of activity as the main difference among the spheres mentioned. Advertising tries to realize goods and services, to form demand, public relations look for public understanding, support and trust. V. Moiseev (2002) emphasizes that public relations offer mutual communication. L. Ries (2002) states that advertising is multiple and public relations are linear, i.e. there is a logical passing from one stage to another. V. Moiseev (2002) and A. L. Ries (2002) also mention the difference of psychological influence. Advertising sometimes is accepted as unwanted influence, which is to be fought back. Public relations are a different story. When reading information material, consumers feel no pressure.

According to their genesis, common means and, partly tasks, public relations are close to mass media. To many – public relations are the synonym of so-called type of a „residential journalist“ working for an organization (W. Agee and joint authors, 2003). But there are differences among the spheres of the above mentioned activities that, most likely, are more important than similarities are. V. Moiseev (2002) states that newspapers, television and radio play an important role, when solving information related tasks, maintaining business-like relations and forming public opinion. But the specifics of mass media and the profession of journalism does not allow carrying out information and analytics related function to the end, which is generally very important to business development as well as political sphere and public. Moreover, there are pre-ordered publications in the press practice and they are not disguised by the press itself. In other words, an absolutely truthful press does not exist.

The French association of public relations emphasizes that public relations have no other role other than delivery of necessary information and documentation (V. Moiseev, 2002). Thus, the material of public relations must be limited by facts; by eliminating propaganda related arguments or commercial advertising and this must be delivered to the press edit free of charge.

The goal of journalist's information accumulation and its analysis is to provide knowledge to the auditorium. Specialists of public relations have got another goal, when they collect and analyze information, i.e. they not only provide information, but change people's opinion and behavior in the favorable way, in order to achieve goals at the relative organization.

Having summarized all the above we may state that *the place of public relations in marketing activities is undoubtedly very important and their synthesis develops practically and theoretically progressively. Public relations are often identified or confused with other spheres of activities, such as marketing, journalism or mass media. In order to properly identify public relations, it is important to know basic differences at the spheres of activities mentioned. One of the main differences is the goal of activities itself.*

## Conclusions

1. The study on literature of scientific public relations allows to state that professional public relations were developed only at the beginning of the XXth century.

2. Public relations may be described by the following meaningful affirmations: purposeful striving, public interest, mutual communication and a management function.

3. Creation of good-natured and favorable atmosphere for organizational activities and its support is named as the main goal of public relations.

4. There are groups of scientists that see the interaction of public relations and marketing differently. The on-going discussions allow stating that the place of public relations in the marketing activities is undoubtedly very important and their synthesis is being developed practically and theoretically progressively.

5. Public relations and other spheres of activities that are of communication nature are often identified, but they have got one basic difference: the goal of activities itself.

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## **СВЯЗИ С ОБЩЕСТВЕННОСТЬЮ КАК ОБЪЕКТ НАУЧНЫХ ИССЛЕДОВАНИЙ МЕНЕДЖМЕНТА**

### **Резюме**

Связи с общественностью становятся неотъемлемой частью стратегии каждого предприятия, стремящегося к тому, чтобы заслужить хорошее имя и лояльность потребителей. Важность связей с общественностью становится явной с увеличением конкуренции предприятий в Литве, интеграцией в мировую экономику, возрастанием мощи сектора индивидуального хозяйства. Связи с общественностью соответствуют с другими сферами менеджмента. С такими как маркетинг, реклама, публицити. В работе акцентируются факторы, определяющие отличие упомянутых сфер.

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# EFFECT OF JOB SATISFACTION ON TURKISH ACADEMICIANS LIFE SATISFACTION

Aşkın Keser, Gözde Yılmaz

## Abstract

Aim of this study was to investigate the job satisfaction level of Turkish academicians and its effect on their life satisfaction. Demographic characteristics of academicians also tried to be related to job and life satisfaction. 156 academicians working in various universities in Turkey were surveyed. Job satisfaction can explain %39 of variability in life satisfaction according to regression analysis. Study result verified the spill over effect of job satisfaction for Turkish academicians.

## Keywords

Job Satisfaction, Life Satisfaction, Academician, Turkey.

## Introduction

Work is an integrated part of today's individual. The individual's happiness and satisfaction at work is not restricted to his/her work life but also have a spill over effect to his/her life other than work. This puts forward the interaction between job satisfaction and general life satisfaction. Because of this relation, researchers' attention focus on this interaction for nearly 50 years. It is known that job satisfaction is an important variable which effects life satisfaction and vice versa.

As an independent variable job satisfaction can explain organizational outcomes such as performance, absenteeism and turnover. It also effects the physical and mental health of individuals (Auerbach and Dolan, 1997, Baba and al., 1998 cited in Dolan, Gosselin, 2000). Modern organizations consider job satisfaction as a dependent variable and develop human resources policies in this direction to ensure productivity.

There are 68 state and 25 private universities in Turkey. Number of academicians according to 2005 data were as follows: 11220 professors., 14230 associate professors, 14220 asistant professor, 28.261 research asistants and 20600 other personel which totaly makes up 79.555 academicians

([http://www.yok.gov.tr/egitim/raporlar/kasim\\_2005/kasim\\_2005.zip](http://www.yok.gov.tr/egitim/raporlar/kasim_2005/kasim_2005.zip)). Pay level of academicians is low compared to other countries. Gender composition of Turkish academicians portrays an interesting picture. Unlike developed countries, number of women professors in Turkey is high.

## 1. Job Satisfaction

Majority of individuals spend most of their day in work and continue working for at least 20-25 years. Therefore, individuals happiness in life depend on their happiness at work for their organic and psychological existence. (Telman, Ünsal, 2004:12) Job satisfaction as a sub life area, effects individuals' life satisfaction directly. Throughout the history, human development, satisfaction and enrichment efforts were considered as a primary effort to increase the job satisfaction level of individuals. Developing individual's properties like skills, relations at work is important for the individual in finding his/her life meaningful (Yetim, 2001:163).

Locke define job satisfaction as a pleasurable feeling that "results from the perception that one's job fulfills or allows for the fullfillment of one's important values." Job satisfaction relates to positive attitudes and beliefs towards several aspects of the job or the profession (Organ, 1990). Individual will be satisfied with his/her job as long as he/she perceives that his/her job meet his/her important values. The individual's strongest felt needs and the fullfillment of these needs by job is the main determinant of job satisfaction level. To what extent the individual's most important needs are fulfilled by the job determines the job satisfaction level and changes accordingly (Silah, 2000:102). Behavioral scientists, believe that new motivational approaches have to be used for increasing the employee's interest towards work for ensuring job satisfaction. They believed that high Job satisfaction have to be maintained for solving the problems arising from the more emotional employees. In this context, work reorganization and design thought to be a solution for increasing the job satisfaction level (Atay, 1987:71).

Job satisfaction gives information about individual's evaluative feeling about his/her job, workplace. In other words, Job satisfaction is a reflection of individual's expectation towards workplace and his/her attitudes towards work (Miner, 1992:116).

Many aspects of organizational life can cause satisfaction among employees. These could be listed as pay, co-workers and supervisors sharing same values, attitudes with the employee, peers providing social support or helping the individual in attaining some valued outcomes and lastly characteristic of organizational tasks (Şimşek, Akgemci, Çelik, 1998:160). Landy describes Job satisfaction as an emotional result of personal evaluation regarding the work. Job satisfaction depends on personal factors like doing the work with passion or societal factors like participation to decision process (Yıldırım, 1995:442; Rogers, Clow, Kash, 1994:15).

Sources of Job satisfaction generally studied under 5 main headings. These sources are "pay", "characteristic of work", "physical environment", "management policy" and "co-workers" (Luthans, 1992:126). While "pay" (instrumental function) is taken as an external function, other factors like characteristic of organizational tasks are taken as an internal function (Rose, 2003:506).

Individuals' thought on work environment, and meaning of the job is important to maintain high Job satisfaction.

Maintaining Job satisfaction is not only important for organization but also important for individuals' happiness in life. So, it can be thought that individuals who find their work meaningful have more satisfaction from job and life. Fulfilling of individuals' expectation towards their work is a factor effecting the Job satisfaction in the positive direction. (Loscocco, Roschelle, 1991:182).

## 2. Life Satisfaction

Individuals who share the opinion that life has a meaning and direction said to have a life satisfaction at the optimal level. Life as an ongoing process with different expectation, need and priorities can explain the limited nature of life satisfaction definitions. Life satisfaction is the emotional reaction of individuals' other than their work life. In short, their general attitude towards life (Özdevecioğlu, 2003:697). Generally, life satisfaction is the emotional reaction exhibited by the individual toward his/her life other than work (Sung-Mook, Giannakopoulos, 1994:547). According to an other approach, life satisfaction represent the judgement of individuals' subjective goodness regarding their life and the quality of life (Dikmen, 1995).

There is an uncertainty in the definition of the concept and its context because of the perception difference between people. Factors which effect the individual life satisfaction can be listed as (Schmitter, 2003);

- Felt happiness from daily life;
- Finding life meaningful,
- Harmony about reaching the goals,
- Positive individual identity,
- Feeling physically good,
- Economic security and
- Social relations.

It is impossible to consider life satisfaction independently from job satisfaction. Because work satisfaction among the factors which effects individual's general life. In this context, it is a deep-seated thought that there is an interaction between job and life satisfaction.

## 3. Interaction Between Job- Life Satisfaction

Existence of the relation between life and job satisfaction is not surprising. For the majority of individual, job has a central importance<sup>4</sup>. This reality strengthens the relation between job satisfaction and life satisfaction.

This relation first investigated by Brayfield, Wells and Strate (Chacko, 1983:163). Through out these 30 year many researchs pointed out that job satisfaction effect individual attitudes towards life and at a later stage effect life satisfaction (Rode, 2004:1206; Rice, Frone, McFarlin, 1992:155). According to research results, job satisfaction and work related experience positively effect individual's whole life. Individual's success out of work effect work success to a great extent. In this respect, Ouchi and Price bound the Japanese management success to the importance given to employees' private life (Uyguç, Arbak, Çıraklar, 1998:193). On the other hand,

dissatisfaction, frustration, unhappiness at work effect individual's general life and could be an impetus for life dissatisfaction. This can deteriorate the individual's environment, family and friend relations and at the end could deteriorate physical and mental health (Çetinkanat, 2000:48). As a result, individual's happiness involve all the life areas. It is impossible to separate job satisfaction from life satisfaction (Izgar, 2003:141).

## 4. Research

### 4.1. Objectives Of The Research

Aim of this research was to investigate the relation between job and life satisfaction among academicians working in universities in Turkey.

### 4.2. Sample

Sampling method of the research is convenience sampling which is a type of nonprobability sampling (Altunışık, Coşkun, Yıldırım, Bayraktaroğlu, 2001:72). In convenience sampling, researchers use whatever individuals are available rather than selecting from the entire population.

Study which try to reveal the relation between job satisfaction and life satisfaction conducted by mailing the questionnaire to various universities' academicians electronic mail. 600 questionnaires e-mailed. Of 600 questionnaires mailed, 120 returned to the researchers. In the researcher's university 36 usable questionnaires obtained. As a result, 156 questionnaires were included in the data analysis.

### 4.3. Measurement

In the context of this study, two scales used to investigate the relation between Job satisfaction and life satisfaction.

*Job Satisfaction Scale:* Brayfield and Rothe's (Judge, Watanabe, 1994:102) job satisfaction scale was used to measure the job satisfaction level. This scale consists 5 questions. Responses range from "strongly agree"(5) and "strongly disagree" (1). This scale adapted to Turkish language. Therefore scale used with no change in the statements (Bilgin, 1995:160).

*Life Satisfaction Scale:* To determine the life satisfaction "Satisfaction With Life Scale" developed by Deiner, Emmons, Larsen, Griffin used. This scale have 5 questions ranging from "strongly agree"(5) to "strongly disagree"(1). This scale Turkish adaptation was done by Köker. (Keser, 2006)

### *Reliability Analysis*

According to reliability analysis Cronbach Alpha value of the Job Satisfaction Scale is 0,8257. Cronbach alpha of the scale Life Satisfaction is 0,8788.

### *Demographic Dispersion of the Sample*

%32 of the sample was research assistant, %23 lecturer, %10 associate professor and only %6 of the sample was professor. %41(n=64) of the respondents were female and %58 (n=90) were male. Age dispersion was as follows: %31 of the respondents were between 20-30, %47 of the

<sup>4</sup> For further information look at: Robert DUBIN, (1956) "Industrial Workers Worlds: The Central Interests of Industrial Workers", *Journal of Social Issues*, No:3

respondents were between 31-40 and %19 of the respondents were between 41-50.

**Table 1**

Distribution of Respondents by Status and Demographic Features

| Status of the Academicians | N   | %     |
|----------------------------|-----|-------|
| Research Assistant         | 50  | 32,1  |
| Lecturer                   | 37  | 23,7  |
| Assistant Professor        | 43  | 27,6  |
| Associate Professor        | 16  | 10,3  |
| Professor                  | 10  | 6,4   |
| Total                      | 156 | 100,0 |
| Gender                     | N   | %     |
| Female                     | 64  | 41,0  |
| Male                       | 90  | 57,7  |
| Missing                    | 2   | 1,3   |
| Total                      | 156 | 100,0 |
| Age                        | N   | %     |
| 20-30                      | 49  | 31,4  |
| 31-40                      | 73  | 46,8  |
| 41-50                      | 29  | 18,6  |
| 51 and above               | 5   | 3,2   |
| Total                      | 156 | 100,0 |
| Education Level            | N   | %     |
| Undergraduate              | 10  | 6,4   |
| Master                     | 64  | 41,0  |
| PhD                        | 82  | 52,6  |
| Total                      | 156 | 100,0 |
| Tenure                     | N   | %     |
| Less than 1 year           | 5   | 3,2   |
| 1-5 years                  | 50  | 32,1  |
| 6-10 years                 | 40  | 25,6  |
| 11-15 years                | 31  | 19,9  |
| 16-20 years                | 19  | 12,2  |
| More than 20 years         | 11  | 7,1   |
| Total                      | 156 | 100,0 |

**Table 2**

Faculty Dispersion of Responding Academicians

| Faculty                 | Frequency | %     |
|-------------------------|-----------|-------|
| Economics and Bus. Adm. | 95        | 60,9  |
| Science-literature      | 1         | ,6    |
| Engineering             | 8         | 5,1   |
| Medical                 | 5         | 3,2   |
| Law                     | 1         | ,6    |
| Education               | 6         | 3,8   |
| Communication           | 17        | 10,9  |
| Vocational High School  | 15        | 9,6   |
| Unanswered              | 8         | 5,1   |
| Total                   | 156       | 100,0 |

### Job Satisfaction Findings

Mean value of the job satisfaction scale is 3,8263. The mean value of job satisfaction of male (M=3,79) and female (M= 3,87) respondents were not statistically different ( $t(152)= 0,704, p>0,005$ ).

There is a significant difference between age groups in their job satisfaction levels. The reported job satisfaction level of 20-30 and 31-40 age groups was significantly lower than the other age groups. On the other hand, 41-50 age group had a higher job satisfaction level ( $F(3, 152)=2,20, p<0,05$ ). This result can be related to academic advancement of individuals in their academic career.

**Table 3**

Responding Academicians' Job Satisfaction Level by Age Group

| Age          | Mean   | N   |
|--------------|--------|-----|
| 20-30        | 3,7020 | 49  |
| 31-40        | 3,7877 | 73  |
| 41-50        | 4,1448 | 29  |
| 51 and above | 3,7600 | 5   |
| Total        | 3,8263 | 156 |

There was no difference in the job satisfaction according to tenure( $F(5,150)=0,191$ ,  $p>0,005$ ). Job satisfaction level showed significant difference according to educational level of the respondents ( $F(2,153)=2,272$ ,  $p<0,005$ ). According to this result, respondents with a undergraduate degree have lower job satisfaction ( $M=3,36$ ) than the respondents who have master ( $M=3,80$ ) and PhD degrees( $M=3,90$ ).

Sorcinelli and Near's study (1989) findings showed that the job satisfaction of academicians is independent of gender and positively correlated with their academic rank. Their study also found that job satisfaction is positively related to faculty's life satisfaction and their non-work satisfaction.

Previous studies revealed that the occupational status related with job satisfaction. According to these studies, professor, associate professor's job satisfaction level was significantly higher than the research assistant's job satisfaction level. This results explained by the occupational uncertainty and worry about future (Aslan, Ünal, Aslan, 2003). According to result of our study, lowest job satisfaction scores came from the research assistant and assistant professor group. Lecturers had higher job satisfaction levels than the research assistant and assistant professor. Associate professor and professor had the highest job satisfaction level. According to Yıldız et al.(2003) research job satisfaction increase gradually from research assistant to professor (Aslan, Ünal, Aslan, 2003) Despite this finding, no significant relation found between two variables.

**Table 4**

The Job Satisfaction Levels of Academicians by Status

|                | <i>Job Satisfaction</i> |      |      |
|----------------|-------------------------|------|------|
|                | n                       | Mean | SD   |
| Reserch Ass.   | 50                      | 3,55 | 0,87 |
| Lecturer       | 37                      | 3,94 | 0,68 |
| Asistant Prof. | 43                      | 3,79 | 0,72 |
| Assc. Prof.    | 16                      | 4,21 | 0,48 |
| Professor      | 10                      | 4,28 | 0,51 |
| Total          | 156                     | 3,82 | 0,76 |

#### *Life Satisfaction Findings*

Mean values of respondents' life satisfaction was 2,8460. To determine effect of gender on life satisfaction scores, an independent t test was conducted. Female respondents' life satisfaction scores ( $M = 2,94$ ,  $SD = 0,85$ ) scores were not significantly different from the male respondents' life satisfaction scores. ( $M = 2,76$ ,  $SD = 0,91$ ), ( $t(152)=1,41$ ,  $p=0,236$ ). Female respondents' life satisfaction (2,9427) was slightly higher than the male respondents (2,7694).

**Table 5**

F Test Scores for Job Satisfaction

|           | <i>Job Satisfaction</i> |        |
|-----------|-------------------------|--------|
|           | F                       | p      |
| Gender    | 3,29                    | 0,48   |
| Tenure    | 1,50                    | 0,19   |
| Education | 2,27                    | 0,10   |
| Position  | 3,99                    | 0,04 * |

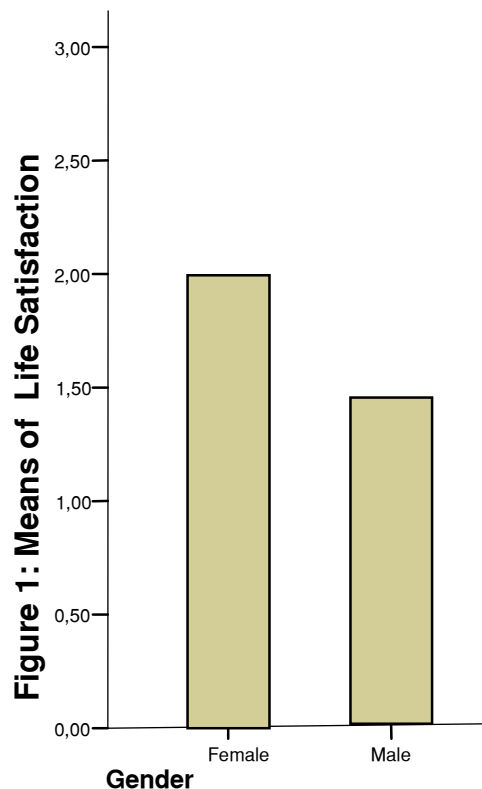
$p<0,0P$

**Table 6**

F Test Scores for Life Satisfaction

|           | <i>Life Satisfaction</i> |        |
|-----------|--------------------------|--------|
|           | F                        | p      |
| Gender    | 1,41                     | 0,23   |
| Tenure    | 0,75                     | 0,58   |
| Education | 1,65                     | 0,19   |
| Position  | 2,51                     | 0,04 * |

$p<0,05$



No significant difference found between educational level of respondents. But there is a significant difference between the tenure groups.

Responding Academicians Life Satisfaction  
Level By Tenure

| Age                 | Mean |
|---------------------|------|
| Less than 1 year    | 2,92 |
| Between 1-5 Years   | 2,65 |
| Between 6-10 Years  | 2,88 |
| Between 11-15 Years | 2,92 |
| Between 16-20 Years | 2,95 |
| More Than 20 Years  | 3,10 |

Table 7

ANOVA analysis results showed that the reported job satisfaction of Associate Professor was significantly higher than research assistants (2,59) and assistant professors (2,85) ( $F(4, 151)= 2,518, p<0, 05$ ).

For revealing the relation between job satisfaction and life satisfaction correlation and regression analysis was conducted. There is a significant positive relation between these variables ( $r=0,624, p<0,001$ ).

Table 8

Regression Analysis

| Model | R <sup>2</sup> | Adj. R <sup>2</sup> | Significance | Dep. variable     | Ind. variable    | Stand. Beta | p-value |
|-------|----------------|---------------------|--------------|-------------------|------------------|-------------|---------|
| 1     | .390           | .386                | .000         | Life Satisfaction | Job Satisfaction | .624        | .000    |

Regression analysis was conducted using job satisfaction as a predictor of life satisfaction score. The model revealed that job satisfaction accounts for 38,6 percent of the variance in life satisfaction score with a  $F(1, 154)=98,27, p=0,000$ .

## Conclusion

This study tried to investigate the Turkish academicians' job and life satisfaction levels and the effect of job satisfaction on life satisfaction. Data were collected by means of survey questionnaires completed by 156 academicians employed by the various universities in Turkey. %41 of the respondent was female and %58 of the respondents was male.

When the mean scores for the job and life satisfaction investigated no gender difference found ( $p>0,05$ ). But female academicians job and life satisfaction was slightly higher than the male academicians. But female academicians job satisfaction was slightly higher than the

male academicians. In Turkey main breadwinners of the family was seen as the male. Because of this, despite the low pay female academicians don't feel so much pressures on them and that's why their job satisfaction was high.

Advancement in the career is very important for Turkish employees. So our study findings is consistent with this reality. This is reflected in the age-groups job satisfaction level. 20-30 and 31-40 age group job satisfaction was lower than the 41-50 age group. Generally in Turkey, academicians reach the level of Assoc. Prof. and Professor level in this period. No significant tenure difference found for life and job satisfaction.

Associate professors' job satisfaction was significantly different from research assistants' job satisfaction level. Job satisfaction correlate significantly with life satisfaction. According to regression analysis, job satisfaction explain %39 of variability on life satisfaction. We can conclude that job satisfaction has a spill-over effect.

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Aşkin Keser, Gözde Yılmaz

#### EFFECT OF JOB SATISFACTION ON TURKISH ACADEMICIANS LIFE SATISFACTION

##### Summary

Result of this study verify the spill over effect of job satisfaction on life satisfaction with a regression analysis. Job satisfaction explained %39 variability of life satisfaction among Turkish academicians.

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# AN OVERVIEW OF LOGISTICS INDUSTRY AND ASSESSMENT OF BUSINESSES (Third Party Logistics-3 PL) OFFERING LOGISTICS SERVICES

Emine Koban, Zerrin Firat, Hilal Yildirim Keser

## Abstract

In this study employees in logistics industry, their classification and qualifications will be assessed. Benefits of qualified labour will also be examined. In this context the analysis of the structure of the industry's labour will be carried out with regards to applications and some recommendations regarding employment and employment policy will be made to contribute to development of the logistics industry. Financial policy operations regarding the industry's development and restructuring process in today's fast changing global world where competition has gained speed will be evaluated and some recommendations will be made.

## Keywords

Logistics, Third Party Logistics, Social-Economics Criteria, Competition, Globalization

## Introduction

Businesses are going through more and more pressure originating from competition in today's world when service operations has gained speed in global scale in modern business world and as a result these businesses are continuously seeking for newer strategies. Competition is now hidden in details. Success and ability to hold market share under these circumstances depends on low-cost and just-in-time production, capacity of introducing goods and services to the market at the right time and place with competitive prices. In this process, logistics is considered as a strategic tool.

Logistics which was before considered as only physical distribution now includes a chain of activities and operations which consists of stocks management, careful and effective planning of time, delivering goods and services to consumers with minimum costs just in time and place.

These activities and operations are carried out by some companies within their own organization whereas some prefer outsourcing.

Logistics companies, crucial components and external suppliers of the logistics industry, have increased their market share in global scale which indicates how important their role is.

In this research, the importance of logistics within global competition and its fundamental functions are analyzed. Functions and required qualities of logistics companies are also investigated. A regional field study which was carried out through interviews in order to present socio-economic aspects of businesses operating in freight industry is also introduced in this research. In the conclusion section of the research, an overview of problems faced by the industry is introduced and important points regarding the industry are examined.

## 1. Logistics in global competition and its importance

Globalization is a concept which has political, cultural, social and economic impacts. A general description of globalization with regard to economy can be multi-directional interaction of national economies with

worldwide economies or world as a whole marketplace (İyibozkurt: 1994, s.34). One of the details which has changed in the course of globalization is that the borders between domestic and foreign markets has disappeared and the concept of competition has evolved accordingly. Globalization and trade, which can not be distinguished, are now parts of a whole system. With recent improvements, trade activities have expanded beyond national borders and import-export volume has increased dramatically and the structure of transactions has evolved significantly (Worldbank; 1999, 19). In modern business world it is quite common for corporations to export to and invest in foreign markets. As a result of these changes, the volume of global trade activities has increased considerably against the volume of domestic activities (Rodrigues; Bowersox; Calantone: 2005: 1). The enormous increase in the volume global trade activities is a clear sign of this phenomenon.

Despite the concerns and problems it poses on countries, companies and individual's globalization continues to expand non-stop.

In modern world where the extents of competition has been changing and conditions of global competition exist, companies which now have to compete in global scale have become more sensitive to production and management costs and quality of service.

Under these circumstances, business structures on larger scales such as cost reduction strategies and logistics developed by corporations are now more significant. The importance of logistics in global world has been discussed considerably. Emphasis on competitive function of logistics in global-scale commerce shows its priority.

As operations included in logistics has become more significant in improving competitive skills of organizations, subjects particularly on organizational logistics has been researched in academic level. However, lack of a clear theoretical structure and scientific description has led discussions (Göpfert: 1999, 76-77).

Globalization has led reconstruction of the freight forwarder industry and value added services, supply chain management, distribution services, customs operations, stock, warehouse management, packaging,

quality control, labeling, foreign trade and insurance consultancy have become more important (Orhan: 2003, 94). These factors included in logistics are considered as being the most complex processes and the most important sources of costs in international trade (Rodrigues; Bowersox; Calantone: 2005: 1). In this respect, the importance the planning of these processes which take place within goods and services flow from manufacturer to consumer in order to offer the most accurate services with highest quality and minimum costs has become more and more important.

It's common view among scientists that logistics is a science including the flow of movement from manufacturer to consumer, coordination and planning of this flow (in a way to involve various types of services (Sujeta, Navickas, et al: 2006, 2).

The definition suggested by the Council of Logistics Management is as follows ([www.logisticsworld.com](http://www.logisticsworld.com)); "The practice of ensuring, controlling and planning of flow and storage of goods, services and information of every kind from the very first step of the production to consumers with minimum costs through the most effective ways."

Increasing demand for and use of these processes, which are now more appreciated by organizations and are involved in logistics operations, has restructured logistics and allowed it to expand in an extent to involve various services.

## 2. Improvements in logistics

When its history is investigated it is obvious that logistics is not a new concept. It was originally used as a military term. The concept has been deeply researched since the science of economics emerged.

In early 1900s logistics was considered as a part of management strategy and it was particularly significant in distributing agricultural products as method of time and space management. It was in 1960s when the term logistics was first referred in academic researches. 1966-1970 can be considered as the test period of logistics. From 1970 to 1980 logistics became an organizational concern for private and public organizations. During 1980-1990 period freight regulations, computing technologies and revolution in communication technologies and politics were introduced. In late 20<sup>th</sup> century and early 21<sup>st</sup> century globalization, supply chain management and source management were also involved in logistics. ([upetd.up.ac.za](http://upetd.up.ac.za))

Today, logistics is considered as the optimization of flow of goods, information and people. Logistics is also considered as the source of discussions on outsourcing, value chain, freight economy, distribution planning etc. (<http://www.economiclogistics.unina.it>) In trade industry, logistics is largely business oriented (Orhan: 2003, 10).

In many countries in the world and in Turkey, logistics is one of the few rapidly growing industries. It is also considered as being one of the three industries (Information Technology, Micro Biology, Logistics) which will continue to grow in the 21<sup>st</sup> century. Globalization, expanding global trade, increasing pace and increasing importance of freight, storage and

management of distribution centers have been the driving factors.

Whereas logistics market was \$1.5 trillion in 1995 it increased to \$2.6 trillion in 2002 and this growth is likely to continue.

With globalizing competitive markets, **effective logistics** has become the key factor of success and failure. Professor Martin Christopher of Cranfield University underlines the importance of logistics as follows: "Competitive edge of organizations in the future will not be their products or the country where those products are consumed but it will be their supply chain."

In the global market where levels of quality of products tend to converge, availability and price are the major determinants. End-consumers want to buy products when and where they want and with proper conditions and reasonable prices, which requires quality logistics services. Logistics services are not offered by increasing manufacturers but by organizations specializing in logistics.

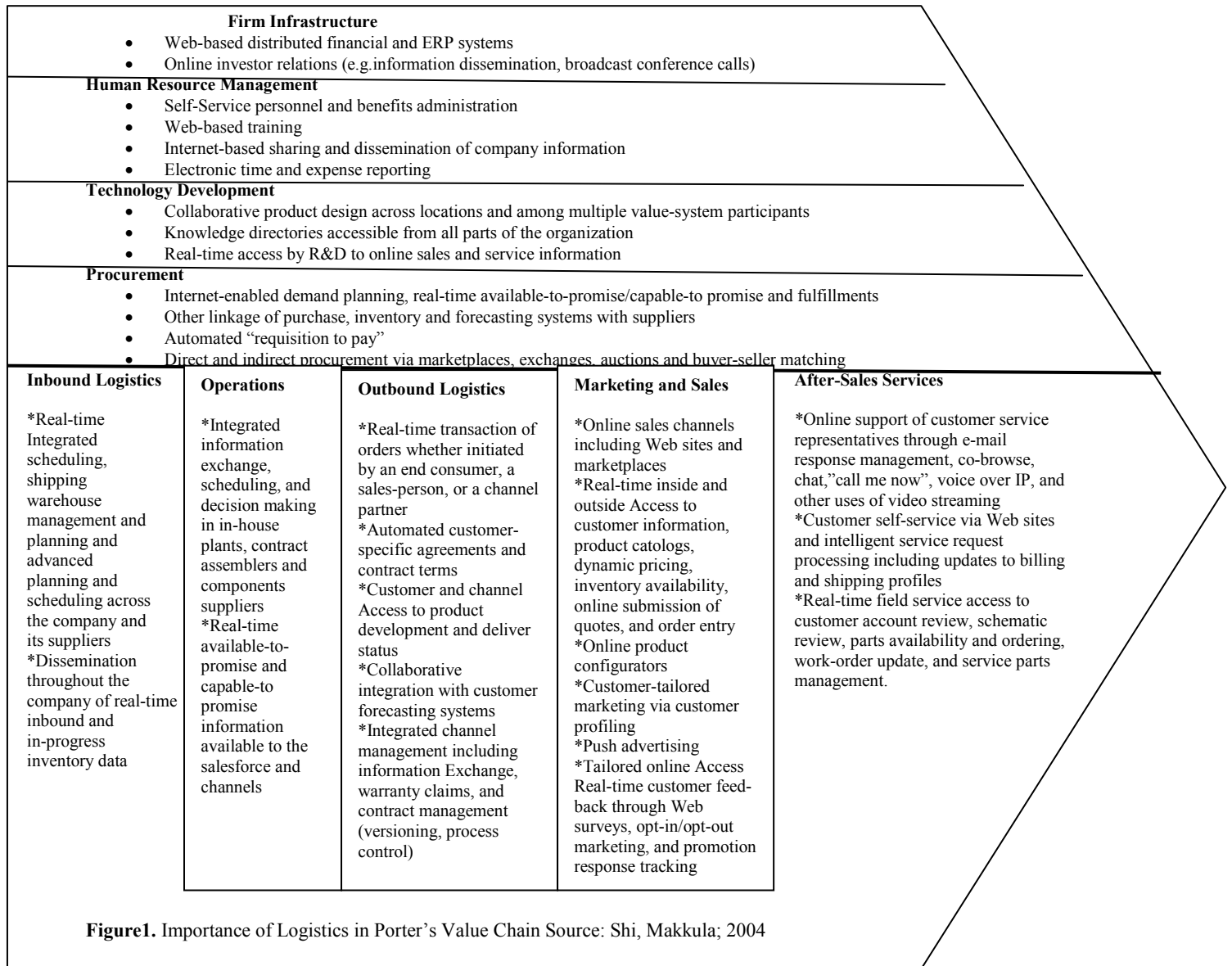
## 3. Fundemantal functions of logistics and operations

Due to globalization, multi-national organizations now have to plan their production and distribution systems in global scale. Purchasing raw materials from different parts of the world and processing them and Introducing products to world markets require a chain of logistics operations (Erdal: 2005, 17). Each operation in itself is a complete system of processes.

It is important to appreciate the importance of operations which can be regarded as logistics among other organizational operations. It is useful to take a look at Porter's value chain in this respect. Porter categorizes organizational operations as fundamental operations and additional operations and he places logistics within fundamental operations (Shi, Makkula; 2004,14).

Figure 1 below shows fundamental and additional operations





The table below will also be useful in presenting logistics operations and functions.

**Table 1**

Details of Logistics Functions and Operations Source: Sujeta, Navickas, Snieska: 2006,6

| Logistics Functions and Operations  |  |   |
|---|--|---|
| Functions   |  | Operations  |
| Fundamental   | Additional   |   |
| <ul style="list-style-type: none"> <li>&gt;Orders acceptance and administrations</li> <li>&gt;Materials, equipment supply</li> <li>&gt;Standards' estimation for consumer services</li> <li>&gt; Storage and its administration</li> <li>Transportation</li> <li>&gt; Organization of store activity</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Package of goods</li> <li>&gt; Return of not conditional good or its intake</li> <li>&gt; Disposal of waste products and tare atliekomis ir tara</li> <li>&gt; Information administration</li> </ul> | <ul style="list-style-type: none"> <li>➤ Loading-unloading</li> <li>➤ Cargo carriage</li> <li>➤ Cargo storage</li> <li>➤ Goods acceptance and extradition in stores</li> <li>➤ Sorting and recruitment</li> <li>➤ Information accumulation, safekeeping and transmission</li> <li>➤ Account with supplies and purchasers</li> <li>➤ Cargo insurance</li> <li>➤ Convayence of property on goods</li> <li>➤ Customs documents administration</li> </ul> |

Logistics operations in Table 1 fall into two categories; inbound logistics operations and outbound logistics operations. Inbound logistics refer to manufacturers' logistics operations which are carried out just-in-time and include supply, transportation, storage and transfer of raw materials to production line ([www.igeme.org.tr](http://www.igeme.org.tr); Shi, Makkula; 2004,17)

Outbound logistics operations include collecting products from manufacturers, storage and delivery to end-consumers([www.igeme.org.tr](http://www.igeme.org.tr):: Shi, Makkula; 2004,17).

Outbound logistics is a process involving physical distribution lines and delivery of goods to consumers. In this process, operations are controlled mutually.

Large companies which operate in international scale in order to carry out these operations establish their own logistics forming various divisions. This model lets organizations to carry out their complex logistics operations within their organizations through different divisions (Locke; 1996, 3).

It is quite difficult for middle and small sized businesses to have their own logistics network. The fact that around 90% of organizations are of small and middle scale makes it unlikely that these companies will have their own logistics infrastructures. Logistics operations are also sources of distraction for small organizations which operate in a highly competitive market. As a result, outsourcing seems to be an important factor in competition.

As shown in Table 1 various logistics operations have direct impact on productivity and efficiency of organizations, which makes establishing or outsourcing sophisticated logistics an important factor in making companies more competitive in global markets. The importance of logistics is now more appreciated by organizations and logistics companies have increased the number of their products.

It is important not to understand logistics as being only a distribution management. Today, organizations describe logistics operations as being complementary and value adding processes.

Consequently, organizations operating in world scale mostly prefer outsourcing. These organizations are also quite careful about the quality, reliability and extent of services offered by logistics companies.

Outsourcing should be seen as a way for organizations of every scale. Using services of organizations specializing in logistics is referred to as third party logistics – 3PL and outsourcing and means that some of fundamental logistics operations (at least three consecutive activities, storage, transportation and stock management) are carried out by specialized organizations. 3PL organizations operate process based rather than activity based and they are responsible for the whole process, which makes them a valuable asset for businesses using the services offered by these specialized organizations.

Outsourcing allows companies to form a business environment where they can focus more on their businesses and operations, reduce costs and benefit from suppliers investment and creativity power and access markets faster. All or some of these operations are carried out by third party logistics organizations. Due to their

nature, logistics operations are open to outsourcing (Oflluglu, Özen, 2003: 81).

*3PL organizations fall into service offering category in outsourcing logistics utilization and carry out logistics operations. Provided that these 3PL organizations offer more integrated services, tend to specialization and become fully responsible for logistics operations and make sustainable progress they will be able to contribute to the industry's development.*

#### ***Contributions of logistics organizations (Third Party Logistics – 3 PL);***

- Reduced costs,
- Effective use of time,
- Reduced in-house investment in logistics operations,
- Ability to foresee costs,
- Transition from constant costs to variable costs,
- Benefiting from experience and expertise of a specialized organization,
- Ability of logistics organizations to adapt their technological and physical infrastructure to organizations they work for,
- Organizations can focus more on their activities,
- Logistics companies offer geographic flexibility and opportunities to enter into new markets
- Logistics organizations allow companies to allocate their sources to keep up with competition and developments in markets.

Today, organizations which focus on their businesses prefer outsourcing for reasons of costs and efficiency. This in turn has contributed to the development of logistics industry and organizations focusing on individual services have emerged.

#### **4. Outsourcing and problems**

Benefits of outsourcing are widely accepted by corporations. However, there are cases when two companies working together face certain difficulties in understanding and guiding each other and management. On the other hand this case does not originate from the nature of the services but from the different approaches of organizations.

Organizations outsourcing their logistics operations should first analyze their needs precisely and then work with a logistics company which will meet their needs and requirements. Occasional problems from both sides cause difficulties.

#### ***Problems faced by organizations during outsourcing (3PL);***

- Risk of losing control for the service receiving organization,
- Excessive dependency on service offering organization,
- Delays or no service at all,
- Organization offering services might not keep up with changes,

- Inability of service offering/service receiving organization in understanding business targets.
- Inability of communicating business targets,
- Privacy concerns,
- Problems in information flow,
- Inadequate infrastructure of service offering organization,
- Non-professional service due to lack of low quality work force,
- Frequently changing regulations,
- Difficulties in determining costs of logistics,
- Difficulties emerging from unbalanced distribution of commerce activities in the world, etc.

## 5. A socio-economic analysis of logistics organizations (3pl)

### 5.1. Overview of Logistics Industry in Turkey

Logistics industry, as in the world, is one of the few industries in Turkey which are developing fast. The progress in logistics industry according to countries is as follows; 7-10% in Europe, 15% in North America and 20% in Asia and Turkey. The portion of logistics industry in GNP is 12% in the USA and 1.5% in Turkey(Orhan; 2003, s.93-94). Market share of Turkey both in domestic and foreign markets is \$23 billion.

An important point of logistics industry in Turkey is the proportion of in-house logistics operations to outsourcing; whereas 25% of logistics operations is carried out by logistics companies approximately 75% of the operations are carried out in-house or several logistics companies are used for logistics operations.

Today, logistics companies focus on offering services from freight to transactions in customs, to labeling to storage as a whole chain of services. However logistics companies in Turkey, due to the structure of demand, do not operate in such a fashion. It is difficult to mention a whole chain of services; logistics companies in Turkey mainly focus on transportation, storage and customs operations.

Foreign investors, on seeing the progress and trends in logistics industry in Turkey, have been entering Turkish logistics markets through alliances and partnerships. These alliances with foreign logistics organizations make it possible for Turkish companies to follow the changes and trends in the world. The history of logistics industry in Turkey is quite new. These companies mainly offer single logistic operations; nearly all of the logistics companies offer freight services and it requires time to develop a multi-service structure.

In global scale, organizations operating in commerce and manufacturing areas tend to receive logistics services from foreign organizations. Even large organizations, which have their own logistics infrastructure, tend to outsource their logistics operations as they are now focused more on costs.

The same tendency is also seen in Turkey but it is not adequate yet. The results of interviews with logistics companies which have been investigated in detail below show that especially small organizations tend to receive only limited logistics services from external sources.

This is partly due to the reasons that small and medium scaled businesses do not want to share company information with other organizations and they want to have control over all operations within their organization and they do not want to change their business practices. However those organizations which tend to expand their market shares have to outsource their logistics operations. In order to add small and medium scaled business to their portfolios, logistics companies are now developing custom solutions for these businesses.

### 5.2. Socio-Economic Structure of Logistics Companies (3PL) in Turkey (Southern Marmara)

In order to present an overview of socio-economic structures of logistics companies in Turkey, 25 foreign and national logistics companies which have head offices/branch offices/agents in Istanbul and Bursa and operate in national and international scale were interviewed.

Samples are of logistics companies which accepted the interviews as of August, 2006 so as to give information for a scientific study.

Organizations which participated in the interviews mainly operate freight centered and they also offer other logistics services. In other words, interviews are mainly consisting of organizations which are mainly freight-centered (so as to give a view of operational fields of logistics companies).

Prior to interviews, 27 questions were used to get a general picture of the company profiles and their socio-economic structures and interviews are based on these questions.

#### Findings;

*Following the interviews, the findings below, which make it possible to evaluate logistics companies, were reached;*

The interviews show that logistics companies are mainly joint-stock companies and only a small portion of these companies are limited liability companies. Consequently, companies are organizational tax payers and their volume of business is proportional.

Those who answered the questions are all senior managers. In order to get accurate information, only company managers -general manager or executive managers- were interviewed.

The age groups of managers and assistant managers who participated in the interviews indicate that the industry is popular among young managers; most of the managers are of 35-44 age group. A few of the managers are of 25-34 age groups and only 1 manager is over 45 years old.

All of the young managers have university degrees and most of these young managers are graduated from Economics and Management faculties as there are not adequate number of schools offering logistics education and most of the managers know a second language. Those who attend post graduate studies get to know the industry when they prepare their essays.

It was observed that companies which have been operating for 5-15 years are in majority. This shows that

the industry in Turkey is still in development phase and companies tend to expand into foreign markets.

As companies now tend to operate in global scale and their demands continue to change accordingly, logistics companies have to adapt themselves to new structures and keep up with global improvements, which have led structural changes in logistics companies.

Companies which participated in the interviews continuously improve so as to offer 3PL services and operate efficiently in international markets.

When asked why interviewees prefer logistics industry, the most frequent reason is that logistics industry is one of the few continuously developing industries. Another important finding is that domestic companies tend to invest in logistics industry as there are foreign investors operating in local markets.

All interviewees explained that their primary goal is to increase their market shares and they are planning to diversify their products and they are open to new investments. It was observed that all of the organizations which participated in the interviews focus primarily on growth.

The most challenging factors in the industry are related with financing, qualified labor force, unfair competition resulting in off-the-record activities and difficulties with international companies.

Financing problem mainly originates from delayed payments. Organizations which participated in the study stated that they use banks for transactions.

Lack of qualified labor force is another serious problem of the industry. Employees working in logistics industry, due to the nature of the business, have to bear some necessary skills such as a second language, knowledge of regulations, ability to find solutions. However, most employees lack one or more of these requirements, which delays the improvement of the industry.

Another striking result of the interviews is that investment in training is either limited or most organizations are unwilling to invest in training programs.

Logistics industry is challenging in terms of long work hours and heavy work load. Interviews show that most employees work over 45 hours a week. On the other hand, this industry creates employment opportunities, especially for young people and this makes it a popular industry, which indicates that training activities are to be adopted by organizations.

Organizations operating in international scale state that the industry is a highly competitive arena. Challenging factors are mainly different regulations changing constantly and legal difficulties. Particularly the lack of know-how on international business dynamics and problems in adapting to regulations of foreign countries are considered as being more serious problems.

Another impressive result of the interviews is that investors and managers working in the industry complain

about high taxes and these taxes retard the pace of improvement.

Taxes (V.A.T./Private Excise Duty) on fuel oil, which is the most important source of cost for the logistics companies, are one of the most important sources of tax revenues in Turkish economy.

Interviewees stated that most common way used to carry out off-the-record activities is exploiting incomplete regulations.

Managers also stated that social security payments are too high and this increases costs and forces some organizations to declare lower wages and less working hours to avoid high costs. Working hours exceed legal limits in the industry. However, only a few large organizations offer premiums and extra hours are not paid.

## **6. Requirements for companies operating in logistics industry (3pl)**

Organizations operating in logistics industry, which is a service industry, have to be aware of their roles in this heavily competitive arena. Logistics processes are critical in meeting demands from target markets. Costs of processes, freight, storage, distribution, packaging, insurance, customs operations etc., are high and all these processes require expertise. As there are various products and each require special operations, logistics companies have to monitor changes and developments constantly. Just as manufacturers and sellers, logistics companies operate in highly competitive markets, too.

Particularly 3PL businesses have to meet necessary requirements to meet demands and offer high quality services. 3PL companies should particularly be careful about offering high quality services to foreign clients. To meet the standards and achieve these goals, companies have to improve their quality and adapt themselves to world markets.

### ***Crucial Points for Logistics Companies***

- To form a model focusing on processes rather than functions,
- To have adequate financial power to accomplish operations,
- Experience and expertise in the industry,
- Continuous development of technological infrastructure,
- A scalable structure allowing companies to adapt to changes in demand,
- Adopting a professional understanding of business,
- Routine and comprehensive in-house training programs,
- Professional labor force; experience in logistics, knowledge of international regulations,
- Operating according to legal regulations.

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## **AN OVERVIEW OF LOGISTICS INDUSTRY AND ASSESSMENT OF BUSINESSES (Third Party Logistics-3 PL) OFFERING LOGISTICS SERVICES**

### **Summary**

Businesses are going through more and more pressure originating from competition in today's world when service operations has gained speed in global scale in modern business world and as a result these businesses are continuously seeking for newer strategies. Competition is now hidden in details. Success and ability to hold market share under these circumstances depends on low-cost and just-in-time production, capacity of introducing goods and services to the market at the right time and place with competitive prices. In this process, logistics is considered as a strategic tool. Logistics is also considered as the source of discussions on outsourcing, value chain, freight economy, distribution planning etc.

Today, organizations which focus on their businesses prefer outsourcing for reasons of costs and efficiency. This in turn has contributed to the development of logistics industry and organizations focusing on individual services have emerged. Logistics industry, as in the world, is one of the few industries in Turkey which are developing fast. The progress in logistics industry according to countries is as follows; 7-10% in Europe, 15% in North America and 20% in Asia and Turkey. The portion of logistics industry in GNP is 12% in the USA and 1.5% in Turkey (Orhan; 2003, s.93-94). Market share of Turkey both in domestic and foreign markets is \$23 billion.

Organizations operating in logistics industry, which is a service industry, have to be aware of their roles in this heavily competitive arena. Logistics processes are critical in meeting demands from target markets. Costs of processes, freight, storage, distribution, packaging, insurance, customs operations etc., are high and all these processes require expertise. As there are various products and each require special operations, logistics companies have to monitor changes and developments constantly. Just as manufacturers and sellers, logistics companies operate in highly competitive markets, too.

Particularly 3PL businesses have to meet necessary requirements to meet demands and offer high quality services. 3PL companies should particularly be careful about offering high quality services to foreign clients. To meet the standards and achieve these goals, companies have to improve their quality and adapt themselves to world markets.

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# THE ROLE OF FINANCIAL RESOURCES IN DEVELOPMENT OF AGRICULTURE IN LATVIA

Inta Kotāne

## Abstract

The article deals with the conception of financing, sources of financing agriculture and agricultural risks management policy implementation possibilities in Latvia using a qualitative research method of foreign and Latvian scientific literature and publications. The analysis of sources of Latvian agricultural financing shows that the amounts of agricultural produce grow, when financing sources available to farmers increase too. In order to study the possibilities of Latvian agriculture financing, a classification of Latvian agriculture and rural financial resources distribution was developed.

## Keywords

Financing, sources of financing, agricultural risks, farmers' income.

Development of Latvian agriculture as well as its competitiveness within the European Union (EU) depends on the accessibility of financing resources and effectiveness of their usage, creating conditions for improvement of farmers' economic conditions and growth of agricultural industry.

The aim of the research is to appraise the role of financial resources in development of agriculture in Latvia.

In order to achieve the aim several tasks were put forward:

- 1) to characterize the conception of financing, division of financing sources and agricultural risks management policy implementation possibilities in Latvia;
- 2) to specify and evaluate the sources of Latvian agricultural production and rural entrepreneurship financing, and determine their influence on changes of agricultural production and farmers' income;
- 3) to evaluate the income of Latvian farmers in the EU context and characterize the state strategic plan 2007 – 2013 for rural development in Latvia;

Foreign and Latvian economic and scientific literature, publications, the EU and LR legislative acts, overviews, reports and statistical data were used to carry out the research. Logical and comparative methods are used for evaluation of the role of financial opportunities.

Diverse interpretations of the financing conception are found in different documents and publications, thus the author divides them into two major groups:

- 1<sup>st</sup> group – financing as provision of necessary financial sources – in explanatory dictionaries (look, e.g., *Lielā ekonomisko jēdzienu vārdnīca* [Big Dictionary of Economic Terms] (14,445), *Gablera ekonomisko jēdzienu vārdnīca* [Gabler's Dictionary of Economic Terms] (15,202), I.A.Blanks (13,473).
- 2<sup>nd</sup> group – financing as allocation of funds for a definite aim - *Ekonomikas skaidrojošā vārdnīca* [Explanatory Dictionary in Economics] (2,153), *Ē.Vēciņš* (11,41).

There exist several kinds of classification of financing, basing on *financing as provision of necessary financial sources*, but according to the author internal and external financing should be specified as the most popular.

- Internal financing – financing of a company from the profit by increasing one's own capital, switching profit into reserve and retained profit.
- External financing – financing of a company using sources that do not directly belong to the company.

Financing of agriculture has characteristic risks determined by the climate and economic factors, which may vary and have an effect simultaneously on all the borrowers in a certain region (draught, floods, etc.). An important role in financing agriculture is given to the factor that farmers' budgets are inwrought with the household budgets and there is a close linkage of financing agricultural and non-agricultural activities, financing consumption as well as household investments. It is worth mentioning that, besides various economic activities, agricultural activities are less profitable and more hazardous than other non-agricultural activities.

In Latvia as well as elsewhere it is possible to insure agricultural risks – floods, hail, frosts, etc. in crop farming, and urgent illnesses, insect and snake bites, dog attacks, etc. in cattle-breeding. Farmers choose not to insure their risks in insurance companies, believing that the state would cover their losses if a risk becomes the reality (drought, incessant rain, intense cold, etc.). In order to compensate farmers' losses the state uses direct compensations as well as premium subsidization. In this case the state expenses are directly dependant on the degree and frequency of the risks. Unwillingness of farmers to insure their risks in the insurance companies is also determined by incommensurably high insurance premiums and the fact that not all insurance companies are willing to insure farmers, because, for example, cornfields are flooded or get frozen almost every year. Thus because of the weak market of agriculture insurance, insurance prices are high and most of the farmers do not have free capital allowing compensation of losses in case of risks.

In many European Union (EU) countries there is a system of insurance of agricultural activities. The Ministry of Agriculture (MA) has developed a conception of agricultural risks management policy development in Latvia. Within the framework of the conception three solutions are provided – state assisted private insurance, a compensation fund and a complex solution. The complex solution includes a combination of state supported private insurance and compensation fund aid (9).

In September 2006 it is planned to accept the conception developed by MA in the Cabinet of Ministers (CM). Out of three solutions offered, the author considers the complex solution to be the most acceptable, which anticipates to maintain the existing insurance of agricultural risks along with creation of losses compensation funds, which could be administrated by Rural Development Fund under supervision of MA. It is important to mention that the support from the fund to agriculture in disadvantaged years would be available only to farmers who have made payments to the fund. Consequently farmers will be obliged to insure agricultural risks in the insurance companies, because the state would not cover the losses if agricultural risks (draught, incessant rain, frost, etc.) appeared.

Agricultural risks management (ARM) policy implementation would create a predictable long-term state policy in the system of compensation and prevention of the agricultural production risks, thus guaranteeing a rise of competitiveness of agriculture as well as vital capacity of rural economic environment. It is planned to introduce ARM policy from 2008 and the author considers that for successful introduction of the policy it is necessary to organize informative activities and publish educational materials for farmers.

It is possible to use internal as well as external financing sources for agricultural activities or financing of production. According to the author, Latvian agricultural and rural development financial resources could be categorized as follows:

1. internal financing – income from selling the production;
2. external financing:
  - 2.1. European Union support (EAMGF) – envisages state co-financing:
    - 2.1.1. Guarantee section:
      - Common market organization activities: direct payments (DP) and market regulation activities
      - Rural development program (RDP) activities
    - 2.1.2. Promotion section:
      - United program-document in agriculture and countryside development activities.
  - 2.2. State support – state subsidies for development of agriculture
  - 2.3. Agricultural programs:
    - Long-term agricultural investments' crediting program (LTAICP)
    - Farmland purchase crediting program (FPCP)
  - 2.4. Financial resources according to the general procedure.

Reposing on gross added value (GAV) in the agriculture industry reflects the results of agricultural production in a definite period of time. GAV in base rates is calculated subtracting the intermediate consumption from the final production. The base rate is a market price which goes to a manufacturer for produced output, adding subsidies and subtracted taxes, which are paid for the definite product. In 2004 and 2005 the growth of GAV in comparison to the previous years was observed (Table No.1). In 2005 GAV for the agricultural industry increased by LVL 53 million or 21.69 percentage points. The income from agricultural activities since 2001 has gradually increased

and in 2005 it has increased by LVL 123 million or 130.85 percentage points in comparison to 2001.

When Latvia became a member of the EU, the possibility for farmers to take the advantages of the EU and Latvia state budget financial support as additional resources for agriculture and farming development became available. The EU support for agriculture and countryside development is implemented by the instrumentality of the European Agriculture Management and Guarantee Fund (EAMGF). The guarantee section finances farming expenses while the management section – rural development. The functions of the payments agency of EAMGF guarantee section are performed by Rural Support Service (RSS), which include administration of Common Agricultural Policy (CAP), Common Market Organization (CMO) activities and Rural Development Plan (RDP) activities depending on the agricultural industry. The analysis of RSS amounts of support payments (Table No.1) shows that, uptake of the EU budget financial resources appropriations, Latvian farmers and rural entrepreneurs have acquired a lot more financial resources that it was possible when there were only state assigned subsidies (in 2001). Total financing of agricultural programs from 2002 through 2005 was LVL 23 million.

**Table 1**  
Indicators characterizing the agriculture of Latvia in 2001–2005, millions LVL (1;5;7)

|                                     | 2001  | 2002  | 2003  | 2004  | 2005  |
|-------------------------------------|-------|-------|-------|-------|-------|
| GAV base rates, millions EUR        | 244.3 | 234.0 | 221.1 | 275.0 | 297.3 |
| Income from agricultural activities | 94    | 96    | 102   | 190   | 217   |
| RSS payments including:             | 20.9  | 32.7  | 54.9  | 110.5 | 229.0 |
| EAMGF Guarantee section, RDP and DP | -     | -     | -     | 54.1  | 132.7 |
| State subsidies                     | 20.9  | 29.2  | 34.1  | 18.8  | 23.4  |
| SAPARD                              | -     | 3.5   | 20.8  | 27.4  | 19.3  |
| Structural funds                    | -     | -     | -     | 10.2  | 46.9  |
| Intervention                        | -     | -     | -     | -     | 6.7   |
| Agricultural programs, including:   | -     | 4.1   | 5.1   | 5.3   | 8.5   |
| LTAICP                              | -     | 2.0   | 3.6   | 3.6   | 4.9   |
| FPCP                                | -     | 2.1   | 1.5   | 1.7   | 3.6   |

Summarizing data in Table No. 1, one can draw conclusions that amounts of livestock production grow when farmers' available resources increase.

Positive changes can be observed in Latvian livestock production, for example, changes of amounts of produced livestock production, excluding the influence of the price factor. (Table No. 2)

**Table 2**  
Livestock production in Latvia in 2001 – 2005 (4)

|                                | 2001  | 2002  | 2003  | 2004  | 2005  |
|--------------------------------|-------|-------|-------|-------|-------|
| meat (live), thousands of tons | 89.8  | 92.1  | 105.4 | 108.6 | 112.9 |
| milk, thousands of tons        | 846   | 811.5 | 783.1 | 784   | 806.8 |
| eggs, millions of units        | 452.5 | 508.6 | 508.8 | 527.4 | 545.7 |

Production of meat in 2005 in comparison to 2001 has increased by 23.1 thousand of tons or 25.72 percentage points. Milk production in 2005 in comparison to 2001 has decreased by 39.2 thousand of tons or the fall was 4.63%. It is worth mentioning that in 2005 in comparison to 2003 and 2004 milk production increased and the long-term agricultural investments' crediting program could be one of the factors, because the greatest number of projects run in 2005 was projects for development of dairy-farming. Eggs production in 2005 in comparison to 2001 has increased by 93.2 million or 20.6 percentage points.

After analyzing the indicators characterizing degree of interconnection of Latvian agriculture from 2001 until 2005 (Table No. 3) one can conclude that the tightest interconnections are between agriculture GAV in base rates and income from agricultural activities, and 89.41% of income from growth of agricultural activities determined changes in agriculture GAV base rates.

**Table 3**

Indicators Characterizing Degree of Interconnection in Latvian Agriculture from 2001 until 2005 (author's calculations)

| Factorial feature                    | Productive feature                  | Correlation coefficient     | Determination coefficient |
|--------------------------------------|-------------------------------------|-----------------------------|---------------------------|
| GAV in base rates                    | Income from agricultural activities | 0.945565<br>Close coherence | 0.8941                    |
| RSS payments                         | GAV in base rates                   | 0.88632<br>Close coherence  | 0.7855                    |
| RSS payments                         | Income from agricultural activities | 0.933122<br>Close coherence | 0.8689                    |
| Agricultural programs                | GAV in base rates                   | 0.809149<br>Close coherence | 0.6547                    |
| Agricultural programs                | Income from agricultural activities | 0.816011<br>Close coherence | 0.6659                    |
| RSS payments + Agricultural programs | GAV in basis rates                  | 0.915193<br>Close coherence | 0.8376                    |
| RSS payments + Agricultural programs | Income from agricultural activities | 0.915365<br>Close coherence | 0.8379                    |

The analysis of RSS payments and impact of agricultural programs on agriculture in base rates as well as the profit from agricultural activities shows that a greater impact is observed on the profit from agricultural activities. So the growth of profit from agricultural activities is determined not only by manufacturing of agricultural products, but also by payments, that are not directly related to production, for example, unified area payments and payments to less advantageous areas.

Appraising production of agricultural products and wherewith the profit from agricultural production one can conclude that in comparison to the European farmers' profit Latvian agriculture industry has developed and the increase of farmers profit from 2001 – 2005 testify it. According to Eurostat data (3) in 2005 European farmers on average earned 5.6% less than it was in 2004. Farmers' income has decreased because the volume of production has decreased as well as selling prices of

production. The greatest decrease was observed in Portugal (-12.0%), Slovakia (-10.6%), Italy (-10.4%), Spain (-10.3%) and France (-10.1%), but the greatest increase – in Lithuania (+24.6%), Ireland (+16.5%), Latvia (+13.1%) and Czech Republic (+12.6%).

Assessing the increase of farmers profit in last 5 years, the leader is Estonia followed by Latvia, Poland and Lithuania. In comparison to 2000 farmers' profit in Estonia has increased by 172.8%, in Latvia by about 143.1%, in Poland – 105.7% and Lithuania – 103.3% while the greatest fall was in Greece (by -24.8%).

Farmers' profit prognosis of the European Commission from 2004 – 2012 (in Table No. 4) testify that farmers' income per employee on average will increase by 12.8% in the EU (EU – 25) in 2012 in comparison to 2004.

**Table 4**

Farmers Profit per Employee EU-25 2006 – 2012, %  
(2004 = 100) (10)

| Groups of countries | Years |       |       |       |       |       |       |
|---------------------|-------|-------|-------|-------|-------|-------|-------|
|                     | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  |
| EU-25               | 104.3 | 103.5 | 107.7 | 106.6 | 110.6 | 111.5 | 112.8 |
| EU-15               | 102.5 | 101.2 | 103.3 | 101.9 | 104.7 | 105.3 | 106.0 |
| EU-10               | 117.9 | 118.0 | 141.2 | 138.0 | 149.3 | 147.6 | 150.3 |

In the original member countries (EU – 10) farmers' profit per employee in 2012 in comparison to 2004 are envisaged to increase by 6.0% while in the new member countries (EU – 15) farmers' profit per employee in 2012 in comparison to 2004 are envisaged to increase on average by 50.3%.

The Commission encouraged accepting a new ground regulation about CAP financing together with the EU financial plan from 2007 - 2013 and suggested to establish two new European agriculture funds, determining their expenses: (8)

- European Agriculture Guarantee Fund (EAGF) – would finance market activities;
- European Agriculture Fund for Rural Development (EARD) – would finance rural development programs.

The Ministry of Agriculture has developed a state strategic plan of Latvia rural development in 2007 – 2013 as it is prescribed in Article 11 of Regulations No. 1698/2005 passed on September 20<sup>th</sup>, 2005 about the support for rural development from the EU. Latvia rural development strategic plan was developed considering Community's Rural development guidelines 2007 – 2013 and Latvia national development plan 2007 – 2013 project. The strategy is based on the situation analysis and its main aim of is “a prosperous man in sustainable, populated Latvian countryside”, and in order to implement the strategy four areas of activities were brought forward:

- Development of rural people's skills;
- Increase of income from work in rural areas;
- Sustainable management of rural nature resources;
- Development of rural life environment. (6)

Within the framework of these areas, activities will be financed from the state as well as the EU support. Total planned public financing 2007 – 2013 - 1067979986 EUR, will be divided into the following directions:



- Raising of competitiveness in agriculture and forestry sectors – planned 533989993 EUR or 50% from the total amount.
- Improvement of environment and rural landscape - planned 320393996 EUR or 30% from the total amount.
- Diversification of rural life quality and economics – planned 213595997 EUR or 20% from the total amount (12)

Latvian farmers and rural entrepreneurs have proven their ability to uptake the EU appropriations starting from SAPARD then with the EU payments and the EU structural funds as well as in due time usage of allotted funds for RDP activities.

Considering the 1<sup>st</sup> year of the EU membership experience, MA in 2005 carried out improvements in support receiving conditions in order to facilitate providing support to those farmers who perform agricultural activities not only accomplish minimal requirements for receiving support. Therefore, the year 2005 can be considered as a start of the stabilization process in order to achieve maximum support for agriculture as an industry by support payments.

In the time period from 2007 until 2013 Latvia should make use of the EU offered financial resources for agriculture and rural development to the utmost, thus ensuring further development of agriculture and improvement of farmers' economic situation.

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Inta Kotāne

## FINANSIŅŲ RESURSU VAIDMUO, IŠVYSTANT ŽEMĒS ŪKIO SRITĪ

Santrauka

Straipsnīje apsvartīta finansavīmo savoka, žemēs ūkio finansavīmo šaltīnījū suskīrstīymas īr žemēs ūkio rīzīkū vadovavīmo polītīkos īdiegīmo galīmībēs Latvījoje, naudojant ūzsīenīo šalījū īr Latvījos moksīlīnēs lītērātūros īr publīkacījū kokybīnīo tyrīmo metodā. Analīzuojant Latvījos žemēs ūkīo īr kaimo finansavīmo resursus, konstatuota, kad žemēs ūkīo veiksmo pajamū padīdējīmā nustato ne tīktai žemēs ūkīo produktū gamyba, bet īr īmokos, kurios nēra stačiai susījē su gamyba. Žemēs ūkīo finansīnījū resursū padīdējīme padīdēja īr pagamīnto žemēs ūkīo produkcīja. Latvījos žemēs ūkīo finansavīmo galīmībījū suvokīmū sudaro Latvījos žemēs ūkīo īr kaimo finansīnījū resursū suskīrstīymo klasīfīkacīja.

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# INNOVATION MARKETING: PROBLEMS AND PERSPECTIVES

Nadiya Kubyshyna

## Abstract

Market globalization and internationalization became world trends. That's why Ukrainian market and international ones are acquiring common features so that innovative activities form core direction of entrepreneurship. Marketing research is one of the main tools of innovative marketing. The article devoted problems and perspectives of innovative activity within the world market; there is proposed also marketing research methodology for formulating corporate innovative activities.

## Keywords

Innovation, innovation activity, innovation policy,, priority, structure, new product.

## Introduction

Innovations have become the factor that influences greatly on the formation of national competitive products. At present favorable conditions have been created in Ukraine for successful realization of innovatory activity. But the forms and sales means connected with the introduction of innovation into the market have not been defined yet. Taking these into account the article deals with the consideration of such problems as:

- Determining strategic trends in innovatory activity;
- Marketing supply of innovatory activity of the firm;
- Modern methods and means of state regulation of innovatory process;
- Mechanism of the introduction of innovation into production;
- new organizational structures ( technopolises, techno parks, venture organization).

Innovation policy determines competitiveness and necessitates change of both home and foreign policy directions. These changes are followed by managerial decisions which react on quick movements on the outside environment net and market needs because of the scientific-technical progress.

Theoretical and methodological basis of this paper is formed by the research of Ukrainian and foreign scientists in the sphere of new goods, analysis of the effectiveness of new goods testing under market conditions; as well as state laws and regulations that regulate business activities in Ukraine. In the article methods of logical results generalizing, economic and statistics methods of analysis, structural and functional analysis, as well as graphic analysis were used

The aim of the article is to formation of the national innovation policy Ukraine of national economics. Analysis of national innovation systems of different countries gives possibility to define main tendencies of national activity, namely:

- Growth of production dependence on scientific knowledge, technology and requirements of the market;

- Coordination of economic interests of producers and consumers;
- Interaction between scientific institutions and production sector;
- New technologies diffusion.

## 1. Theoretical part

The conceptual approach to the innovation theory was carried out by J. Shumpeter. He considered the innovation to be the change of the production technology and to have the essential meaning and importance.[5 ]

The analysis of the latest achievements and published materials on the problem of formation of the national policy proves that there are not enough conditions in Ukraine to create of innovation policy, although there are all the elements to do it. [3,5,6 ]. The modern theory of new products development is based on the results of foreign researchers of business [4, 5,] the techniques they developed in the field of new products development have become an important element in planning and managing innovated products in the countries with the developing economies However, there is a lack of fundamental methodological works in modern literature on economics that view the innovation as an integral part of the economic improvement in Ukraine. All mentioned above shows that there is no unique approach as to the development of innovating goods, with the marketing approach involved. I mean the focusing on the research at the innovation marketing.

## 2. Result and analysis

The main elements of innovation policy are:

- Institutional establishments;
- Firms and communication networks;
- Market infrastructure;
- Forms of government regulation;
- Educational activity; financial innovations.

The above mentioned elements make up an integral system of innovation policy that gives possibility to suggest formation and development of some models. While forming these models the main technological priorities of development and the main branches are picked out: saving resources technologies; new materials and kinds of products; biotechnologies; space; defense

technologies; metallurgy and transport. As to science capacious industries it is necessary to distinguish traditions mature and young fast developing ones. Aircraft-building is a traditional industry and mobile phone communication - a young and bursting one.

To form Ukrainian innovation policy the government has to provide progressive structural reconstruction of economy and first of all to reform education and science which form the basis of the country's scientific and technical development. Nowadays in Ukraine there are stable tendencies of scientific potential shortening which, together with limitation of high quality education, availability critical state of material security of scientific activity can lead to irreversible destruction of the existing scientific potential.

Besides the structure of scientific resources shows shortening of feeding power of innovation-oriented works.

Innovation subjects are:

- **the state**. It is on level of the state that strategy of the country's innovation development is determined, innovation activity is financed and system of attracting private investors for innovation activity funding is worked out.

- **enterprises and institutions of all sizes and ownership;**
- **scientific-research institutions and design bureaus.**

In case of using the approach characteristic for engineering sciences the function of the system is considered to be the process of "generating" and processing the information. Thus, bringing in to the system any new information is not the privilege of research and development sphere, as it can be done by the subsystem of production and marketing.

New products development is at the cross-roads of marketing, scientific-technical and production decisions. And the main attention is focused on customer's needs, determination of market segments and niches in connection with technical possibilities of using achievements of science and technology to develop and promote more affective new goods. Thorough market attitude and new product development influence greatly on the formation of optimal goods variety of an enterprise and ensuring compatibility and sustained profit.

Ideas generation and selection usually takes place without taking into consideration consumers' points of view; and the main role belongs to producers and researchers. As a result not always the piloting sample meets the market demands that are consumers' demands. That is why, enumerated above criteria are the basis for a new product development: design, new technologies of its production, testing of new samples under the market conditions.

Rather complicated role is given is the sale sphere that participates in processing and generating new information and has the function of managing the process.

The efficiency of the closed innovation circle is determined by the form and level of the effectiveness of the central sphere of information processing. Brain centers are focused on the processing technological information and are aimed at taking managerial decisions on the problems of an enterprise.

Innovation activity in Ukraine is one of the key factors in competitive battle. Local industrial enterprises still use old-fashioned technology, which leads to the production of uncompetitive industrial products importing mostly raw materials and sub products.

According to the world economic forum Ukraine occupied the 83d place of 104 countries due to the rating of usage new technologies and innovations; and due to the possibility to adapt new technologies the country was 97<sup>th</sup>. According to the State Statistics Body of Ukraine three quarters enterprises of those that carried out innovations in 2004 enlarged the variety of products; 60% kept and expanded their traditional markets; and every third enterprise improved the flexibility of production, production resources and labor conditions. Every second industrial enterprise built new markets; about 30% - abroad. 28,9% enterprises that are oriented on the innovation, introduction of new ideas had results in the reduction of environment pollution; 23,4% performed in cutting power expenditures; 19,5% reduced their material costs [1].

The most attractive direction in innovation activity for national enterprises is the production of innovation goods, this is followed by implementing new technological processes. The task of a new product planning consists of the search and development of alternative variants of goods policy, analyzing their possible chances and risks. Within the view of improving the results of planning actions it is important to pay attention to basic problems of product innovation, which are the follows: generating ideas stage, ideas selection stage and ideas realization stage (piloting marketing). New products development is at the cross-roads of marketing, scientific-technical and production decisions.

The most attractive direction in innovation activity for national enterprises is the production of innovation goods, this is followed by implementing new technological processes. If we analyzed the innovation activities in different industrial branches in 2004, we will notice that the most active in innovation sphere were the If we analyzed the innovation activities in different industrial branches in 2004, we will notice that the most active in innovation sphere were the enterprises producing coke and oil refining products, the enterprises in chemical industry, machine-building, metallurgy and metal processing. Big enterprises (25%) were the most active. In all industrial enterprises of Ukraine innovation activities were carried out mostly by mean of their own funds.

The negative fact is decreasing in number of scientific workers, small number of implemented high technologies, assimilating innovative products.

Of all the number of Ukrainian enterprises (9920) there is small amount of realized innovative products. For example, in 2004 more than 500 industrial enterprises had 1% to 10% realized innovative products of all produced.

Thus, the main disadvantages of the innovation policy are:

- lack of estimation methods of innovation projects efficiency;
- absence of correlation between science and market needs;
- financing the non-priority directions;

- drawbacks of legal basis;

While developing national innovation model first of all it is essential to analyze the factors influencing innovation activities. We think that they are the following:

\* available resources in Ukraine (natural, financial, labor);

\* innovation policy of the state and its support; factors that restrain the development of innovations in Ukraine, among which are worth-mentioning:

\* underdeveloped competing environment;

\* domination of the economic activity that deals with the search and appropriation of rental type profits, which keeps back the demand for innovations;

\* not satisfactory level of protecting intellectual property which negatively affects the stimuli of subjects of innovation activities;

\* lack and imperfectness of both governmental and non-governmental financial mechanisms important for the development of all chains of innovation activities, starting with the sphere of fundamental research and up to the launching products and services into the market.

We consider the priority branches of industry to be the following:

- aircraft industry;
- electric power industry;
- resources saving technologies;
- biotechnologies;
- nanotechnologies, microelectronics, information technologies, telecommunications;
- chemical industries, new materials development;
- metallurgical industry, instrument engineering and machine building industry need to be modernized as they are the basis of high technological up-dating of all industrial branches.

Fundamental and applied researches are very important to improve the mentioned above industries to the world standards in the following branches:

- chemical technologies improvement, new materials;
- biotechnologies;
- development of resources saving technologies as in Ukraine we have the highest indices of industrial resources capacity, it is true, first of all, for power saving;
- nanotechnologies, microelectronics, information technologies, telecommunications;
- development of the technologies that can help to modernize the existing funds in metallurgical and machine-building industry, instrument engineering up to the stage when they are completely up-dated; as at the present stage, because of the outdated principal funds, Ukrainian products are not competitive;
- to keep supporting those design bureaus that carry out new aircrafts and modify the existing ones.

It is evident that industrial development and corresponding fundamental and applied research need financial resources. The state is not able to meet the demands of an enterprise in full, that is why investors

should be encouraged. So the role of the state can be described as follows:

- to regulate the legislation system. It means to create uniform simple and transparent tax legislation; to simplify procedures of registration of enterprises, patenting, licensing etc., and to create the legislation to stimulate innovations at enterprises;
- to create corresponding legislation and invest money into the formation of market infrastructure;
- to struggle against the bureaucracy that restrains investor's free work in Ukraine and makes him dependent on a bureaucrat;
- to reform budget sphere, gradually redirect money from "eating" to innovative technologies development;
- to carry out money amnesty and stop reprivatisation processes.

Innovation activities (research and implementation) can be financed by the following:

- ^ the state (priority fundamental research at first);
- ^ joint-ventures;
- ^ existing enterprises and institutions with the help of their profits;
- ^ investing companies and funds;
- ^ banks, pension funds;
- ^ others.

All mentioned above is not enough for the full-valued development of innovation process in Ukraine. Innovations are very essential in:

1. Social sphere. It is important to develop the population with the help of education improvement, healthcare, to simplify information access for all strata of society, to form public society. It is evident that the society with the underdeveloped and not healthy population cannot follow the innovation development.

2. Ecological sphere. In this sphere it is important to work out the quality of drinking water; to improve ecological situation in big towns which is connected with transport; to look after the ecological condition of Ukrainian APS and to provide guidance of natural parks and recreation zones, otherwise the population health will deteriorate.

We can name the following as innovation subjects:

- state;
- enterprises and institutions of all sizes and ownership;
- joint-ventures, banks, pension funds, investing funds and companies;
- scientific-research institutions and design bureaus;
- techno-parks;
- population.

On the basis of all said above I designed the model of innovation policy of Ukraine.

## Conclusion

If we look at the given of national innovation policy, we can formulate the following recommendations to

guarantee the implementation of innovation activities at the industrial enterprises:

- to improve principles and methods of state financing of innovation activities;
- to organize the system of stimulating activity of venture funds and firms in the innovation sphere;
- to create innovation infrastructure;
- to state tax privileges for the enterprises with innovation orientation (techno-parks, incubators);
- to support small and middle business on the state level;

- in the sphere of education to create individual approach, to search for talented young people;
- to cooperate successfully on the level of higher educational institutions and firms;
- to initiate the organizations of the system of sustained monitoring of innovation activities in industrial branches. Proceeding from the mentioned above the implementation of these recommendations can promote the formation of the model of national innovation policy and implementation of effective mechanisms to stimulate innovation activities and innovation culture of the society.

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#### INNOVATION MARKETING: PROBLEMS AND PERSPECTIVES

##### Summary

The full value use of innovations for national development takes place only provided goal oriented policy conducted by the government. It is of vital importance for Ukraine which has great innovation potential and which, in its turn, is not sufficiently used especially due to lack of adequate national innovation policy. National innovation policy determines competitiveness and necessitates change of both home and foreign policy directions. The article covers innovation activities of Ukrainian enterprises; disadvantages and perspectives; it presents the analyzed models of innovation processes and the author's approach towards the development of the model of national innovation policy (structure and its elements).

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# THE PLACE OF A BOOK AS A SOCIAL PHENOMENON IN A SPACE OF MODERN SOCIAL CHANGES

Audronė Lapienienė

## Abstract

The aim of this article is to inspire a discussion about the influence of social changes to cultural processes and to dwell upon the cultural needs of Lithuanian society and the cultural situation of today. A book as a constituent part of mass culture is discussed. The article raises a readability issue which has become a serious problem illustrated by an empiric research throughout Lithuania and also big ambitions of the publishers to bring the society back to a book. Western experience is provided in parallel with them. Social processes influence the book market and text communication immensely. The relationship of a book as a social phenomenon with modern consumers' society is changing. Mass communication and the relationship of modern man with means of mass communication are becoming a significant element of the social structure. The tendencies of social changes are valuable for modern processes of mass culture on the one hand, but on the other hand some damaging influence can be felt. Artificial and basic values are created, fragmentation become more severe.

## Keywords

Social changes, artificial and basic values, book, communication.

### The Function of Communication Culture

Social changes which were brought by globalization processes provide a brilliant possibility for a communicational function of culture in the first place. Modern technologies expand the possibilities of using book culture greatly. Apart from direct communication among people a new type of communication with subordinate "informational cosmos", formed by screen-computer culture, has been created. [1] Computer revolution started a new era where the main thing is receiving information.

Oswald Spangler in his work "The Sunset of the West" written after the WWI wrote that the end of Europe was marked by extended entertainment, spectacles, mass gatherings, and sports cult. [3, p. 89]

Spanish philosopher José Ortega e Gasset in the rebellion of masses mentioned the cult of spectacles as a symptom of the beginning of masses, gigantic buildings, and epoch of vulgarity. [3, p. 89]

Marshall McLuhan predicted the end of the era of culture and a book which was marked by the dominance of the view and the beginning of global electronic era. In his book "Guttenberg's Galaxy" he maintains that communication technologies, the speed of informational expansion, and methods of their perception are the main dynamics of society and culture development. [1, p. 344] The appearance of printing technologies, the flow of books, and general education, in his opinion determined a dominance of national states, industrialization and mass market.

According to Davig Held, "culture is a form of an immediate perception and experience of globalization". Despite the complexity of cultural interaction among societies in recent three millenniums and the beginning of a new millennium, a unique and unprecedented, more intensive movement of images and symbols and unusual development of ways of mentality and communication showed up. History hasn't seen such big amount of changes in cultural values which occur due to modern

infrastructures of telecommunications, broadcast and transport. [2]

The function of communication culture is important because it "brings spiritual experience of nations on Earth, principles of the world vision, value systems, and cultural symbols closer together". [1, p. 347]

This "natural bond of culture and communication is one of the basics of modern science of culture". [7]

A new type of global society and universal cosmopolitan culture related to it is being formed within the boundaries of means of communication, influenced by new dynamic electronic means of communication which provide new opportunities for communicative function of culture. In the first place, because communicative function of culture is directly related with the informational one, the informational function guarantees the continuity of cultural values and symbols and spread in boundless space.

### Mass Communication – an Element of the Social Structure

Mass communication and means of mass communication realizing it (MMC) are becoming an extremely significant element of the social structure. Their significance can be defined by the following arguments mentioned by a number of specialists:

1. The arena where social life is taking place. This is the main source of social reality vies and definitions, a place where the values of cultural and social society are formed and entrench, where they are protected and imaginatively expressed.
2. A means of becoming famous and gaining recognition, of checking what is acknowledged as a norm in society, of determining deviations from it.
3. Means of mass communication as a business branch makes a big influence on economics. [9]

However, in order for communication to take place it is important that the following structural elements of the process of mass communication – reports of mass

communication, senders of those reports, the receivers of those reports (auditorium, audience, society) and society as a context of the process of social mass communication. "While communicating, not only the process itself but also creation of meaning is important. A report should be created using symbols, possessing certain meanings which could be decoded by a recipient". [8]

In order to develop a successful procedural paradigm which analyses how senders and recipients code and decode information, how transmitters use communication channels and devices necessary to transfer information effectively and accurately.

"The correct" presentation of a book in the fair is a guarantee that the book sells well. During the four days *The Baltic/Vilnius book Fair 2006* was visited by 55 thousand people, whereas in 2005 there were 5, 540 thousand people. The same number in 2004.

The publishing house "Tito Alba" which annually invites a not necessarily famous but charismatic, i.e. from the marketing point of view suitable writer-speaker, gains very much. This year it "served" its readers a modern phenomenon of Spanish literature Xavier Sierra, who told a story of creating a book in a very intriguing way. The result: 491 copies of Sierra's novel "The Mysterious Supper" was bought and the whole circulation of 3000 copies, published in December, was sold. The publishing house "Alma Littera" invited a Norwegian writer Herbjorg Wasmo. Long before the fair the reading part of the nation were mentioning this writer's name as the main and the greatest news of the fair. Before entering the exhibition hall there was a whisper "Wasmo Wasmo" in the huge crowd. This writer, who made herself famous with her book "I am Dina" as well as its sequels, was the most hunted celebrity of the event. It was impossible for those late to get into the conference hall where the writer socialized with her fans. Those who wanted to get her autograph first of all swept the shelves with her books and later on queued patiently. Queues is a certain index of a writer's popularity.

Communication is really the process during which a person can affect other person's behavior or spiritual state.

### Mass Culture – the Effect of Globalization

"New communication technologies, emerging companies of international media created global flows of cultural presentations which strengthened the process of culture mixing and made it more various and rapid. This is a certain challenge to national cultures. However this challenge partly arises from products and meanings of pop culture as mass communication is closely related with phenomenon of mass culture.

There are few more evident examples of globalization as popular cultural images and world recognition of literary works. Universal symbols of globalization have become *Coca-Cola*, *Madonna*, *CNN News*" [2, p. 389] and the novels by a writer Dan Brown.

Nowadays a novel that inspired the world intrigue Dan Brown's *Da Vinci Code* although American writer's Dan Brown's works are appreciated controversially he has become one of the most readable contemporary authors. He stayed in the most popular books' list of the *The New*

*York Times* for 20 months. A literary work of fiction can rarely boast of such big attention from critics. This book influenced tourism as one of the most evident forms of globalization. A lot of people wanted to visit Paris, Louvre after they have read the book and also became interested in history. "Enjoy *Da Vinci Code*. It is a fantastic novel. I am very happy to have read it. However, while reading one must constantly remind himself: this is just a novel. This is just a novel, says Craig L. Blomberg, a professor of theology at the Denver Seminary (USA). This situation can be easily explained as many of us are receivers of mass pop culture and it's a constituent part – literature, which "corresponds to a few parallel - interacting but not identical – literary and social cultural phenomena. [11] The divide between popular novels and the cinema, television, press, and tourism is not strict. The favored texts of mass literature are reconstructed into another phenomenon of mass culture – melodramas and televisions series. And vice versa, love "the novels of feelings" follow television melodramas and popular writers occupy the permanent columns of daily papers. [11]

The outcome of globalization, new social changes and information are commercial entertaining texts created by a post-modern culture, where there is no depth, no content, and no polysemantic meanings. Culture theorists J. Baudrillard, F. Jameson, D. Kelner speak about "shallow texts" and emerging of a new kind of superficiality in the culture of post-modern view as well as disappearance of their hermeneutical interpretation. Post-modern society professes and demands culture which in the first place performs an entertaining function. Already in 1984 a Czech scientist D. Jancar while visiting America got surprised on the very first day not seeing the rubric *Culture*: exhibitions, plays, and literature where announced in the column *Entertainment*. This situation has become very familiar to Lithuanian society as books nowadays are presented by most different newspapers and magazines – "Moteris" ("Woman"), "Laima", "Verslo Žinios" ("Business News"), "Nemunas", "Moters savaitgalis" ("Woman's Weekend"), "Lietuvos Rytas" ("Lithuanian Morning"). In other words, what ever a publication gets into your hands almost all of them contain information about books being published, sold, and bought.

According to V. Pruskus, it is possible to point out the following main features of mass culture: non traditional, non elite, produced on a massive scale, popular, commercial, homogeneous, standard, seeking benefit [9, p. 13] whose principles of perception according to J. Fiske are variability and productive pleasure [4]. "The mechanism of light identification with it and its heroes as well as an illusion that they themselves can follow their idols footsteps is provided to its users. The strength and liveliness of pop culture lies in a light interchange among users – no matter who uses it. A nationality, an individual, an identity, or a cultural context plays comparatively insignificant role here – it is just a culture perfectly adapted for mass usage. Consumption world outlook and consumer mode of life" [3, p.91].

The book fair of 2004 in Frankfurt was called "A Book Fair without Literature" because it was covered more and more often in business, and not literature columns despite

the fact that the majority of writers representing the elite culture of their cultures attended it.

Therefore, modern society is content not with solid cultural text but a fragment taken out of context, a summary, a set of quotations.

### **Where will Pragmatism Lead?**

In this way the nurtured mentality of book civilization is lost whereas standardization becomes stronger. [1, 346] Modern society is divided in two centers. The first one is formed by the market. Extravagance, scandals and different curiosities facilitate getting into adapting and becoming a member of that center. The public arena is now very favorable for this trend of literature. The other center is formed by the people from an academics sphere and literature that should dominate here is the one capable of forming an arch of meaningful human world outlook. However, it looks like there is no more pure elite consciousness.

Analyzing entirety of book production it is seen that entertainment literature prevails which is the most favorite leisure read. The needs of modern reader could be defined in the following way: a writer shouldn't torture the reader with long sentences, a deep meaning, deviating from the topic, and huge philosophical problems. A novel should be simple so that you could read it at one sitting like drinking a mug of beer in one draught.

The mission of a book today can be perceived rather simply. However, it is difficult to see it as a material for reading in the consciousness of society. Buying books has actually become fashionable as reading them has become fashionable too, says G. Vaskelis. [6] However, research shows the opposite.

### **The Lithuanian and the Western Experience**

The Seimas ordered a research of social opinion in January-February 2004 which showed that 1/3 of Lithuanian citizens don't read books and about 70% of Lithuanian people don't read newspapers.

While observing the common tendencies of reading books the majority of non readers is formed by older people who maintain that the main reason for this is a lack of income. More various types of literature is read by women while men lag far behind as far as literacy is concerned.

According to the director of Swedish Department of Literature and Libraries of National Board of Cultural Affairs Birgite Modigh "it is often said that Swedish is a reading nation. We read fiction, technical and specialists' books, newspapers, and periodical press. We even read texts on milk cartons. Everyday about 40% of the population read books. We are surrounded by a written word from morning till night. Citizens of the North and Northwest read more books, have books at home, and borrow books from libraries more often. The habits of reading are quite consistent although 85% of adults reading books some changes occur. Women read more, and the number of reading males decreases. People with better education read more than the less educated ones.

Taking a closer look at what people do while waiting at the doors of doctors' surgeries, riding on buses, trolleybuses and trains it can be noticed that those people don't read at all. Although the majority of them has one or another education. At the most they put the headphones on. However, while observing the English, Polish or German people you see a totally different view: while moving from a point A to a point B, even waiting in cafés for an ordered meal or drinking coffee, they most often take out detective stories, love novels or science fiction books. The group of readers has their own center of gravitation, their own language and the principles of thinking. It's absolutely right that people find a nice literary text for themselves and that they read it and probably it's not necessary to demand that everybody reads and is interested in only elite culture or literature as speaking about any possibilities to affect the civil situation in modern Lithuania it is clear that the part of society that doesn't read even pop literature lacks this effect.

### **Artificial and basic values**

The new cultural methods are the expansion of communicative relations, mixing of people, relationships, mixture of cultures, text communication always poses an expression of hierarchy. It is evident that not many create mass culture, while it is accepted by the majority, at the same time the process of approaching and interchanging is taking place inevitably." In democratic countries pop culture approaches the high one in the direct cultural process. Italian writers Alessandro Baricco and Umberto Eco write books that surrender to different levels of reading. The novel "The name of a Rose" is read by many readers as an ordinary detective whose action is carried to a Middle Ages monastery, but it can be read as a refined cultural and semiotic novel full of historical facts and nuances of culture (3,p.92). A novel by a contemporary writer A. Turgenev (Viaceslav Kuricin) *The Arcashon moon/month???* successfully joins an intellectual and commercial novel, a Norwegian writer H. Wassmo eliminated the barrier between the readers of the elite and popular literature. Her book *Dina's Book* was the most often bought book in the 9<sup>th</sup> decade. In the novels *Vilnius Poker* and *The Young Man's Memoirs* the serious aspirations of literature are matched with certain forms of expression of mass literature, i.e. he tries to find an attractive alive form that could be suitable to be accepted and understood by a wider circle of readers who normally wouldn't be able to plumb into some elite hermetic literature.

The high culture not always sparkles with creativity and aesthetic provocations. It can be too academic and conventional. Also, pop culture can be refined and of very high level.

In other words artificial values exist next to basic values. According to Pruskus, it is evident that on the one hand, artificial values (their supporters) more and more often orientate towards the basic ones in this way trying to gain a bigger favour from society and its support (9,p.57). On the other hand, the basic values (their supporters) find it more and more difficult to preserve their "purity" in the



face challenges of social economical transformations and social changes.

## Conclusions

1. Social changes provide an excellent opportunity for a communicative function of culture. It is important because it brings spiritual experience of our planet, the system of values and cultural symbols closer.
2. In the area of means of communication a new type of global society and universal cosmopolitan culture related to it is formed.

3. Mass communication and means of mass communication are becoming an extremely important element of social structure.
4. The result of social changes and information are commercial leisure entertainment texts created by postmodern culture.
5. Postmodern society worships and demands a culture that performs an entertaining function in the first place.
6. The part of society which doesn't read has the fewest civil possibilities.
7. In the period of globalization and social changes it is extremely difficult to preserve the pure (basic) values.

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Audronė Lapienienė

## THE PLACE OF A BOOK AS A SOCIAL PHENOMENON IN A SPACE OF MODERN SOCIAL CHANGES

### Summary

The article analyzes the influence of social changes to the book market and text communication. The relationship of a book as a social phenomenon with modern consumer society and under market conditions is being discussed. An important element of a social structure is mass communication and the relationship of a modern individual with mass media as the essential elements of a social structure.

The value of tendencies of social changes and harm of consumer culture and its forms to modern processes of mass culture are being discussed. Globalization modifies and influences thinking and needs of a modern man due to informational technologies. In other words, less noticeable things are being looked for behind the changes of technologies, communication, finance, business and politics.

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# THE RELATIONSHIP BETWEEN ORGANIZATIONAL CULTURE AND EMPLOYEES' ATTITUDE TOWARDS ORGANIZATIONAL CHANGE

Diana Lipinskienė, Judita Vingilytė, Murat Kasimoglu

## Abstract

The rate of organizational change has not slowed in recent years, and may even be increasing. The rapid and continual innovations in technology are driving changes in organizational systems and processes. It is obvious that in some organizations the process of changes is easier than in other organizations. There are several factors influencing this process, mainly attitude of the staff towards changes. One of the factors authors of this paper see organizational culture. Paper consists of three parts. In the first part of the paper notion of organizational culture is presented. In the second part of the paper attitude towards organizational change analyzed. The third part presents relationship between types of organizational culture and attitudes towards organizational change. Results of this study indicate the influence of organizational culture on attitudes towards organizational change in Malaysia. The results showed that there is an association between organizational culture and the affective, cognitive, and behavioral tendency of attitudes towards organizational change. The findings also showed that different types of organizational culture have different levels of acceptance of attitudes towards organizational change.

## Keywords

Organizational culture, organizational changes, attitudes towards change, types of culture.

## Introduction

Today, the business environment is changing fast. The changes in technology like computerization and e-commerce have created a quantum leap in data communication, work processes and the way of doing business. With the impending move towards globalization and liberalization of markets, organizations have to be prepared to cope with the rapid changes in the business dynamics. Every organization must submit to the varying demands and changes in the environment. Changes within an organization take place in response to business and economic events and to processes of managerial perception, choice, and actions where managers see events taking place that indicated the need for change (Pettigrew, 1985).

Many organizations find change to be a real challenge. Due to the differences in the nature of the organization, the nature of the business, the work culture and values, management and leadership style, and also the behavior and attitude of the employees, the change process in each organization is unique. Further, when implementing changes the risk of failure is greater as people are generally resistant to changes. For some, change may bring satisfaction, joy and advantages, while for others the same change may bring pain, stress and disadvantages.

Although people are the most important factor in implementing change, however, they are also the most difficult element to deal with (Linstead, Mitroff, 1994). Therefore, managing the human part of the organization becomes a major challenge in handling change processes in the organization as it involves values, preferences, and attitudes towards a particular activity. Attitudes, for instance, are difficult to change as people are generally more comfortable with what they have learned or knew due to stereotyping, fear of taking risks, intolerance to ambiguity, and possibly the need to maintain tradition (Dunham, 1984; Carnall, 1990).

Dunham (1984) stated that complex attitudes could be understood better by recognizing that every attitude has

three distinct components, which are cognitive, affective and behavioral tendencies. Each of this type of attitude towards change may induce a person to support or not changes occurring in an organizational setting. Nonetheless, for any change to be effective, it is crucial to challenge and clarify people's beliefs, assumptions, and attitudes because the most potent leverage for significant and sustainable change resides within the human system at the core of every business system (Juechter et al., 1998).

The aim of the article is to reveal the interplay of organizational culture and employees' attitude towards organizational change. For fulfilling the aim literature analysis and meta-analysis of the survey were carried out. The article consists of three parts: in the first part of this paper the notion of organizational culture is presented; later the attitude towards organizational change is analyzed and the third part presents relationship between types of organizational culture and attitudes towards organizational change.

## 1. Notion of organizational culture

As literature analysis shows organizational culture is particularly important when attempting to manage organization-wide change. Although there are many definitions of culture, organizational culture has been viewed as holistic, historically determined, and socially constructed. Basically, organizational culture is understood as the personality of the organization. According to Parker (2000), culture is comprised of the assumptions, values, norms and tangible signs (artifacts) of organization members and their behaviors. Members of an organization soon come to sense the particular culture of an organization. Culture is one of those terms that is difficult to express distinctly, but everyone knows it when they sense it. For example, the culture of a large, for-profit corporation is quite different than that of a hospital which is quite different than that of a university. One can have understanding about the culture of particular organization by looking at the arrangement of

furniture, what they brag about, what members wear, etc. -- similar to what one can use to get a feeling about someone's personality.

Besides, organizational culture comprises the attitudes, experiences, beliefs and values.

Organizational culture is the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization. Organizational values are beliefs and ideas about what kinds of goals members of an organization should pursue and ideas about the appropriate kinds or standards of behavior organizational members should use to achieve these goals. From organizational values develop organizational norms, guidelines or expectations that prescribe appropriate kinds of behavior by employees in particular situations and control the behavior of organizational members towards one another. (Hill, Jones, 2001)

Edgar Schein defines organizational culture as "the residue of success" within an organization. His organizational model illuminates culture from the standpoint of the observer, described by three cognitive levels of organizational culture.

At the first and most cursory level of Schein's model is the organizational attributes that can be seen, felt and heard to the uninitiated observer. Included are the facilities, offices, furnishings, visible awards and recognition, the way that its members dress, and how each person visibly interacts with each other and with organizational outsiders.

The next level deals with the professed culture of the organizational participants themselves. At this level, company slogans, mission statements and other operational creeds are often expressed, as are local and personal values widely expressed within the organization. Organizational behavior at this level can usually be studied by interviewing the organization's membership and using questionnaires to gather attitudes of organizational membership.

At the third and deepest level, the organization's tacit assumptions are found. These are the elements of culture that are unseen and not cognitively identified in everyday interactions between organizational members. Additionally, these are the elements of culture which are often taboo to discuss inside the organization. Many of these 'unspoken rules' exist without the conscious knowledge of the membership. Those with enough organizational experience to understand this deepest level of culture usually become acclimatized to these attributes over time, thus adding to the invisibility of their existence. Surveys and casual interviews with organizational members cannot draw out these attributes--rather much more in-depth means must be used to first identify then understand organizational culture at this level. Note that culture at this level is the underlying and driving element of organizational culture that is often missed by most organizational behaviorists.

Using Schein's model, understanding paradoxical organizational behaviors becomes more apparent. For instance, an organization can profess highly aesthetic and moral standards at the second level of Schein's model while simultaneously displaying curiously opposing

behavior at the third and deepest level of culture. At the surface organizational rewards can imply one organizational norm but at the deepest level imply something completely different. This insight offers an understanding of the difficulty that organizational newcomers have in assimilating organizational culture and why it takes time to become acclimatized. It also explains why organizational change agents usually fail to achieve their goals: underlying tacit cultural norms are generally not understood before would-be change agents begin their actions. It is also noted that merely understanding culture at the deepest level may not be enough to institute cultural change, because the dynamics of interpersonal relationships (under often-times threatening conditions) are added to the dynamics of organizational culture in the process of instituting desired change.

Seeking to understand the concept of organizational culture better, scientists developed several typologies of organizational culture.

For instance, Hofstede identified five characteristics of culture in his study: power distance: the degree to which a society expects there to be differences in the levels of power. A high score suggests that there is an expectation that some individuals wield larger amounts of power than others. A low score reflects the view that all people should have equal rights; uncertainty avoidance reflects the extent to which a society accepts uncertainty and risk; individualism vs. collectivism: individualism is contrasted with collectivism, and refers to the extent to which people are expected to stand up for themselves, or alternatively act predominantly as a member of the group or organization; masculinity vs. femininity: refers to the value placed on traditionally male or female values. Male values for example include competitiveness, assertiveness, ambition, and the accumulation of wealth and material possessions; long vs. short term orientation: describes a society's "time horizon," or the importance attached to the future versus the past and present. In long term oriented societies, thrift and perseverance are valued more; in short term oriented societies, respect for tradition and reciprocation of gifts and favors are valued more. Eastern nations tend to score especially high here, with Western nations scoring low and the less developed nations very low; China scored highest and Pakistan lowest.

Deal and Kennedy defined organizational culture as *the way things get done around here*. They measured organizations in respect of two parameters: feedback and risk. Quick *feedback* according to those scientists means an instant response. This could be in monetary terms, but could also be seen in other ways, such as the impact of a great save in a soccer match. *Risk* represents the degree of uncertainty in the organization's activities.

Using these parameters, they were able to suggest four classifications of organizational culture:

1. *The Tough-Guy Macho Culture*. Feedback is quick and the rewards are high. This often applies to fast moving financial activities such as brokerage, but could also apply to policemen or women, or athletes competing in team sports. This can be a very stressful culture in which to operate.

2. *The Work Hard/Play Hard Culture* is characterized by few risks being taken, all with rapid feedback. This is typical in large organizations, which strive for high quality customer service. It is often characterized by team meetings, jargon and buzzwords.

3. *The Bet your Company Culture*, where big stakes decisions are taken, but it may be years before the results are known. Typically, these might involve development or exploration projects, which take years to come to fruition, such as oil prospecting or military aviation.

4. *The Process Culture* occurs in organizations where there is little or no feedback. People become bogged down with how things are done not with what is to be achieved. This is often associated with bureaucracies. Whilst it is easy to criticize these cultures for being over cautious or bogged down in red tape, they do produce consistent results, which are ideal in, for example, public services.

Handy (1985) popularized a method of looking at culture which some scholars have used to link organizational structure to organizational culture. He describes four types of culture. A *Power Culture* which concentrates power in a few pairs of hands. Control radiates from the center like a web. Power Cultures have few rules and little bureaucracy; swift decisions can ensue. In a *Role Culture*, people have clearly delegated authorities within a highly defined structure. Typically, these organizations form hierarchical bureaucracies. Power derives from a person's position and little scope exists for expert power. By contrast, in a *Task Culture*, teams are formed to solve particular problems. Power derives from expertise so long as a team requires expertise. These cultures often feature the multiple reporting lines of a matrix structure. A *Person Culture* exists where all individuals believe themselves superior to the organization. Survival can become difficult for such organizations, since the concept of an organization suggests that a group of like-minded individuals pursue the organizational goals. Some professional partnerships can operate as person cultures, because each partner brings a peculiar expertise and clientele to the firm.

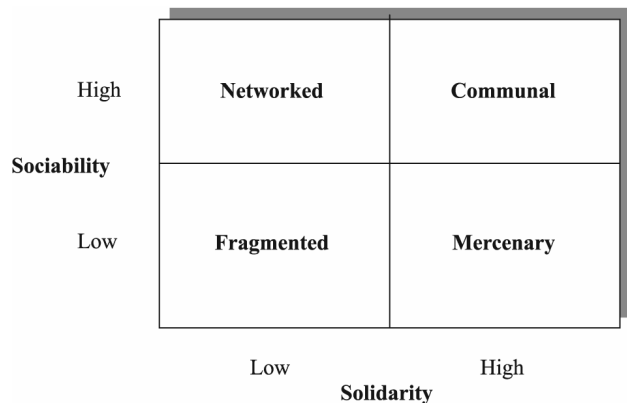
One of the most recent typologies was developed by Goffee and Jones (1998) categorized organizational culture into four main types based on two dimensions: sociability and solidarity. Sociability can be defined as friendliness in relationships between people in an organization. It is valued for its own sake and independent of its impact on the performance of the organization. Through friendships, ideas, attitudes, interests and values are shared. Reciprocity is a hallmark of friendship; so that actions are taken that favor others with no expectation of immediate payback.

On the other hand, solidarity is the ability of people to pursue shared goals efficiently and effectively for the larger good of the organization without much regard for the impact on individuals and the relationships between them. Solidarity is favorable in the sense that it generates single-minded dedication to the organization's mission and goals, quick response to changes in the environment, and an unwillingness to accept poor performance. In this type of culture, work roles are defined and understood and everyone is working for the overall good and everyone held to the same high standards. People in high-

solidarity organizations often trust their employers to treat them fairly, based on merit, with resulting commitment and loyalty to the firm.

When the two dimensions of sociability and solidarity are placed on the axes of a diagram (see Figure 1) four cultures are defined by the quadrants of the figure. The four main types are:

1. communal culture;
2. fragmented culture;
3. networked culture;
4. mercenary culture.



**Figure 1.** Connection between culture types and two dimensions (Goffee, Jones, 1998)

In that framework, culture is a community or the way in which people relate to each other.

The *communal* organization with high sociability and high solidarity is typical of new, small, fast-growing companies. People are driven by common goals, and at the same time are united by strong social bonds. *Fragmented* organizations might appear to be completely dysfunctional. The low sociability and low solidarity of this organizational culture seems to leave it rudderless and ungovernable. The *networked* organization has a culture of low solidarity and high sociability. High sociability is evident from the frequent „water-cooler“ conversations, and colleagues going to lunch together and spending time in activities and social gatherings outside the workplace. Finally, *mercenary* organizations with low sociability and high solidarity are focused on strategy and winning in the marketplace. They have clear priorities and act quickly in response to outside events. Persons who do not perform are encouraged to go if they are incapable of improvement.

## 2. Attitude towards organizational change

A change in organization refers to any alteration in activities or task (Dawson, 1994). Kanter et al. (1992) defined change as the process of analyzing the past to elicit the present actions required for the future. Cao et al. (2000), believed that organizational change showed a diversity of the organization in its environment, and also the interaction of the technical and human activities that had interrelated dimensions in the organization.

Why changes are implemented in some organizations easily and so complicated in others? Attitudes can be difficult to change once they have been learned (Dunham,

1984). This is because there can be resistance to change from within. Dawson (1994) also noted that resistance to organizational change may result from one or a combination of factors such as substantive change in job, reduction in economic security, psychological threats, disruption of social arrangements, and lowering of status. Nonetheless, it cannot be denied that the attitude towards change by individuals may differ: some are more resistant to change while others are more receptive to change.

According to Elizur and Guttman (1976), there are three types of individuals or groups' response to organizational change: affective, cognitive and instrumental. Affective response refers to the feeling of being linked to satisfaction or anxious about change. Cognitive responses are opinions relating to usefulness and necessity and about knowledge required to handle change, while instrumental responses refers to actions already taken or which will be taken to handle the change.

Dunham et al. (1989) also suggested that there are three types of attitudes towards change: affective, cognitive and behavioral. The affective component consists of the feelings a person has towards an attitude object, which involves evaluation and emotion, and is often expressed as like or dislike for the attitude object. The cognitive component of an attitude consists of the information a person possess about a person or thing which is based on what a person believes is true. The behavioral tendency concerns the way a person intends to behave towards an attitude object.

Iverson (1996) found that an employees' attitude towards organizational change and their acceptance of organizational change increases with organizational commitment, a harmonious industrial relations climate, education, job motivation, satisfaction, security and decreases with union membership, role conflict, tenure and environmental opportunity.

Tierney (1999) found that relationships of employees with their supervisors and teams shape their attitudes to the organization and changes. The employees' perception of the change climate within the organization is consistent with those of their teams and supervisors.

It is important to note that employees' attitudes towards organizational change can be influenced by organizational culture (Ahmed, 1998; Lorenzo, 1998; Silvester and Anderson, 1999; Pool, 2000). According to Ahmed (1998), culture could enhance or inhibit the tendency to change. Pool (2000), however, suggested that organizational culture allows an organization to address ever-changing problems of adaptation to the external environment and the internal integration of organization resources, personnel and policies to support external adaptation. Therefore, it is expected that certain types of culture might facilitate the change process while other types of culture might not. One major issue confronting organizations is to determine which type of organizational culture favors organizational change. This can be a challenging task for top managers, as the managers have to decide how to implement changes in their organization. Some have argued that the process has to start at the top while others have suggested that it should also start with the bottom-up approach (Lupton, 1971). As such it appears that there may be a relationship

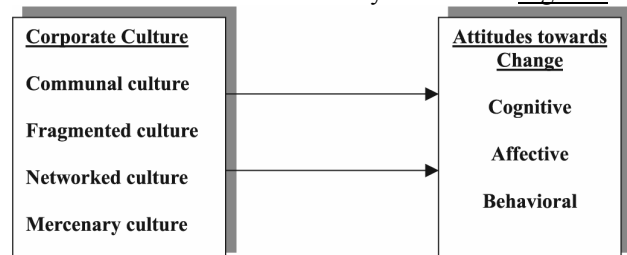
between organizational culture and attitudes towards organizational change.

### 3. Relationship between type of organizational culture and attitudes towards organizational changes

In the research, mentioned above, organizational culture is defined in terms of the sociability and solidarity dimensions as proposed by Goffee and Jones (1998). As it was mentioned, Goffee and Jones (1998) categorized organizational culture into four main types based on two dimensions: sociability and solidarity. Based on these two dimensions, Goffee and Jones suggested that there can be four main types of organizational culture, namely the communal culture, fragmented culture, networked culture and mercenary culture.

The attitude towards change refers to the three types of attitudes as proposed by Dunham et al. (1989) comprising three types, namely the affective, cognitive and behavioral attitudes towards change. One issue raised, is which of the three types of attitudes are more critical, is it the cognitive, affective or behavioral. Should organizational changes start by adopting the cognitive or affective mode and then followed by the behavioral mode? Following the argument that one of major obstacles of change is fear of the unknown or unfamiliar situation, the cognitive mode can be an effective mode to be addressed first. This is because once a person has information and knowledge of the potential changes to be made, his or her feelings towards change may be changed to favor such changes. It should also be highlighted that handling the cognitive component on attitude towards change can also be a daunting task if it is not well communicated. This will be demonstrated by the action or behavioral mode of the person in responding to the changes. As such, this model provided a comprehensive approach in understanding the attitudes towards organizational change.

The theoretical model in this study is shown in Figure 2.



**Figure 2.** Connection between organizational culture and attitudes towards change

In order to prove the relationship between organizational culture and attitudes towards organizational change, the research in 258 companies listed in the Federation of Malaysian Manufacturing directory was carried out.

A structured questionnaire based on the works of Goffee, Jones and Dunham was developed. Questionnaires were mailed to the chief executive officer (CEO) and/or managers in the sample population. A total of 281 completed questionnaires were returned (representing a response rate of 14.3 percent) but only 258 were usable for data analysis.

According to research results, 46.9 percent of the companies have mercenary culture (see table 1).

**Table 1**

Profile of organizational culture

| Cultural type      | Frequency  | Percentage |
|--------------------|------------|------------|
| Fragmented culture | 10         | 3,9        |
| Networked culture  | 87         | 33,7       |
| Mercenary culture  | 121        | 46,9       |
| Communal culture   | 40         | 15,5       |
| <b>Total</b>       | <b>258</b> | <b>100</b> |

When analyzing the results of the survey the attitude towards organizational change was identified. Results of the survey showed that nearly 46 percent of the total respondents have positive attitudes towards change, and 52.3 percent portrayed strongly positive attitude towards organizational change (see table 2). This means that almost 98 percent of the total respondents were receptive to change.

**Table 2**

Employees attitudes towards organizational change

| Attitudes towards organizational change | Frequency  | Percentage |
|---|------------|------------|
| Negative                                | 5          | 1,9        |
| Positive                                | 118        | 45,7       |
| Strongly positive                       | 135        | 52,3       |
| <b>Total</b>                            | <b>258</b> | <b>100</b> |

The survey allows discerning clear associations between types of organizational culture and the attitude towards organizational change. More specifically, it was identified following:

- In the fragmented culture positive attitude towards change have 90 percent of respondents and 10 percent of respondents have a strongly positive attitude.
- In the network culture positive attitude have 79.3 percent and 18.4 percent have strongly positive attitude towards organizational change.

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## ORGANIZACINĖS KULTŪROS IR DARBUOTOJŲ POŽIŪRIO Į ORGANIZACINIUS POKYČIUS TARPUSAVIO RYŠYS

Santrauka

Remiantis mokslininkų atliktais tyrimais, pastebėta, kad organizaciniai pokyčiai įgyja vis didesnę reikšmę organizacijos gyvavimui. Kadangi nei viena organizacija negali išvengti didesnių ar mažesnių pokyčių savo aplinkoje, jos privalo išmokyti tinkamai į šiuos pokyčius reaguoti. Tačiau vienos organizacijos gana sėkmingai išgyvena pokyčių laikotarpį, o kitos patiria didelių sunkumų. Vienas iš veiksnių, lemiančių organizacijos sėkmę įgyvendinant pokyčius, yra teigiamas darbuotojų požiūris į pokyčius. Remiantis mokslinės literatūros analize šio straipsnio autorės teigia, kad darbuotojų požiūriui įtakos turi organizacijos kultūra. Šių dviejų dimensijų tarpusavio ryšio ieškojimas yra šio straipsnio tikslas. Straipsnį sudaro trys dalys. Pirmojoje dalyje analizuojama organizacinė kultūra sąvoka, antrojoje analizuojamas darbuotojų požiūris į organizacinius pokyčius, trečiojoje dalyje atskleidžiamas organizacinė kultūra ir požiūris į pokyčius tarpusavio ryšys.

• In the mercenary culture strongly positive attitude have 78.5 percent of respondents and 19.8 percent have positive attitude towards organizational change.

• In the communal culture, strongly positive attitude have 57.5 percent of respondents and 40 percent have a positive attitude towards organizational change. Assuming all results of the survey we can state that strongly positive attitudes towards organizational change are dominated by organizations with mercenary culture (70.4 percent), and positive attitudes towards organizational change are dominated by organizations with networked culture (58.5 percent).

The research of the relationship between the type of organizational culture and employees' attitudes towards organizational change in Lithuanian context is the future goal of the authors of this paper.

## Conclusions

The literature analysis and questionnaire survey results allow stating that organizational culture is associated with employees' attitudes towards organizational change: different types of organizational culture have different levels of acceptance of changes. The results of research suggest that, if organizational culture promotes single-minded dedication to the organization's mission and goals, quick response to changes in the environment, and unwillingness to accept poor performance, people are much more receptive to change. Meanwhile, people are less tolerant to change if the organizational culture promotes a tolerance of poor performance on the part of friends, an exaggerated concern for consensus when friends are reluctant to disagree with or challenge or criticize one another, insufficient focus on mission, strategy, and goals.

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# EMPOWERMENT AND CREATION OF EMPOWERING ENVIRONMENT: THEORETICAL BACKGROUND

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## Abstract

The analysis of the concepts of empowerment and empowering environment are presented in this article. Firstly the concept of empowerment and understanding of effective empowerment are introduced and analyzed. Six components of empowerment (competence, self determination, meaning, impact, identity and group orientation) are distinguished and six requirements for what it takes to effectively empower and release people are identified: responsibility, resources, relationships, review, risk, a reason. Then the notion of empowering environment is introduced and critical conditions for cultivating an empowering environment are distinguished.

## Keywords

Empowerment, empowering environment.

## Introduction

To remain competitive, organizations are abandoning the traditional hierarchical command-and-control management style in favor of establishing a work environment that advocates employee empowerment at all levels. To establish this new environment entails encouraging employee responsibility, accountability, self-management, trust and recognition; it requires leaders who are willing to let go of their role as bosses and take on roles as coaches and facilitators. Achieving this change is not easy. Some deeply ingrained obstacles and beliefs about leadership, management, employees and modern organizations must be confronted and challenged. The empowering environment requires a set of values and beliefs that must be embraced and practiced by all levels of management.

Although concept of empowerment was analyzed and the importance of empowering environment was revealed by many scholars (Appelbaum, 1998; Block, 1996; Lipinskiene, Glinskiene, 2004; Luc Henau, Jan de Koning, 2005; Mayes, 2003, etc.), the process of creation of empowering environment remains unclear and ambiguous.

The aim of the article is to reveal main steps of creation of empowering environment.

The article consists of two parts: the notion, elements and requirements for empowerment are analyzed in the first part of the article. Second part of the article presents main steps of creating the empowering environment.

### 1. Notion of empowerment: concept, elements and requirements

The first step in creating an empowered work force is having everyone gain a shared understanding of what *empowerment* is and what it is not.

Many managers think of empowerment as delegating decision making to the lowest level possible. In practice, we too often find „empowering” bosses delegating responsibility to subordinates without sufficient authority, understanding, resources or supportive guidance to be effective. People who think they are „empowered” too often resist the limitations and guidance that must

accompany any responsibility. According to Covey S. R. (2006) true empowerment is not responsibility without authority or resources. It is also not authority to „do your own thing” without limits or accountability or power without focus or consequences or abandonment by the boss or supervisor.

Block P. (1996) says that, empowerment means that each member is responsible for creating the organizational culture, for delivering outcomes to its customers, and especially, for quality of their own experience.

According to Covey S. R. (2006) the root of the word „empowerment” is power which means the ability to do, to accomplish, to perform or enable. The prefix „em” comes from the Latin and Greek, meaning „in” or „within.” Empowerment, therefore, can suggest the power within people, the enormous reservoir of creativity, activity and potential contribution that lies within every worker, largely untapped by organizational leadership and management (Covey, 2006).

Empowerment is meant as creation of proper environment, which increases individual's confidence and encourages him to develop his knowledge and competence. Empowering environment gives the employee power to do the job good and even better. In such environment his autonomy and responsibility for the results of his activity, the toleration of failure, emphasizing of reflection, self-control and self-evaluation are emphasized (Lipinskienė, 2004, 2005).

More than that empowerment should enable an individual to reach certain goals. Luc Henau and Jan de Koning (2005) predicate that empowerment should allow a person with special needs to take autonomous decisions in the process of reintegration, empowerment and career development. Consequently empowerment may be considered as a personal or individual characteristic. In that sense we could also speak about internal leadership. Managed effectively, empowerment can have big influence on organization behavior and its effectiveness. Appelbaum S.H. (1998) states that empowerment is about:

- letting staff get on with the job;
- encouraging and allowing staff to take responsibility for customers' experiences;



- letting those closest to customers take the decisions they feel are right;
- stripping away unnecessary bureaucracy and control;
- encouraging and helping staff to put into practice their ideas for improvements at work.

Honegger K. (1998) presents following positive effects of empowerment:

- improves the commitment and motivation of staff as they take ownership of problems, and generate their own solutions;
- generates ideas for improving services, and help staff to feel that their ideas count;
- helps unearth staff talent that has previously lain dormant;
- reduces the amount of time managers spend sorting out other people's problems;
- improves customer service and organizational performance;
- builds team spirit, and real loyalty to the department and organization.

Literature analysis allows distinguishing of six **components** of empowerment:

- *Competence*, i.e. trust in someone's own abilities (also called: self-efficacy). Someone with a strong empowerment knows his/her own abilities, has a positive self-esteem and the guts to make that clear to everyone. Many reintegration clients do (no longer) dare to make a choice of their own. They rely on the advice of 'experts' and suppose that they know what's best for them.

- *Self determination*, i.e. the ability of making one's own choices. It is an important element in empowerment. Self determination means that individual determines himself what he/she (wants to) do and what he/she doesn't. Individual has a future view, a dream or a realistic goal and he/she goes for it. Almost all reintegration clients deal with a lack of self determination during their pathway, which varies from: "I don't know what I want", "I cannot choose", to "It's all right, just tell me what to do".

- *Meaning*, i.e. experiencing the meaning in one's activities, which fits with own values. Someone with a strong empowerment has the feeling that his/her choices are useful and that they contribute his/her personal development or goals. Someone who's happy with his/her choices, can fight in a more motivated way when something goes wrong. Without giving a meaning to things, one is not ready to accept new ideas or opportunities. „What's in for me, all the trouble to reintegrate, so why should I?"

- *Impact*, i.e. the feeling that someone's decisions have an effect of someone's life. An important component of empowerment is to realize that one's own decisions and choices do have an impact on one's life. By decisions one can control and steer, design the life. Reintegration clients often admit that they have little control on their pathway. But someone's who's in charge, feels responsible and wants to move on more rapidly.

- *Identity*, i.e. a positive attitude towards the self, and coping with disability. A strong factor in empowerment goes together with a positive self esteem. Individual is

capable of objectively becoming aware of his/her own situation. Individual feels respected for who he/she is.

- *Group orientation*, i.e. realizing that one is part of a community or group, and that there is a need for support by this group. Someone with a large extent of empowerment realizes that he/she functions in a social context, that his/her behavior has an impact on others. To know that you need help, to ask for help, but still stay independent can be straining in an emotional and physical way. To ask for advice also means that one must be able to do something with that advice, or just carry out it behind him, or use it to orientate one's own decision process.

Gary Mayes (2003) identified six **requirements** for what it takes to effectively empower and release people: responsibility, resources, relationships, review, risk, a reason. There is a certain sequence to these, yet more significantly they need to all be cultivated together. These six requirements may prove to be the most strategic set of considerations a senior leader or leadership team can devote themselves to.

One of the requirements is *responsibility*. People need to know specifically what they are responsible for. Behavioral expectations, desired outcomes, much of what we typically think of as the important parts of a job description is included in this first requirement. Every one of us wants to know that we have a strategic assignment so important that if we miss it then the whole team—the whole mission—will suffer. To use a sports analogy, people need to know what their „blocking assignment" is *and* that if they miss their block, the quarterback is going down.

Without a clear sense of responsibility people struggle with role confusion: whose responsible for what, what do people expect me to be doing... it can lead to creative paralysis, or differing assumptions which form the basis for miscommunication. Also the each of clear responsibility can raise fear of „doing it" wrong, or not giving energy to what really matters. We want to give ourselves to a task that is demanding and significant.

Another requirement for empowering is *resources*. If people are going to be able to carry out the responsibilities they have been given, they must provided the resources they need to do so. Unfortunately, it is common for those with defined responsibility to be operating „short-handed" in terms materials, finances, and equipment. However, in addition to these obvious needs, the requirement of resourcing people goes much further. Other significant resourcing needs include: the training needed to develop genuine proficiency, targeted assistance in regards to problem solving, mentoring devoted to skill and leadership development, adequate access to new ideas, and information about the bigger picture of the organization so that leaders have the ability to make effective decisions; (ie. financial status, major projects, goals, new personnel, etc.)

Without adequate resourcing people feel set up for failure and there is a nagging sense of disempowerment that grows in people when they don't have the tools, resources to truly succeed. All of us want to make a real impact, but can't do it for long without resources (Mayes, 2003).

Third requirement for empowering is *relationships*. Every individual wants to know that he is part of a team,

which he is working alongside a group of people who share the load and who are committed to his well being as much as they are committed to the task at hand, that he has people who are „watching his back.” Granted, people are different and some need more relational support than others, but no one wants to be sent out to play a position and then ignored.

Meeting this relational need means creating time for encouragement, time for shared learning and growth. Ministry is about the work that we do and about the people we do it with. Unfortunately most senior leaders worry more about the production of their people than about the people who produce.

Without adequate relationships people can be destabilized or demoralized by problems, they focus on the task alone and reproduce the task-driven approach to the work at hand among those they lead rather than truly developing the people they lead. Also left alone people lose perspective, especially in the midst of demanding responsibility (Schein, 1999).

One way to honor the work people do is to *review* it is quality and quantity. By never reviewing it, the sacrifice they have made is dishonored. Leader can not know how to resource someone without knowing how things are going. He can not provide problem-solving support without knowing what the problems are. So, reviewing is important requirement for successful empowering.

Unfortunately, many people have experienced periodic assessment as a club being held over their heads. Instead, it should be a regular two-way dialogue, and opportunity to advance the cause and to support your people, a chance to capture learning as they occur. Regular review is a far cry from controlling accountability, rather, done well it should accelerate individual and corporate capacity.

Without effective review people have trouble keeping the dots connected: i.e. remind me again how the thing I am doing makes a difference? Moreover, people can feel undervalued. After all, they have given so much of themselves, often sacrificially, and it feels no one is paying attention.

Edgar H. Schein (1999) says that *risk* is also very important requirement for empowering. The freedom to risk is directly correlated with the freedom to innovate. All innovation, all creativity, all new ideas are inherently risky. In fact, in a world that is changing so rapidly, even doing what has been tried and true in the past can be risky. There are no guarantees of success. Therefore, it is critical to build a culture where there is the freedom to fail. When someone truly has the freedom to fail without undue fear of personal repercussion then they have the freedom to risk.

We say more about what is acceptable by whom we choose to honor than almost any other behavior, therefore, there is probably a need to honor people who failed in spite of the quantity or quality of their efforts. This is profoundly different than honoring people who failed out of laziness or carelessness.

It is important to note that creating an environment that nurtures risk will challenge the ability of leadership to release control. It will challenge the willingness of leaders to trust other people. And it will surface the character based issues of reputation and ambition: What will others think of me if our organization stumbles?

What if we release people to try new things and they succeed better than I would have? What if someone else's new idea diverts attention and resources from my agendas?

G. Mayes (2003) states that without a culture of risk there is a lack of freedom to innovate or pioneer what's new, people live in fear of judgment, failure, or disapproval rather than in the confidence of support and encouragement. Also potential leaders are not discovered or appreciated, leadership cannot be developed without the freedom to lead.

A *reason* is the last requirement for successful empowering. Listed last for emphasis, this may be the most important of all. According to Potter J. (1994), people need to know there is something worthwhile at stake and that their effort is directly connected to it. Every organization, business, or enterprise of any sort is actually populated by people who volunteer. Even when there is a paycheck involved, employees volunteer themselves to the challenges of the task at hand every day.

But as people get involved in the demands of their responsibilities they lose sight of the reason behind what they are doing. It is nothing devious, it is just human nature.

No one is out there looking for a way to fill their time. People want a cause that is worthy of sacrifice. They want to give themselves to something that will change the world in some small way. And when they take on a responsibility, those in leadership must help them continue to connect the dots, showing them how what they do is directly related to the capacity of the entire organization to change the world.

Without a compelling reason people are left to work out of duty or obligation alone. And working solely out of duty is the pathway to burnout. Lack of compelling reason leads to people's competing for resources based on personality or positional power rather than vision and strategy.

Covey S. R. (2006) says that the critical conditions for cultivating an **empowering environment** include:

- Developing trustworthiness and trust; an environment where creativity and managed risks are encouraged; and helping people learn from mistakes.
- Creating a system of win-win agreements as the core process for developing mutually beneficial relationships among employees and between the organization and outside stakeholders.
- Supporting and encouraging self-directed work teams.
- Aligning mission and strategy with customer needs and other forces in the dynamic marketplace, and then organizing structure and systems to support the strategy and each other.
- Fostering personal and organizational self-accountability through consistent and frequent 360 degree feedback.
- Adopting an empowering style of leadership and management that nurtures, coaches, mentors, releases, encourages and supports people in achieving their best.

Those conditions are supposed to foster meeting requirements distinguished by G. Mayes.

## 2. Empowering environment

To establish an **empowering environment** requires careful preparation, considered guidelines and the setting of agreed boundaries that people can easily understand. Empowerment is more than delegation – it is a genuine opening-up of the creative power and commitment that staff can offer.

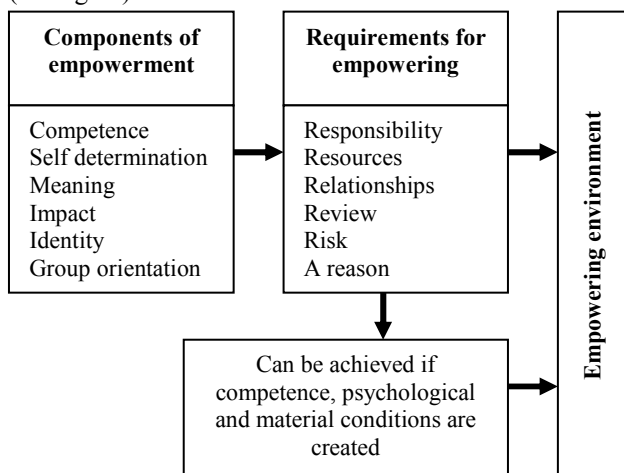
Properly constructed environment can do all of the following and more:

- Nurture individual - make him/her feel safe and protected
- Support individual - provide what he/she needs to be his/her best
- Protect him/her - from the physical elements and other people
- Inspire him/her and naturally pull him/her forward; release your creativity
- Manage him/her - focus his/her time and attention (Herman, 2004).

Kottler (1995) claims that the benefits that can be derived from empowerment include worker commitment, quality products and services, efficiency, responsiveness, synergy (Lashley, 1995).

As it was mentioned above, the concept of empowerment is based on the belief that staff abilities are frequently under-used and that, given the chance and the responsibility, most people will want to make a positive contribution. The aim of empowering environment is to bring staff more to the forefront at work, increasing their capacity to have an impact through their front-line activities by giving them more power and choice to innovate, participate in problem-solving and decision-making, and act and work with minimum intervention from their managers (Keller, Dansereau, 1995).

Literature analysis allows claiming that in order to empower employees the requirements for empowerment mentioned in first part of this article must be satisfied (see figure).



**Figure 1.** Steps for creation of empowering environment

According to the steps of creation of empowering environment presented in the figure, the requirements for empowerment can be satisfied if proper conditions will be created in the environment. Lipinskiene D. (2005) developed the model of empowering environment according to which three sets of conditions have to be created in the empowering environment:

- 1) *competence* (include not only employee's competence to fulfill the task but also leader's competence to ensure adequate workload, assessment, formulate tasks clearly, give feedback, his decision making skills, etc.);
- 2) *material* (according to validated model workplace must be comfortable and satisfy needs, ensure accessibility of resources necessary for effective work, etc.);
- 3) *psychological* (include positive climate based on parity of leader-employee relationship, collaboration, etc.).

The role of empowering leader is to create conditions in which all employees can contribute their maximum potential capacity to achieve the strategic goals and desired results of the organization in meeting stakeholder needs. Empowerment is not a program; it is a core condition for quality.

When organizational leaders focus on developing conditions of empowerment, they will cultivate a quality culture of effective, productive, interdependent relationships. Such an environment can release within employees the power to contribute their maximum potential to achieving the mission and strategic goals of their organizations (Covey, 2006). When empowering environment is designed the environment itself supports individual and naturally pull him/her forward.

## Conclusions

1. Literature study showed that empowerment is related with employees' responsibility for creating organizational culture, quality of employees own experience, also empowerment offers more opportunities to learn and reflect, supports active involvement and participation in decision making, ensures easy access to resources necessary for successful competence development.

2. The main steps in creating empowering environment are following: first, the identification of existing and missing elements of empowerment has to be done in order to identify gaps; second, the competence, psychological and material conditions have to be created in order to meet the requirements of empowerment.

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## ĮGALINIMAS IR ĮGALINANČIOS APLINKOS KŪRIMAS: TEORINIS PAGRINDAS

### Santrauka

Organizacija, siekianti išlikti kompetentinga ir konkurencinga, turi atsisakyti tradicinio hierarchinio įsakinėjimo-kontrolės vadovavimo stiliaus ir vietoj to sukurti darbo aplinką, kuri gina ir palaiko darbuotojų įgalinimą visuose hierarchiniuose organizacijos lygiuose. Siekiant sukurti tokią naują aplinką, reikia, kad darbuotojai būtų atsakingi, atskaitingi, mokėtų save valdyti, pasitikėtų savimi. Įgalinanti aplinka išlaisvina darbuotojų galią. Ši aplinka padeda pasiekti ir išnaudoti maksimalias darbuotojų galimybes, įgyvendinant organizacijos misiją ir siekiant strateginių tikslų. Be to, tokia aplinka didina darbuotojų pasitikėjimą ir drąsina juos vystyti savo žinias bei kelti kompetencijos lygį. Tokioje aplinkoje pabrėžiamas savarankiškumas ir atsakomybė už savo veiklos rezultatus, toleruojamos nesėkmės, skatinama refleksija ir mokytis iš klaidų, sudaryta galimybė savikontrolei.

Be to, verta pabrėžti, kad įgalinimas yra daugiau negu darbų perdavimas kitiems ar atsakomybės perleidimas, tai yra kūrybiškos galios panaudojimo pradžia ir darbuotojų siūlomas įsipareigojimas organizacijai. Taip pat įgalinimo sąvoka yra paremta tikėjimu, kad darbuotojų galimybės dažnai yra nepakankamai panaudojamos ir, kad, suteikus jiems atsakomybę, dauguma žmonių sieks prisidėti prie organizacijos gerovės kūrimo. Straipsnį sudaro dvi dalys: pirmojoje pristatoma įgalinimo samprata, reikalavimai ir sąlygos. Antrojoje dalyje pateikiami pagrindiniai įgalinančios aplinkos kūrimo žingsniai.

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# THE MOTIVATIONAL ASPECT OF EMPLOYEE CAREER

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## Abstract

Career planning and development has always been a particularly relevant problem for both the organization and employees. Different researchers analyze career issues in various aspects: personnel management, sociological, psychological, what shows the importance of this problem. Technological improvement, the development of information society, globalization make organizations to otherwise view the problems of the human resources, search for new ways to solve problems, change traditional conservative approach to personnel motivation, satisfaction of needs and, especially, to career possibilities as motivating factor.

**Keywords:** career, career motivation, career development.

## 1. Career conception

Career, as human activity sequence, is a process, influenced by various economical, social, political, cultural, psychological and other factors. That's why, seeking to highlight global career conditions and tendencies of its concept, economical, cultural, sociological, psychological and management methodology is analyzed.

Career (Latin – carraria) means the man's life road, run. French „carrière“ is soil field, profession. According to the definitions, there are two meaning of the word “career”, one is related with particular activity, other – with life path planning and realizable.

Often career means rapid rise in a job, society, research activity, success in personal life. Sometimes career is linked with more money, higher responsibility, higher status, prestige. Though career is associated with vertical growth of employee, but in contemporary viewpoint, according to C.D. Fisher, L.F. Schoenfeld, J.B. Shaw (1993), A. Hall (1996), N. Petkevičiūtė (1998) and other, it involve horizontal motion too, which is more and more significant.

J.J. Famularo (1986) says that career is individual perfection of the successful chosen direction and positive estimation of it in both personal and social views.

H.B. Astin (1972) thinks that career – is more individually conceivable sequence of attitudes and behaviors which are related with working activity all human's life.

D.T. Hall, D.D. Bowen, R.J. Lewicki ir F.S. Hall (1982), follow contemporary viewpoint of career and they offered concept of varying career. They think that career is not only rising to higher office. Varying career for the first is process which is managed not by organization, but by employee. According to this concept:

- ♦ Employee starts to control his career path by himself. He starts to develop his competence and searches for opportunities to use it. Also employee can change organization in which he is working into that one, which can vouch his career success.
- ♦ Freedom, individual perfection and knowledge are very significant to employee. That's why he seeks to combine his work, organization with his family, friends and relaxation which is necessary for successful career in the wider meaning.

- ♦ The definition of success is quite individual, but it can be related with self-expression, self-respect or satisfaction in one's activity. In that case individuality of career path is more significant.

## 2. Concept of career motivation

An employee's motivation to work consists of all the drives, forces and influences – conscious or unconscious – that causer the employee to want to achieve certain aims. Managers need to know about factors that create motivation in order to be able to induce employees to work harder, faster, more efficiently and with greater enthusiasm.

A typical dictionary definition of motivation is derived from Latin word “movere”, described as to supply a motive to, be the motive of, cause (person) to act in particular way; stimulate interest of (person in studying etc.); hence motivation. A “motive” is concerned with tending to initiate movement or concerned with movements or what induces a person to act.

M.R. Carrell, N.F. Elbert and R.D. Hatfield (2000) define motivation as “processes or factors causing people to act in certain ways. It consists of the identification of need, the establishment of a goal which will satisfy that need and determination of the required action.

M. London (1991) presented a little different view to career in motivational aspect. This author offered concept “career motivation”, which is defined as individual career plans, behavior and decisions.

Career motivation refers to:

- ♦ employee's energy to invest in their career;
- ♦ their awareness of the direction they want their career to take;
- ♦ the ability to maintain energy and direction despite barriers they may encounter.

Also this researcher investigated, how career motivation influence decisions and behavior, which are linked with career and which can impact career planning and development. M. London marked three components of career motivation:

- ♦ Career resilience.
- ♦ Career insight.
- ♦ Career identity.

Career resilience is the measure of a person's resistance to career disruption in a less than optimal environment; it is said to be the opposite of career vulnerability. Career

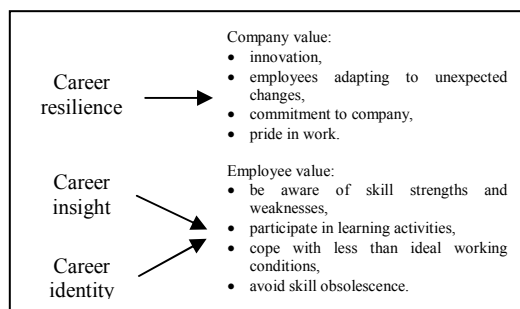
resilience depends on the individual's feelings of personal efficacy, and on risk taking and dependency.

Career insight refers to the individual's ability to form realistic perceptions about himself or herself and the organization and to relate these perceptions to realistic career goals.

Career identity is a measure of the importance of a career to an individual's personal identity and depends on such factors as job involvement, Professional orientation, commitment to managerial work, identification with the organization and desire for upward mobility.

M.London (1991) found how these elements can influence employee's career planning and development. Individuals high in career identity are involved in their jobs and careers, seek upward mobility and do not wish to delay gratification in their development. Career identity reflects the direction of career goals – whether the individual wants to obtain a position of leadership, advance in the company, seek higher status, or perhaps make more pay. Self-insight. They see their own needs and capabilities, and the organization career requirements, as sufficiently related or similar that the possibility exists for a mutually rewarding employment relationship and providing path-goal clarity. People high in resilience have high self-efficacy, seeing themselves as component people taking risks and responsibilities for their careers, with low need for dependency and able to control what happens to them.

The value of career motivation is shown in picture 1.



1 picture. The value of career motivation (Fowke, 1998, 23 p.)

Though this three career elements depend on person, but it is obviously, that it is big advantage for organization too. That's why organization must think in strategic way, how develop employees skills to manage their own career paths, how it can help employees to change their attitude to career, how to make conditions that employees could realize their career goals.

So employees' motivation must be linked with organization policy, strategy and tactics, because everywhere is people with their own needs and goals, which can be the same as organization.

### 3. Career in motivation theories

The analysis of modern motivation theories allow to understand the world of dynamic relations, in which organizations are functioning. Motivation theories try to explain, what goals individuals are seeking, what alternatives of activity they see, what are their needs.

Mostly motivation theories are divided into two basic aspects according to human needs and human behavior. It

is content or needs theories and process theories. Theories of needs are thoroughly analyzed in A. Maslow, C. Alderfer, D.J.McClelland, H.A. Murray, F. Herzberg and others scientists studies. Process theories are presented by D. Adams, V. Vroom, D. Atkinson, E. Lawler, L. Porter and others.

Content theories of motivation seek to determine the individual's choice of goals and hence why certain things are more important to some people than others. Perhaps the most influential of all the proponents of this approach has been A.H. Maslow, who suggested that individuals are motivated by five levels of need.

To satisfy **physiological** needs human need money which are usually received as salary. If human physiological needs will not be satisfied then career possibilities will not motivate employee if in upper career stage organization will offer the growth of position, status or prestige but not development of financial possibilities. But if employee has good financial background, then career possibilities which are related with self-respect, self-realization and appreciation will motivate very strong.

**Security**, as fundamental human need, depends on many factors. One of them is job with good salary. Though in today business world nobody is guaranteed that they will be able to keep their workplace in future, but pension funds, social insurance can partially reduce this insecurity. The need of security is very important to employee, who seeks to develop his career in organization, because when individual will be secure and will be sure that he can keep his workplace, he will be able to plan and manage his own career.

The most related with career are **social** needs. When people are working in organizations they have possibilities for social contacts and they are able to work in groups. So at work, people create activity groups, trade unions and information communications systems. Career possibilities for employees, who seek to satisfy their social needs, will be important if organization will make conditions to work in groups or commands, collaborate with other people or communicate with suppliers.

At the level of **esteem** need people require respect and recognition as well as a sense of their accomplishment and worth. These needs may be satisfied through personal accomplishment, various honors and awards and (what is most important) promotion to more responsible jobs.

For most people career is necessary for **self-actualization**. These are the most difficult needs to satisfy, and the means of satisfying them tend to vary with the individual. Namely self-actualization, free acting and opportunities to show skills are the most important elements of modern career. That's why organizations, which seek to motivate people offering career development, have to make conditions to satisfy this type of needs.

Next theory, created by F.Herzberg, is widely known by practicing managers. Two factor theory is based on identifying characteristics that will act as dissatisfies – or hygiene factors. Generally, hygiene factors deal with the work environment, or context, and will only decrease job dissatisfaction. Motivators are tied to the work itself and may increase or decrease satisfaction with the task itself.

Aspects related with career development are assigned to motivating factors in this theory. It means then till employees will not be able to satisfy hygiene needs, they will not be interested in career. Organization, which seek that employees will be interested in career development, should make conditions to satisfy needs of growth (e.g. motivating factors).

Almost as popular as the hierarchy of needs, achievement motivation was created by D.McClelland. Only three needs are emphasized: achievement, affiliation and power.

Theory of D.McClelland stimulates individual career development very much, because employee, who can satisfy these types of needs, make conditions for career development of its own accord. Furthermore, this theory is very close to the concept "career motivation" which was created by M.London (1991), because not everybody have this type of needs, for other it is enough to work the in the same job, get the same salary. So organization, in which employees have needs which were presented by D.McClelland, do not have to give information about career possibilities, because employees will be interested in them and will planning and developing career by themselves.

Expectancy theory, presented by V.Vroom, is a very complex model of motivation that is based on a deceptively simple assumption. According to expectancy theory, motivation depends on how much we want something and on how likely we think we are to get it.

Consider, for example, the case of three sales representatives who are candidates for promotion to one sales manager's job. Vytas has a very good sales year and always gets good performance evaluations. However he isn't sure he wants this job. Paulius wants the job badly but doesn't think he has much chance of getting it. Sandra wants the job as much as Paulius, and she thinks she has a pretty good shot at it. So, expectancy theory would predict that Vytas and Paulius are not very motivated to seek the promotion. Vytas doesn't really want it, and Paulius doesn't think he has much chance of getting it. Sandra, on the other hand, is very motivated to seek the promotion, because she wants it and thinks she can get it. How we can see in this theory, important role for employee's career development is given to desire to go up through career stages, and expectation is career possibilities which can offer organization. So in this theory big significance is given to career planning, vacancy reserve formation and close collaboration between employees and employers.

V.Vroom's expectancy theory was further developed by L. Porter bei E. Lawer. They suggested complex motivation model which has five elements: endeavor – perception – results – reward – satisfaction. This model is based not only on expectancy theory but also on S.Adams justice model. It highlight role of reward, which is separated into two parts: internal and external requital.

Internal requital depends only on individual, and external – only on organization. It is important that employee who seeks to develop career would feel internal requital, because in that case he/she will try to find career possibilities in organization and use them. Organizations, which want career possibilities use as employees

motivating factor, have to pay more attention to external requital.

So there were analyzed motivation theories presented by various researchers and we can make conclusion that career is very strong employee motivating factor, because it can satisfy both types of needs: basic (better work conditions, bigger salary) and higher (bigger responsibility, prestige, self-expression).

#### 4. Career types

Every individual, who starts his own career, thinks about promotion to better position or about possibility to do more interesting, responsible work, e.g. do what he really wants.

The most delicate problem of modern organizations – how to find and keep good employees, specifically those – who are in the higher position. Also there are problems of different age employees' career development. Very often proactive employees do not value their age peculiarity in career planning and developing. Organizations always search for new talents, e.g. creative, proactive, perceptive and kind employees, but not always organizations make conditions to become such kind of person.

Most people change their profession few times in their life, but this don't mean that the choice was wrong. In the course of time individual's needs, values, interest can change, what can stimulate employee to search for a new type of profession. In modern approach every individual understand career differently. It means, that organizations, which seek to use human potential effectively, have to know their employees' needs and motivation in all career stages.

R. Schuler (1995) presented four types of career, which depend on individual's personality and the stage of his life:

- 1) Stable career – choice is made once in life, decision is made rather early. It is popular among prestigious profession, such as doctors, dentist or highly qualified employees.
- 2) Usual career – it match with the stages of person's life, also including crises (for example, when baby was born women do not work for some time).
- 3) Unstable career – an individual moves from job to job. This career is popular among medium qualified employees.
- 4) Multifold trying career – there is no stable periods, individual works in rare jobs.

Different career possibilities are important for employees, who belong to different career types. For example, individual with stable type of career will value such career possibilities where he could deepen his theoretical knowledge and practical skills. The advantage of such type of employee is that he likes his profession and the job is motivating factor for him. Such possibilities as self-expression, freedom of actions are important for individuals who belong to unstable career type. The career is very important for such kind of people because only career can help them to find interesting job which will satisfy their needs. People with multifold career type think of career least. That's why organizations need to

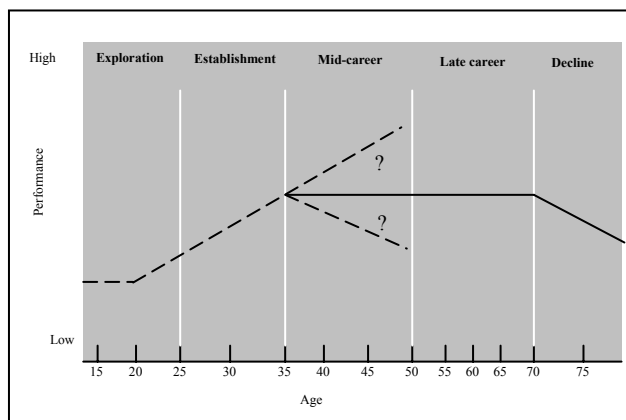
identify motivating factors for this kind of employees and only then offer various career possibilities.

## 5. Employees' needs and motivation in different career stages

The most popular way for analyzing and discussing careers is to look at them as made up of stages. Various researchers (Super, Hall, 1978; Noe, Hollenbeck, Gerhart, Wright, 1994) marks five stages:

- ◆ Growth stage – period from birth to age 14 during which the person develops a self-concept by identifying with and interacting with other people such as family, friends, and teachers.
- ◆ Exploration stage – period from around ages 15 to 24 during which a person seriously explores various occupational alternatives, attempting to match these alternatives with his or her interests and abilities.
- ◆ Establishment stage – period, roughly from ages 24 to 44, that is the heart of most people's work lives.
- ◆ Maintenance stage – period from about 45 to 65 during which the person secures his or her place in the world of work.
- ◆ Decline stage – period during which many people are faced with the prospect of having to accept reduced levels of power and responsibility and have to accept and develop new roles of mentor and confidante for those who are younger.

Career stages presented by A. DeCenzo, S. Robins (1988) are shown in picture 2.



**2 picture.** Stages in career development (DeCenzo, Robins, 1988, 282 p.)

The exploration stage lasts roughly from birth to age 14 and is a period during which the person develops a self-concept by identifying with and interacting with other people such as family, friends, and teachers. Toward the beginning this period, role playing is important, and children experiment with different ways of acting; this helps them to form impressions of how other people react to different behaviors and contributes to their developing a unique self-concept, or identity. Toward the end of this stage, the adolescent (who by this time has developed some preliminary ideas of what his or her interests and abilities are) begins some realistic thinking about alternative occupations.

The establishment period begins with the search for work and includes getting first job and gaining the first tangible

evidence of success or failure in the real world. It is a time that begins with uncertainties and anxieties. Additionally, it is marked by the making of mistakes, the learning from these mistakes. However, individuals in this stage have yet to reach their peak productivity, and rarely are they given work assignments that carry great power or high status.

Most people do not face their first severe dilemmas until they reach the mid-career stage. This is a time where individuals may continue their prior improvements in performance, level off, or begin to deteriorate. At this stage, the first dilemma is accepting that one is no longer seen as a "leader". At this point in career, one is expected to be moved beyond apprenticeship to journeyman status. To those who make the successful transition go greater responsibilities and rewards. For others, it may be a time of reassessment, job changes, adjustment of priorities, or the pursuit of alternative life styles.

Finally, somewhere between the midthirties and midforties, the person may enter the midcareer crisis substage. During this period people often make a major reassessment of their progress relative to original ambitions and goals. They may find that they are not going to realize their dreams (such as being company president). Also during this period, people have to decide how important work and career are to be in their total life. Trying to overpass the crisis of this stages F.W. Cascio (1992) offers two strategies. One strategy is to train midcareer employees to develop younger employees. Both parties can win under such arrangement. The midcareer employer keeps himself fresh, energetic, and up to date, while the younger employee learns to see the "big picture" and to profit from the experience of the older employee. Another strategy for coping with midcareer problems is to deal with or prevent obsolescence. To deal with the problem, some firms send their employees to seminars, workshops, university courses. But a better solution is to prevent obsolescence from occurring in the first place. This can be done through challenging initial jobs; periodic changes in assignments, projects or jobs. Furthermore, three personal characteristics tend to be associated with low obsolescence: high intellectual ability, high self-motivation, and personal flexibility.

For those who continue to grow through the mid-career stage, the late career usually is a pleasant time when one is allowed the luxury to relax a bit and enjoy playing the part of the leader statesman. It is a time where one can rest on one's laurels and bask in the respect given by younger employees. During the late career, individuals are no longer learning nor it is expected that they should be trying to outdo their levels of performance from previous years. For those who have stagnated or deteriorated during the previous stage, the late career brings the reality that they will not have an everlasting impact or change the world as they had once thought.

The final stage in one's career is difficult for everyone but, ironically, is probably hardest on those who have had continued success in the earlier stages. After several decades of continued achievements and high levels of performance, the time has come for retirement. For the modest performers or those who have seen their performance deteriorate over the years, it may be a



pleasant time. The frustrations that have been associated with work will be left behind. Responsibilities will be fewer and life will be less structured. As a result, it is a difficult stage for anyone to confront.

## 6. Conclusions

The research literature analysis confirms that two different approaches to career exist: traditional and modern. Modern approach becomes more and more popular, because organizations seek to maintain employees' motivation, who are interested in career, by creating alternatives to traditional hierarchical career stages. According to modern approach, career motivation depends on employee's possibilities, capabilities and

willingness to manage career, knowing, in which direction he wants to develop his career.

Employee is mainly responsible for the implementation of his/her career. So three domains of career motivation – career resilience, career insight and career identity – that affect professional's planning for career development, are presented.

The structure of human need and motivation changes in different career stages. Seeking to warrant effective activity between organization and employee, managers need to identify these changes and find tools to decrease them. When employee will know his perspectives and career possibilities in organization, he will be able work more effectively, i.e. by demonstrating his skills, experience and seeking to realize both, organization and his own, goals.

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## THE MOTIVATIONAL ASPECT OF EMPLOYEE CAREER

### Summary

This article aims to highlight the main aspects of employee career motivation concept. The traditional and modern approaches to career are presented. The latter claims that an individual employee is mainly responsible for the implementation of his/her career. Three domains of career motivation – career resilience, career insight and career identity – that affect professional's planning for career development are presented. Their significance proves that organization has to create favourable conditions and support the career of its employees.

The most popular way for analyzing and discussing careers is to look at them as made up of stages. In this article a five stage model, that is generalizable to most people during their adult years, regardless of the type of work they do, is presented. These five stages are – exploration, establishment, mid-career, late career and decline. Age and career stage influence the person's responses to the job and organization, employees have different needs regarding career development in all these stages.

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# KNOWLEDGE – BASED ECONOMY IN THE EUROPEAN UNION: CREATION PROCESSES AND PROBLEMS OF CLUSTERIZATION

Borissas Melnikas

## Abstract

Possibilities for the development of new forms of economic, social and technological headway designed to create and further improve economies based on knowledge are analyzed here.

The main emphasis is put on *national and regional economic specialization and creation of new networks of clusters in the situation of the development of the European Union*. We have found that clusterization oriented towards the increase of efficiency of various national and regional economies is a critical precondition for successful creation of modern economy based on knowledge, both in the whole space of the European Union and particular countries.

Another idea - a concept of creation of regional and cross-regional clusters and their networks also known as „economic oases“ - is suggested here. It is explained in the paper that in the economies based on knowledge development of clusters and their networks will soon become one of the core forms of economic and technological advancement.

## Keywords

Knowledge - based society and economy, integration - and synthesis – oriented strategies, networks of clusters and economic „oases“, European Union, high technology.

## 1. Introduction

The future of the European Union lies in the creation of the knowledge based society and knowledge based economy.

This means that key issues that require *strategic decisions* are to be considered as issues of creation of the knowledge based society and knowledge based economy. The essence of these issues could be revealed in the following:

- *what* should the knowledge based society and knowledge based economy be in the future in the European Union?
- *how* should the knowledge based society and economy be created in the European Union?

Striving to find answers to these questions determines the necessity of elaboration and implementation of appropriate *strategies for creation of knowledge based society and knowledge based economy*. In its turn, in order to ensure elaboration and implementation *appropriate* concepts and methodologies of preparation and justification of strategic decisions should be used.

This publication analyzes a new approach towards the way how *long term strategies* designed to create knowledge based economy in the European Union should be prepared.

This approach is a result of *scientific research* the object of which has been *creation of the knowledge based economy in the situation of the enlargement of the European Union*.

*The objective of the completed research has been the proof of the fact that key priorities for creation of the knowledge based economy is the urge of technological advancement and enhancement of compatibility and productivity using such opportunities as specialization of national and regional economies, creation of clusters and their networks, as well as the development of so called economic “oases” and hyper-clusters in the entire economic space of the European Union. The main result of the completed research is the concept of strategies*

*oriented towards integration and synthesis, the basis for which is the universal principle of „creation of a new quality“: we should utilize this principle in elaborating and implementing the strategies for creation of knowledge based economy in the European Union.*

Key *tasks* of the completed research have been the following:

- demonstrate the fact that knowledge based society and knowledge based economy in the European Union should be created according to the *universal principle of „creation of a new quality*,
- prove the necessity to create and apply the *strategies oriented towards integration and synthesis*,
- reveal the essence of the *rational specialization of national and regional economies*,
- show the necessity of creation and expansion of *regional, cross-regional and international networks of clusters and economic “oases”* in the European Union.

These tasks have been of a *priority* when attempting to create a modern knowledge based society and knowledge based economy in the European Union.

## 2. Creation of knowledge based economies in the European Union as a sphere of complex scientific research

**New challenges for the European Union.** The development of the European Union is a very complex process of both quantitative and qualitative transformations.

The necessity for the changes within the European Union is determined by a number of *problems* which analysis and systematization is described in various scientific papers (Melnikas, B., 2002; Melnikas, B., Reichelt, B., 2004).

Main *problems* typical to the European Union as a system which require essential and radical decisions are the following:

1. Within the territory of the European Union there are *very limited sources of energy and raw-*

*materials*. In the environment of the development of the economy needs for these resources have been steadily growing which means that the European Union becomes more and more dependent on the possibilities for the increase of these resources: we suggest that *prospects of economic development* of the European Union, along with *economic and energetic security* of the European Union has been influenced by various economic and political factors characterizing export of these resources to the European Union;

2. Within the countries of the European Union *very high standards of living are being implemented here* including the spheres of social security and social warranties, as well as environmental protection. As a consequence, all economic endeavors within the territory of the European Union require substantial expenditure which subsequently means that the *cost price* of the products manufactured in the European Union is *very high*. The increase of the cost price which is disproportionate to the quality of products determines the fact that products manufactured in the European Union become increasingly *incompatible*;
3. Key indicator for the well-being in the European Union is the ability to manufacture products to the increasing extent and more massively both in their local and global markets, and sell products of high quality and price. This means that in the European Union the need for more markets in order to sell their own products has increasingly growing (besides, it is of crucial importance that there is an adequately high purchase power). Inadequacy of such markets threatens the development of the economies of the European Union.

Necessity to respond to these problems determines main *challenges* to the European Union and its development:

1. *Quantitative increase of the European Union* is orientated to the following:
  - European Union could win possibly more markets to sell their production,
  - European Union could possibly gain better "direct" access to the countries in Eastern Europe, Central Asia and the Near and Central East where huge supply of energy and raw materials is accumulated and where great potential markets for the products manufactured in the European Union;
2. *Qualitative development of the European Union* is orientated to the goal to create *the knowledge based society and knowledge based economy* in the territory of the European Union: This could ensure the following:
  - ability to create within the European Union the alternative energy sector and other sectors of economy, which could allow strongly decrease the dependence of the economies of the European Union on the import of traditional energy and raw materials,
  - ability to create and widely distribute brand new products and technologies in the global

which could allow the European Union to become a worldly leader in many spheres of economic and social life.

It is worth mentioning that over the last decade greater possibilities to ensure *quantitative increase* can be observed in the European Union, whereas in the sphere of *qualitative development* numerous difficulties and unpredicted obstacles can be seen (Melnikas, B., Reichelt, B., 2004). For this reason qualitative development of the European Union should receive priority consideration: we suggest that prospects of the European Union are basically influenced by creation of the *knowledge based society and knowledge based economy*.

**Scientific research dedicated to the creation of knowledge based economy and its main directions and priorities.** Knowledge based economy is a new stage of social and economic development indicating that *a society of a new type* is being formed which is characterized by *new quality of life and new possibilities for further modernization*.

Creation of knowledge based economy should be considered as a very important *object of scientific research*. As we might know, there are numerous publications in the contemporary scientific research practice dedicated to the creation of knowledge based economy. (Cohendet, P., Stojak, L., 2005; Currie, W., 2000; David, P.A., Foray, D., 2002; Ein-Dor, P., Myers, M., Raman, K.S., 2004; Farnsworth, K., 2005; Goeransson, B., Soederberg, J., 2005; Grace, A., Butler, T., 2005; Hunt, S.D., 2000; Huseman, R.C., Godman, J.P., 1999; Merrill, R.E., Sedgwick, H.D., 1997; Leydesdorff, L., 2004; Steinmueller, W.E., 2002).

Summarizing the completed research allows us to conclude that in addition to the already developed research directions some *new and greatly prospective* directions might *additionally* be elaborated: one could expect that the research in the directions mentioned above could allow to define *new approaches* towards the *concept* of the knowledge based economies, and the assessment of the conditions necessary for successful implementation of such economy. It is especially important for the *new approaches* to thoroughly prepare and implement the *strategies* designed to create knowledge based economy.

Scientific research dedicated to the creation of knowledge based economy can be completed in two important new directions including:

1. *To create knowledge based economy it is necessary to evaluate the political, social, cultural, economic, information and technological environment*. When completing the research in chosen directions there should be assessed whether *political, social, economic, information and technological environment is adequately or inadequately favorable* for creation of knowledge based economy: if the findings show that such environment is *inadequately favorable*, adequate ways to influence this environment should be sought in the course of the research. Main priorities for the research in this direction are connected to definition of *common* to the entire world phenomena of the economic, social,

technological or other progress, along with assessment of *features* of the development typical to either *large regions of the world and various groups of countries* (for instance, analyzing possibilities for creation of knowledge based economy it is necessary to thoroughly examine regularities of the development of the European Union and prospects for the quantitative transformations in the economic, social and cultural space of the European Union)

2. *Creation of visions and patterns of knowledge based economy.* Completing the research in this direction it should be defined what kind of knowledge based economy should be in the *future* and *how* it should function. Key priorities of this direction could be:
  - structure of the future knowledge based economy,
  - principles and mechanisms of the functioning of this economy
  - factors of growth, along with orientations of economic, social and political development;
3. *Elaboration, justification and implementation of the necessary strategies for the creation and further modernization of the knowledge based economy.* Completing research in this direction there should be a decision made about *how* there will be the transition from current economy to the visionary economy based on knowledge executed; *what* should the *strategies* of the *transition* be; and *what* should the policies of the society and the state be dedicated to the creation to the knowledge based economy. Main *priorities* of the research in this direction are:
  - completion of political, economic, legal and other prerequisites for creation and further development of the knowledge based economy,
  - transformation of the current economic system, in order to create future knowledge based economy based on the current one,
  - international co-operation in the spheres of innovations and technologies,
  - training of human resources in preparation of solid intellectual foundation for the knowledge based economy.

The new directions of the scientific research mentioned earlier reflect on a wide *panorama* of the issues that should be examined before creating the knowledge based economy. It is obvious that analysis of these issues is directly oriented towards the fact that *adequate methods of management* are used that would allow to prepare and implement strategies appropriate to the changes happening in the society.

**Is the European Union an integral space or an integrated system of various spaces?** Processes of the enlargement of the European Union arising currently are very intense.

These processes reflect on two-fold approach towards the European Union and its enlargement:

1. European Union could be perceived as a *multicultural space*. We suggest that *the common*

*cultural space* of the European Union is comprised by various ethnic, religious, social and other cultural spaces represented by their *regional*, as well as *quantitative and qualitative* indicators. It is of crucial importance that the development of *common cultural space* in the European Union imply both processes of *integration and synthesis*: this means that *integral culture common to the entire society of the European Union* inevitably develops in the European Union;

2. European Union could be perceived as the *organization of the states belonging to Europe*. This means that it is possible assume that the European Union is generally *an organization of organizations* because a *modern state* broadly speaking can be defined as a *societal organization of the superior degree of the development*. The enlargement of the European Union as an organization of states is going in the way of integration of the new states into this organization, therefore, we suggest that the enlargement of the European Union are followed by the processes of *integration*. At the same time it is important to notice that the European Union as an organization has gradually started executing functions of the *common state* of the countries that belong to the European Union and this means that the European Union is gradually turning into the *super-state*. The development of the European Union as a new super-state simultaneously expresses processes of *synthesis* typical to the enlargement of the European Union as an organization.

We may *conclude* that both processes of *integration and synthesis* develop in the enlargement of the European Union as a *multicultural space and as organization of the states*. Therefore, the character and condition of the enlargement of the European Union in the future will be determined by what processes of the enlargement will *dominate, and whether processes of integration or processes of synthesis will dominate*.

Depending on the fact whether in the future the *processes of integration or processes of synthesis dominate*, it is possible to draft *two alternative visions* of the future of the European Union:

1. *The processes of integration will dominate* in the enlargement of the European Union. In this case, *multicultural space of the European Union* will manifest as a *common space* comprised by *various national cultures* and where *various nations* live. In this case the European Union will continue functioning as the *organization of various national states*;
2. *The processes of synthesis will dominate* in the enlargement of the European Union. In this case a *new type of common European nation* will *gradually* develop in the space of the European Union, whereas the European Union itself will transform into *the integral European super-state*. In this case modern national states will become *administrative and territorial sub-divisions possessing rather wide autonomy* in the future European Union as a super-state. Besides, we may assume that in the future members of the European

Union will rather *identify themselves* with the *integral European nation*, rather than with *current nations of its own*.

It is natural that both of these alternative visions are *hypothetical*. At the same time it is worth noting that the second vision (the vision of the domination of the processes of synthesis) generally is just a continuation of the first vision (the vision of the domination of the processes of integration). This means that both of these visions as a *complex* can be considered as a *common hypothesis* dedicated to the future of the European Union: in this common hypothesis two stages could be emphasized: the first one (the stage of integration processes) and the second one (the stage of the synthesis process).

It is necessary to mention that *regardless* the combination of the processes of integration will characterize the enlargement of the European Union; whatever the case is, the development of the *knowledge based society and knowledge based economy* will manifest in the European Union. The knowledge based society in the future will represent to the *entire* space of the European Union.

**Transformations in the “enlarged” European Union and typicalities characteristic to the development of the integral space in the entire European Union.** Main typicalities have developed over the recent decades in the integral economic and social space of *the entire European Union*. Among those the following could be identified:

- *general* typicalities characteristic to the development of all large economic and social spaces that make known not only in the situation of the development of the European Union, but also appear in the evolution of *all* civilisations and cultures,
- *specific* typicalities characteristic to the development of the European Union in particular, manifesting as *historically unique* phenomena of the development of civilisations and cultures.

There is no strict boundary between *general* and *specific* typicalities characteristic to the development of the integral economic and social space in the European Union.

As *general* typicalities those can be considered that, drawing an analogy in one way or another, have already evolved in the history of the development of other civilizations and cultures. As *specific* typicalities we can conceive those of the exceptional origin of the European Union, its economic and social space and transformations of this space. It is important to note that among the *specific* typicalities as most substantial should be respected those that allow to reveal the specificity influenced by various *regional factors*, including the countries of the Eastern and Central Europe.

**There can be enumerated a great number of *general* typicalities characteristic to the integral economic and social space of the entire European Union. Among those these can be considered as the leading ones:**

1. Typicality of the *priorities of the quantitative growth and qualitative advancement* manifests the fact that the development of the economic and social space in the entire European Union is characterised by the two *main priorities*:

quantitative growth (territory; population numbers; accumulated capital; trade and consumer growth) and qualitative advancement (formation of new life styles and new multicultural spaces; creation and implementation of modern technologies and organizational patterns in all spheres of life; dissemination of new values and living standards; and rise of new opportunities of further growth). This typicality demonstrates that in the situation of the development of the integral economic and social space of the European Union there forms *an integral European civilisation of a new type*, completely harmonized with the overall system of the Western civilisation, and actively participating in multifaceted co-operation with all modern civilisations and cultures;

2. Typicality of the priorities of democratic attitudes, humanism, human rights and common human values proves that striving to implement the ideals of democracy and humanism is the most intrinsic value towards which the development of the European Union is oriented;
3. Typicality of the *increasing complexity of the structure of multicultural spaces* indicates that in the situation of the development and enlargement of the European Union not only the diversity of the cultures, that appear in the space of the European Union, increases but also *processes of the increasing complexity of those cultural systems and structures* occur: *new characteristics and dimensions* of multicultural spaces develop, that testify the increase of the variety of ethnic, confessional, regional, demographic, social, economic, political, ideological, mental and other factors. This trend allows us to state that in the situation of the development and enlargement of the European Union not only the variety of cultural and multicultural spaces inevitably augments, but also qualitatively new problems influenced by this variety arise;
4. Typicality of *the balance in general and local factors* demonstrates that in the situation of the development and enlargement of the European Union an *integral European civilisation of a new type* is forming that possess *twofold* characteristics: first, *general* characteristics, typical to all spheres of life within the *whole* space of the European Union; and second, *local* characteristics, expressing typicalities of different countries, regions and societal layers. Combinations of general and local characteristics *make possible to define adaptability of any local space in the common space of the European Union*, at the same time indicating the level of the inner harmony within the multicultural spaces;
5. Typicality of *predominant norms and standards* implies that in the situation of the development and enlargement of the European Union the *uniform norms and standards* have been steadily prevailing in the integral economic, social and cultural spaces. This typicality embraces *all* spheres of societal life – the sphere of economics, business and public administration, social

- behaviour, political and societal life, as well as people's everyday life and even their private lives. The uniform norms and standards comprise both formal and informal rules for behaviour and acts in various life situations, development and dissemination of values and technologies of interpersonal communication. Origination and increasing dominance of uniform norms and standards is a key precondition for gradual development of the integral and undivided European civilisation and culture, where *general* characteristics have already been prevailing, if compared to national, regional or local characteristics of other kind;
6. Typicality of *non- synchronical development* suggests that in the situation of the development and enlargement of the European Union more and more *uneven changes* emerge. As it is known, societal development and headway, and processes occurring in the society may evolve in the way of various *discrepancies*. These discrepancies can be very diverse, including discrepancies between the pace of the development: they vary from country to country, region to region; they appear to differ in different sectors of economic and social life and different societal layers. Discrepancies in changes can cause conflicts and issues of different kind;
  7. Typicality of *cyclical development based on the "wave" principle* refers to the fact that all processes of the development of the European Union are undergoing cycles: each cycle includes a certain *stage* of development, that can be outlined by both quantitative and qualitative changes. This means that the transition of these stages can be compared to certain "waves": where each wave witnesses the *stepping stone of the potential* of the European Union, as an integral economic and social space;
  8. Typicality of *increasing differentiation and differentiation variety* exhibits that in the situation of the expansion of the European Union, within the integral economic and social space new manifestations of differentiation occur, and the range of differentiation expands. It is especially notable for the reason that in the actual routine of the development and expansion of the European Union rather substantial *contradiction* appears: on one hand, following political declarations, it is sought to align regional structures, which by the level of their development are rather unequal; economic sectors or societal layers; on the other hand, a real "alignment" is of limited scale and applies only to particular spheres of social and economic life. It is quite probable that actual differentiation is generally increasing: various discrepancies between different regions, economic sectors and societal layers deepen, within *actual opportunities for improvement and modernisation*, as well as *actual well being* and *social security*. This factor is essential, estimating prospectives for *stability* and *internal security* in the space of the European Union;
  9. Typicality of *balance of centripetal and centrifugal forces* in the situation of the development and expansion of the European Union is seen in the simultaneous manifestation of *two opposite tendencies*: on one hand, it is a tendency of *striving to enter the common system*, expressing the priority of obedience to the system; and on the other hand, a tendency of *striving to strengthen the sovereignty and autonomy in the common system*, expressing the priority of the *self-assurance of personal wellbeing at the expense of the system*. Those two tendencies are advantageous for the wellbeing of the European Union, provided they are mutually *well balanced*; such balance in its turn, can have different manifestations, including rational combination of basics of *centralisation, decentralisation* and *self-government* in the systems of managing and administering processes of expansion and development. (It is noteworthy mentioning that in cases, when the balance among centripetal and centrifugal forces fails, more threats for the performance of the *entire system* emerge: disproportionate *prevalence of the centripetal forces* may lead to inefficient management and determine loss of adaptability skills in the ever-changing environment, whereas disproportionate *prevalence of centrifugal forces* impels fragmentation and self-destruction of the system itself. This means that vulnerability of the balance mentioned above is a very dangerous and undesirable matter.);
  10. Typicality of *predominance of traditional leaders* proposes that in the situation of the development and expansion of the European Union the priority interests to be implemented are those developing in greater countries of the Western Europe, such as, first Germany and France (these countries have historically formed as traditional leaders of the European Union). Despite the fact that in the situation of the development and enlargement of the European Union one can observe a great variety of concerns of different countries, regions and layers of the society (moreover, this variety causes internal disagreements within the European Union), prevalence of traditional leaders and their concerns is long-lasting and steady. By the way, the concerns of the traditional leaders play as a key factor for the development of norms and standards, typical to the space of all the European Union;
  11. Typicality of the *expansion potential* expresses the idea that the European Union as an *integral system* has been increasingly operating within *global* economic, social, cultural, informational and political spaces. With this regard, the increasing expansion of the European Union, as an integral system, towards the spheres of the world economies and the process of the entire political, social and economic development;
  12. Typicality of the *adaptability in the consistently changing external and internal environment* suggests that in the situation of the development and enlargement of the European Union

*multifaceted processes of adaptation* arise: the new member states of the European Union need to adapt in the new to them space of the European Union, whereas the “old” members of the European Union have to adapt to the “enlarged” European Union and “accept” new members as equal partners; besides, all European Union as an integral system needs to adapt to the consistently changing external environment. All this allows us to admit that adaptability is a crucial precondition for the further development of the European Union as an integral system.

### 3. Strategies designed to create knowledge based economy in the European Union

#### **Networks of clusters, economic „oases“ and rational specialization of regional economies as a priority prerequisite, ensuring possibilities for creation of knowledge based economy in the European Union.**

Contemporary economic principles and practices confirm that in *efficiently operating economic systems their surplus value is created at greater extent*. This statement works in all cases where ways to increase efficiency and compatibility on the scale of both particular economic subjects and large national and regional economic systems (Boldrin, M., Canova, F., 2001; Bond, E., Syropoulos, C., Winters, L.A., 2001; Chortares, G.E., Pelagidis, T., 2001; Dutta, M., 1999; Guy, M., 2001; Redding, S., Venables, A.J., 2004; Sangmon, K., 2002). The main precondition to ensure high efficiency and compatibility of any economic system is to achieve that any economic system should be *properly specialised*. Hummels, D., Ishii, J., Kei – Mu Yi, 2001; Huseman, R.C., Godman, J.P., 1999; Melnikas, B., 1997; Olsen, T.E., Osmundsen, P., 2003).

Under the *proper specialisation* we understand the situation where the range of products produced within the *economic system* guarantees *magnification of the surplus value within this system*: the economic system should be exceptionally oriented towards the series of products, services and activities, whose structure allows to achieve potentially greater surplus value or higher velocity of the increase of this value.

For the sake of the rationalisation of the national or regional economic system various means may be implemented. These means should create a *solid complex*, and have to be *long-term* and *consecutive*. The idea of the means should ensure that the entire economic system of particular region or country is developed as a *large macro-cluster or hyper-cluster*. These large macro-or-hyper-clusters may be *multi-profiled* and oriented towards *creation* of different and diverse *final products*, and it is very important to create final products that are compatible in *global markets*.

It is obvious that large macro – or- hyper- clusters in particular countries or regions should meet the following requirements:

- large clusters of this kind function as *open systems*, maintaining both internal and external economic and technological relations in international and global markets,

- *inside* of the large clusters of this kind various specialised clusters can be created within incorporated diverse institutions of science, research and education, enterprises of production and services, business incubators, parks of science and technology, centers for innovation, and industrial, trade, transportation and communication companies.

Development of large economic systems in a way of *clusterisation* may be of great variety. A very prospective method to implement this way is creation of *regional (territorial) or sectorial “oases”*.

In general “oasis” can be explained as an *economic system, possessing extremely advantageous political, legal, economic and other conditions for activities and development*. These conditions are as a rule exclusive and in their presence the “oasis” as economic system receives various privileges or extremely beneficial environment is created for it. “Oases” can be established on behalf of political will of a *state* or even a *group of states*: by the way, the idea of regional “oases” is very viable in the improvement and implementation of regional policy of the European Union, with the intentions of creation of “oases” not only in particular countries, but also regions, comprised of regions of different countries.

Regional “oasis” is one where exceptionally advantageous conditions for economic development are created in a territorially outlined area (region). This area may coincide with systems of administrative territorial division of particular countries or may not.

Sectorial “oasis” is one where exceptionally advantageous conditions are created for particular branch of economy, and particular segments of business or public sector.

Creating and developing “oases” it is very important to consider demographic situation, possibilities to attract, concentrate and efficiently utilise human and financial and other resources, as well as possibilities rapidly expand various innovations.

The idea of the “oases” and opportunities to promote this idea in the situation of the development of the European Union has been described quite comprehensively (Melnikas, B., 2002, 2003, 2004).

Summarizing the statements given above, we may confirm that the concepts of *proper rationalization of national and regional economic systems*, as well as concepts of creation of *macro-or-hyper-clusters* and “oases” are of great importance, ensuring progress in the entire space of the European Union.

The idea of clusters, their networks and “oases”, oriented towards rationalism of specialization of regional economies is very promising, when creating *the knowledge based economy* in the European Union. The implementation of this concept should be based on the *universal principle of „creation of a new quality”* when planning to prepare and implement appropriate *strategies oriented towards integration and synthesis*.

**Priority strategies oriented towards integration and synthesis designed to create knowledge based economies in the European Union.** In order to create knowledge based society and knowledge based economy in the European Union we should purposefully and consecutively implement the strategies oriented towards

integration and synthesis embracing *all major spheres* of social, economic and cultural life.

Considering the fact that when creating the knowledge based economy the key priority should be put on *clusterization, networks of clusters, economic "oases" and rational specialization of regional economies* we suggest that: for the benefit of creation of knowledge based economy in the European Union it is necessary to prepare and implement *a complex of strategies for clusterization and rational specialization of regional economies*.

The *strategies for clusterization and rational specialization of regional economies* should include both *the strategies oriented towards integration and the strategies oriented towards synthesis*: the strategies oriented towards integration and the strategies oriented towards synthesis are characterized by *different purpose and different content*.

The idea of the strategies oriented towards integration is to ensure *high efficiency and compatibility of different regional economies and different sectors* of both in the integral economic space of the European Union and in global markets. These strategies should draw upon the following key decisions:

- each national or regional economic system should shape up one or more *priorities oriented towards creation of modern state-of-the-art technologies and products based on them*: based on such priorities one could define or develop *rational specialization of each national or regional economy*,
- each national or regional economic system according to the *regional priorities*, should form *regional economic „oases“* and clusters; whereas general „oases“ and clusters can be transformed into *macro - or hyper - clusters* on the scale of large regions or the entire country (the clusters of this kind can be of a *broad scope, multi-scope* and *limited scope*, functioning as *specialized clusters* in particular sectors of economy),
- creation of „oases“ and clusterization should ensure that *the major role* in the grow of economy is to be played by *intellectual resources and technological advancement*. The idea of the *strategies oriented towards synthesis* is to achieve that *major sectors of economy on the scale of the whole European Union* operate as *integral undivided systems*.

Each sector of this kind as a system should possess a *very high level of technological development* and should be a *leader* in the corresponding sphere of economy *on the worldly scale*. Orientation towards the challenges of this kind requires that within these strategies the following decisions are made:

- on the scale of the entire European Union *the networks of regional and sector clusters as well as "oases"* should be created and mutually developed: each element in the networks of this kind could become *rationally specialized* which would allow to make sure that *the network as a system is of a state-of-the-art level of productivity and technological advancement*,

- *the networks of regional and sector clusters as well as "oases"* should be *specialized*: subsequently, the networks of this kind on the scale of economic space of the European Union are *mutually complementing* and function based on partnership,
- *the networks of regional and sector clusters as well as "oases"* that are created in the European Union *can operate outside the European Union*: this will ensure the viability of economic structures of the European Union and their compatibility in the global markets,
- the networks of regional and sector clusters as well as "oases in the future should be an organizational basis for the *economies* of the *entire European Union*: the networks of this kind should be understood as the *key structural elements of the economy of the European Union*, as well as a *key organizational structure of the knowledge based economy* (it is obvious that in any of these networks high intellectual, information technical and other potential should be accumulated ensuring rapid and efficient headway of technologies and leadership in the global markets).

Implementation of the strategies explained above is a very important factor to achieve that creation of knowledge based economy and knowledge based society in the European Union become a reality.

To conclude the statements given earlier it is also worth noting that purposeful and consecutive development and implementation of the strategies oriented towards integration and synthesis ensures that *integral and undivided and highly efficient knowledge based society and knowledge based economy* gradually form within the European Union.

#### 4. Conclusions and recommendations

Creation of the knowledge based society and knowledge based economy in the European Union is a very complex, long-term and ambiguous process.

Key *challenges and priorities* that require main attention when creating the knowledge based society and knowledge based economy are the following:

1. Creation of knowledge based society and knowledge based economy in the European Union should be oriented towards the solution of the following *problems*:
  - *problems of insufficiency and increase in the cost of energy and raw-material*, as well as *problems of secure and reliable import of these resources*, along with *problems of creation of alternative energy and economies oriented towards alternative raw materials*,
  - *problems of new prospective markets necessary for implementation of production in the European Union*, and *problems of its development and introduction*,
  - *problems of the required potential development for state-of-the-art products*, as well as *problems of compatibility of the products oriented towards high technologies in the global markets*,



- problems of *social security, economic well-being*, as well as *social, legal and ecological environment* improvement;
2. The basis for creation of the knowledge based economy in the European Union is the implementation of *the universal principle of „creation of a new quality“* designed to complete the following:
    - development of the society and economy of a new type is going under concurrent *processes of integration and synthesis*,
    - when creating the knowledge based society and knowledge based economy in the European Union *integral cultural space* should be created,
    - when creating the knowledge based society and knowledge based economy in the European Union *the strategies oriented towards integration and synthesis* should be created and implemented;
  3. In the *strategies* designed to create the knowledge based economy in the European Union main emphasis should be put on the following *priorities*:
    - *rational specialization* of national and regional economies, ensuring *high compatibility* both in the European Union and in global markets,
    - transformation of national, regional and sector economies into the *macro –or hyper –clusters and systems of such clusters*,
    - development of *clusters and networks of economic “oases”* in the entire space of the European Union,
    - further development of *clusters and networks of economic “oases”* as key organizational structures characteristic to the system of the European Union;
  4. In the situation of the further development of the European Union the following provisions should be implemented:
    - issues of modernization and compatibility increase for the national, regional and sector systems should be tackled *in the strategies oriented towards integration*,
    - issues related to creation of the *integral and undivided* knowledge based society and knowledge based economy should be tackled *in the systems oriented towards synthesis in the entire space of the European Union*.
- Further scientific research and practice dedicated to creation of strategies for the knowledge based society and knowledge based economy in the European Union are greatly promising and important.

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## KNOWLEDGE – BASED ECONOMY IN THE EUROPEAN UNION: CREATION PROCESSES AND PROBLEMS OF CLUSTERIZATION

### Summary

The future of the European Union lies in the creation of the knowledge based society and knowledge based economy. This means that key issues that require *strategic decisions* are to be considered as issues of creation of the knowledge based society and knowledge based economy.

This publication analyzes a new approach towards the way how *long term strategies* designed to create knowledge based economy in the European Union should be prepared. This approach is a result of *scientific research* the object of which has been *creation of the knowledge based economy in the situation of the enlargement of the European Union*. The objective of the completed research has been the proof of the fact that *key priorities for creation of the knowledge based economy is the urge of technological advancement and enhancement of compatibility and productivity* using such opportunities as *specialization of national and regional economies, creation of clusters and their networks*, as well as *the development of so called economic "oases" and hyper-clusters in the entire economic space of the European Union*.

Key tasks of the completed research have been the following:

- demonstrate the fact that knowledge based society and knowledge based economy in the European Union should be created according to the *universal principle of „creation of a new quality*,
- prove the necessity to create and apply *the strategies oriented towards integration and synthesis*,
- show the necessity of creation and expansion of *regional, cross-regional and international networks of clusters and economic "oases"* in the European Union.

Key *challenges and priorities* that require main attention when creating the knowledge based society and knowledge based economy are the following:

1. Creation of knowledge based society and knowledge based economy in the European Union should be oriented towards the solution of the following *problems*:

- problems of *insufficiency and increase in the cost* of energy and raw-material, as well as problems of *secure and reliable* import of these resources, along with problems of creation of *alternative energy* and *economies oriented towards alternative raw materials*,
  - problems of *new prospective markets* necessary for implementation of production in the European Union, and problems of its development and introduction,
  - problems of the required potential development for *state-of-the-art* products, as well as problems of *compatibility of the products oriented towards high technologies in the global markets*,
  - problems of *social security, economic well-being*, as well as *social, legal and ecological environment* improvement;
2. The basis for creation of the knowledge based economy in the European Union is the implementation of *the universal principle of „creation of a new quality“* designed to complete the following:
- development of the society and economy of a new type is going under concurrent *processes of integration and synthesis*,
  - when creating the knowledge based society and knowledge based economy in the European Union *integral cultural space* should be created,
3. In the *strategies* designed to create the knowledge based economy in the European Union main emphasis should be put on the following priorities:
- *rational specialization* of national and regional economies, ensuring *high compatibility* both in the European Union and in global markets,
  - transformation of national, regional and sector economies into the *macro –or hyper –clusters* and *systems of such clusters*,
  - development of *clusters and networks of economic “oases” in the entire space of the European Union*,
  - further development of *clusters and networks of economic “oases” as key organizational structures* characteristic to the system of the European Union;
4. In the situation of the further development of the European Union the following provisions should be implemented:
- issues of modernization and compatibility increase for the national, regional and sector systems should be tackled *in the strategies oriented towards integration*,
  - issues related to creation of the *integral and undivided* knowledge based society and knowledge based economy should be tackled *in the systems oriented towards synthesis in the entire space of the European Union*.

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# ECONOMIC ASPECTS OF WAGES

Iveta Mietule

## Abstract

Economic aspects of minimum wages and inflation, role of minimum wages in wages dynamics in a country as well as positive and negative aspects of minimum wages as the fiscal tool are analysed in this paper. Conclusions about impact of minimum wages on the wages level in the country and in different sectors of economy also are summarised in the paper. As result of research the author has delivered proposal on necessity to schedule by the law indexation of minimum wages for long-term period. Such approach could facilitate in long-term strategic planning for business entities and in decrease of inflation "expectations". This norm also could serve as a basis for formation of personnel policy in order to attract employees and strengthen their loyalty.

## Keywords

Inflation, wages, minimum wages, nominal wages, real wages.

Each economy has many factors and aspects that affect economic development of a country. These factors facilitate or hamper economic growth, which could be evaluated by inhabitants' welfare and social security. These factors or aspects are mutually dependent; they make their influence and are influenced. Economists' schools, theories, economic analysis, science and economic prognoses are based on development trends of these economic indicators and their mutual correlation. Objective of this paper is to characterise economic aspects of wages, incl. minimum wages and inflation, as well as to analyse mutual correlation of these economic aspects in Latvia.

Following tasks are raised to achieve the objective:

- To characterise economic aspects of wages and inflation;
- To analyse the role of minimum wages in wages dynamics in the country;
- To evaluate dynamics of nominal wages and inflation;
- To deliver conclusions on the basis of performed researches.

Following research methods are exploited during the research:

- Qualitative research methods – content analysis and special cases research methods of Latvian and foreign scientific literature, conventions and declarations of International organizations, legislative acts of the Republic of Latvia and the government's concepts;
  - Quantitative research methods of statistics – data comparison, grouping and calculation of average values.
- Nowadays comparatively higher inflation rate and lower minimum wages are topical problems in economic development of Latvia.

Permanently high inflation rate – 5-6% - seriously harms economic development and therefore the increase of welfare level. Negative affect of inflation on economic development is analysed in many researches and economic publications. This analysis leads to the conclusion that long-term growth is lower in the countries with higher inflation than in the countries with temperate inflation. The main thing – inflation is reducing inhabitants' purchasing power in direct way. Furthermore, inflation is influencing in most intensive way those inhabitants, whose incomes have been revised once per year in the best case. Mostly these inhabitants are with average or low incomes level [8].

Table 1 shows that Latvia has the highest inflation rate among the EU countries.

According to the theory, we must distinct demand inflation and costs inflation. Demand inflation could be observed, when the increase of any from total costs components is taking place: households' total consumption, companies' investments, government or foreigners' purchases. Costs inflation is taking place, when production costs are increasing or total supply is decreasing. Following important reasons could lead to the costs inflation:

- Increase of wages as component of production costs;
  - Increase of prices for raw materials and exploitation of out-of-date equipments and machineries in production process;
  - Increase of common price level abroad [1].
- Evaluating the increase of wages level as inflation facilitation factors, it should be noted that according to the economic literature the wages level is the factor

**Table 1**

Inflation Rate (Annual Average Rate of Change in Harmonized Indices of Consumer Prices (HICPs), 2002-2005 [7])

| Country        | 2002 | 2003 | 2004 | 2005 |
|----------------|------|------|------|------|
| Belgium        | 1,6  | 1,5  | 1,9  | 2,5  |
| Czech Republic | 1,4  | -0,1 | 2,6  | 1,6  |
| Estonia        | 3,6  | 1,4  | 3    | 4,1  |
| Greece         | 3,9  | 3,5  | 3    | 3,5  |
| Spain          | 3,6  | 3,1  | 3,1  | 3,4  |
| France         | 1,9  | 2,2  | 2,3  | 1,9  |
| Ireland        | 4,7  | 4    | 2,3  | 2,2  |

| Country     | 2002 | 2003 | 2004 | 2005 |
|-------------|------|------|------|------|
| Hungary     | 5,2  | 4,7  | 6,8  | 3,5  |
| Malta       | 2,6  | 1,9  | 2,7  | 2,5  |
| Netherlands | 3,9  | 2,2  | 1,4  | 1,5  |
| Poland      | 1,9  | 0,7  | 3,6  | 2,2  |
| Portugal    | 3,7  | 3,3  | 2,5  | 2,1  |
| Slovenia    | 7,5  | 5,7  | 3,7  | 2,5  |
| Slovakia    | 3,5  | 8,4  | 7,5  | 2,8  |

|            | 2,0 | 2,9  | 6,2 | 6,9 |
|------------|-----|------|-----|-----|
| Latvia     |     |      |     |     |
| Lithuania  | 0,3 | -1,1 | 1,2 | 2,7 |
| Luxembourg | 2,1 | 2,5  | 3,2 | 3,9 |

|                |     |     |     |     |
|----------------|-----|-----|-----|-----|
| United Kingdom | 1,3 | 1,4 | 1,3 | 2,1 |
| United States  | 1,6 | 2,3 | 2,7 | 2,6 |

which makes both demand inflation and costs inflation. Such terminology that is related with wages as “nominal wages” and “real wages” must be used in order to characterise economic development. Nominal wages are the amount in national currency that gets employee for the work. Real wages are volume of goods and services that could be purchased for the nominal wages [2]. Real wages characterise wages recipient’s purchasing power. Therefore the real wages are dependant both on amount of nominal wages and prices for goods and services. Ability of real wages to satisfy employee’s needs in long-term period is dependant on trends of nominal wages and price level. One of the factors, which affect wages level and therefore labour force prices as production factor, is by the government defined minimum wages. According to the economic theory, the increase of minimum wages positively affects macroeconomic situation in a country. The increase of minimum wages dually affects the total budget. Firstly, the overall wages level is increasing in the country and therefore the budget’s revenue from such taxes as payroll tax and the state social insurance payments is increasing also. From another lag, the budget’s expenditure for public sector employees’ wages and the state social insurance payments is increasing. As negative aspect also should be noted that the increase of wages is one of the factors, which influences the increase of prices, and therefore leaves its negative affect on inflation in the country.

Minimum wages were introduced by the law in the USA in 1938. However nowadays many countries do not define the minimum wages by the law. In the economic theory there are different opinions about the state regulation of minimum wages. Here are some arguments “against” the minimum wages:

- Increase of minimum wages can initiate reduction of demand for labour force, which in its turn can decrease production volumes and GDP;

- Increase of minimum wages can initiate the increase of unemployment and therefore the increase of social expenditure from the state budget.

In their turn supporters of the state regulation of minimum wages put forward the following arguments:

- Minimum wages do not initiate the increase of unemployment level, but ensure employees’ higher living standards in a case of monopoly activities as well as in a case, when a company’s value added has been considerably redistributed in favour of capital owners;

- Increase of minimum wages that initiates the increase of such production factor as labour force price can support employers to exploit more qualitative labour force. That in its turn ensures work quality, growth of productivity and other positive economic tendencies;

- Increase of wages level ensures labour force’s motivation, well-feeling, improvement of health and as result the work process becomes more productive [2].

The increase tempos of wages are dependent not only on the state regulation of minimum wages, but also on overall economic situation in the economy, which in its turn is a matrix of many economic factors. Since January 1, 2006 the government of the Republic of Latvia has defined the amount of minimum wages – LVL 90 (EUR 129). However the monthly minimum wages in Latvia still are the lowest in the EU countries (see Table 2).

The EU and World countries have different approaches for the determination of minimum wages, for example:

- Government determine the minimum wages by the law (Spain, France, Luxembourg etc.);

- Minimum wages in certain branch of economy is defined in common labour treaty (Austria, Denmark, Belgium, Finland etc.);

- Increase pace of minimum wages is dependant on the inflation prognoses made by the government (Greece, Spain etc.);

- Minimum wages are liable to the indexation once or twice per year depending on inflation rate (The Netherlands) [7].

As characterising indicator we should use percentage between minimum wages and average wages in the country. This ratio is considerably above 50% in most developed EU countries. As for the Baltic States, this indicator comprises 33% in Latvia, 38% in Lithuania and 34% in Estonia.

One of the objectives for the increase of minimum wages is to increase wages level in private sector and therefore to increase taxation basis and the budget’s revenue. However the increase of minimum wages gives relatively the same affect on the wages level in public and private sector in Latvia (see fig. 1).

It should be concluded from the above-mentioned statistic data that the increase of overall wages level, besides changes in minimum wages, is affected also by other factors. For example, during 1999 and July 1, 2001 the minimum wages were constant – LVL 50, however there

Table 2

Monthly Minimum Wages in EU Member States and The USA (in Euro) in 2002-2006 [7]

|                | 2002       | 2003       | 2004       | 2005       | 2006       |
|----------------|------------|------------|------------|------------|------------|
| Belgium        | 1163       | 1163       | 1186       | 1210       | 1234       |
| Czech Republic | 188        | 199        | 207        | 235        | 261        |
| Estonia        | 118        | 138        | 159        | 172        | 192        |
| Greece         | 552        | 605        | 605        | 668        | 668        |
| Spain          | 516        | 526        | 537        | 598        | 631        |
| France         | 1126       | 1154       | 1173       | 1197       | 1218       |
| Ireland        | 1009       | 1073       | 1073       | 1183       | 1293       |
| Latvia         | <b>107</b> | <b>116</b> | <b>121</b> | <b>116</b> | <b>129</b> |
| Lithuania      | 120        | 125        | 125        | 145        | 159        |
| Luxembourg     | 1290       | 1369       | 1403       | 1467       | 1503       |

|                | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------|------|------|------|------|------|
| Hungary        | 202  | 212  | 189  | 232  | 247  |
| Malta          | 552  | 534  | 542  | 557  | 580  |
| Netherlands    | 1207 | 1249 | 1265 | 1265 | 1273 |
| Poland         | 212  | 201  | 177  | 205  | 234  |
| Portugal       | 406  | 416  | 426  | 437  | 437  |
| Slovenia       | 450  | 451  | 471  | 490  | 512  |
| Slovakia       | 114  | 133  | 148  | 167  | 183  |
| United Kingdom | 1118 | 1106 | 1083 | 1197 | 1269 |
| United States  | 1001 | 877  | 727  | 666  | 753  |

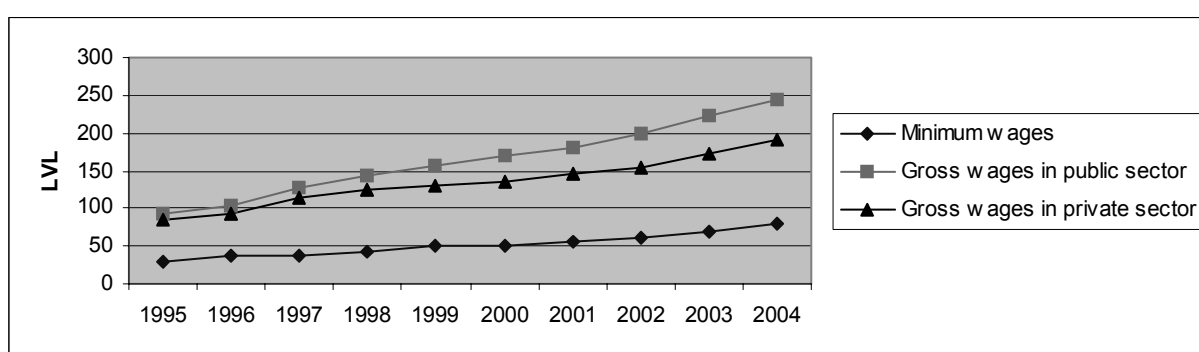


Figure 1. Dynamics of Minimum Wages and Average Wages in Latvia in 1995-2004 (LVL, According to CSB Data) [3]

was observed the increase of overall wages level both in several sectors and in the country as a whole [7]. Since 2001, while the increase of minimum wages took place, more rapid increase of wages level was observed in the public sector. As aside factor, which affects statistic data on wages level, should be mentioned shadow economy, "wages in envelopes" (unofficially paid wages) in the private sector, labour contracts with part-time workload etc.

Figure 2 presents information on percentage increase of minimum wages and price index dynamics in 2000-2005. It should be noted that minimum wages have increased by 60%, i.e. from LVL 50 in 2000 up to LVL 80 in 2005. Price level in its turn has increased by 21,9%. However such fact does not give evidences on overall increase of inhabitants' welfare. Taking into consideration particularities of Latvia's tax system, the minimum net wages comprise just 2/3 of the minimum gross wages.

It is obvious that close correlation exists between tendencies of minimum wages and price level. According to the author's calculations, correlation indicator between minimum wages and inflation comprises 0,952479 in Latvia in 2002-2005. However wages, incl. minimum wages, is not the only factor, which facilitates inflation. Now there is a unique situation in Latvia as well as in other post-socialism countries. Transition to the market economy with the government's certain participation is taking place since the beginning of 1990's. Changing the form of economy, inflation and other economic negotiations were unavoidable. However wages level and inhabitants'

"dependence" from the level has been growing from year to the year, because:

- 15 years period under conditions of market economy is relatively short period in order to create sufficient savings from business and incomes from property for considerable part of inhabitants;

- Inhabitants' incomes saved during the command economy's period were lost as result of inflation and monetary reform;

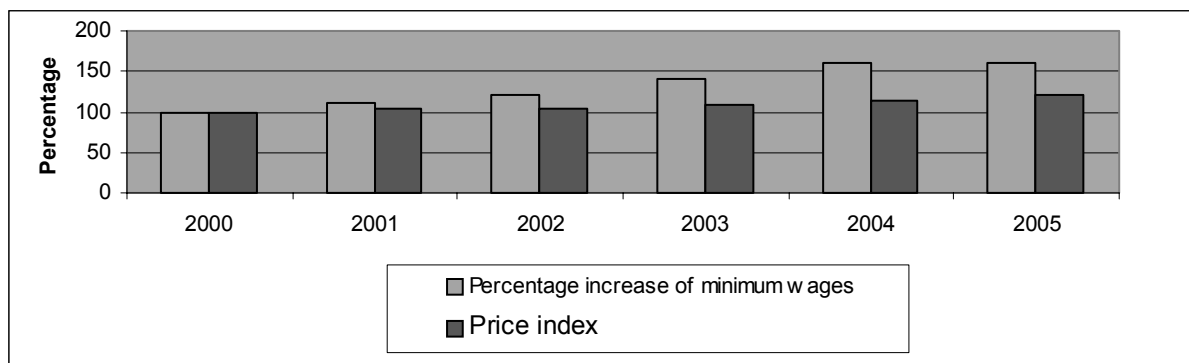
- Market value of real estate has increased during the last years and that gives additional incomes from property. However that relates to the small part of inhabitants.

During the last years high inflation level is explained by Latvia's accession to the EU and prices convergence with the average price level in the EU countries. As visible factors should be noted intensive exploitation of the EU structural funds and the increase of inhabitants' crediting. The issue on correlation between tendencies of minimum wages as a tool of the government fiscal policy and changes in price level still remains very urgent. It should be noted that the increase of minimum wages leaves its affect also on the wages in public sector. The wages in public sector in their turn affect average wages in the country and according to the market principles - also wages level in private sector.

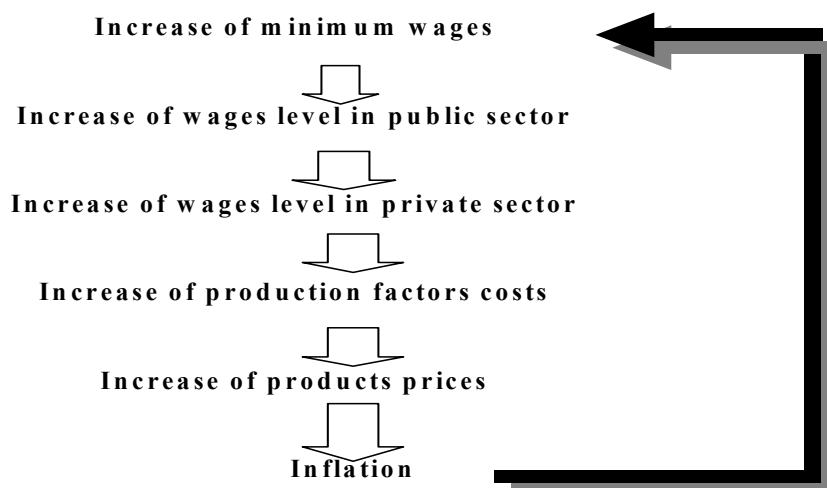
Together with the increase of prices as a key aspect should be noted inhabitants' dissatisfaction with the real wages. That especially relates to the inhabitants, who are employed in public sector. Purchasing power of real wages is decreasing together with the increase of price level, which was initiated by the increase of minimum

wages. Nowadays we can see this in Latvia, when together with the increase of prices, representatives of different professions (medics, pedagogues, policemen etc.) are becoming more and more dissatisfied. It is evident that this issue asks for more detailed research on

replacement of production factors and the impact of imported products on inflation rate in the country. Basically the issue about either the increase of minimum wages creates inflation or inflation initiates necessity to increase minimum wages still is opened for discussions.



**Figure 2.** Percentage Increase of Minimum Wages and Price Index Dynamics in Latvia in 2000-2005 (Percentage, 2000=100%, According to CSB Data) [3]



*Figure 3. Correlation Between Minimum Wages and Inflation*

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## ECONOMIC ASPECTS OF WAGES

### Summary

Summarising problems and tendencies analysed in this paper, the author has come to the following conclusions:

1. According to the analysis of statistics data presented in the paper, the author must conclude that the increase of minimum wages in greater pace impacts employees' wages in public sector. That should be recognised as negative trend, because such increase makes additional expenditure for the budget and inflation, which affects economy as a whole.
2. According to the economic theory, "freezing" of wages is considered as one of the most "painful" tools of fiscal policy. The Baltic States, also Latvia, taking into consideration both political conditions and labour force migration trends, should not exploit such method. The author supposes that it should be evaluated employees' number and density in the public sector, qualitative and quantitative indicators, functions and "economic output" of the budget institutions.
3. According to the statistic data in Latvia, average wages in the public sector are higher than in the private sector. Analysing statistic data of most developed EU countries, the author should conclude that this relation is opposite. Such situation could be initiated by two kinds of factors, i.e., either the situation is namely such as we see and that does not give evidence on effective exploitation of the budget resources, or there is a big share of shadow economy and as result these statistic data are not representative.
4. Increase of minimum wages affects wages level in public sector and such increase in its turn affects average wages and also wages level in private sector. As result the increase of price for production factor, price level and inflation is taking place.
5. The author supposes that such intensification factor of inflation as expectation of inflation exists in Latvia. This factor is closely related with the increase of minimum wages. Latvia's inhabitants, realizing that the minimum wages will be increased, are ready to pay more and the inhabitants perceive traders' speculative actions as normal situation. This phenomena came to the light in 1990's, when together with the creation of price level and price proportions for goods and services, dramatic changes in fiscal policy and the increase of wages was observed. As result for Latvia's inhabitants the changes in price level relate with the changes in wages. These changes in wages are closer, more comprehensible and more "tangible" thing for them.
6. In economic researches on Latvia's economic development as negative factor of the economy is mentioned lack of competition. Usually there is inadequate proportion between staff costs and profit in such conditions. As result there are lower wages, employees' dissatisfaction, inability to meet needs of their families and reduction of work productivity, but inflation is ensured by increasing demand from profit recipients' side.
7. Nowadays the increase of minimum wages is political decision and also a tool for formation of so called political "face". If the increase mechanism of minimum wages (for example, indexation) would be defined by the law for long-term period, then it would allow making investments and financial activities' strategic planning for companies. Equability and consistency of the increase could reduce inflation expectation. Also that could serve for companies as guidelines in creation of staff policy in order to decrease staff's fluidity and facilitate employees' loyalty.

### About the author

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# ESTIMATION OF THE RELIABILITY OF BANK'S CLIENTS BASED ON DISCRIMINANT ANALYSIS

Ričardas Mileris

## Abstract

Bankers who are responsible for credits constantly solve problem for which clients (companies) it is profitable to give credits and what size of credit is optimal. Especially it is very important to be able to estimate the risk of banking transaction because it has direct influence on the profitability of bank. Also it is important to be able to motivate logically the decisions of distribution of limited financial reserves. In this article for the estimation of the reliability of bank's clients was proposed one of the statistical analysis methods – discriminant analysis. By using this method it is possible to carry out and to motivate scientifically the classification of bank's clients into the reliable and not reliable groups.

## Keywords

Bank, classification, credit, discriminant analysis, liquidity.

## Introduction

There are two subjects in every banking transaction: creditor (bank) and debtor (bank's client). Bank gives the object of banking transaction – the credit, setting the term of it's liquidation and the conditions of payment. Practice shows that almost all credits include credit risk: the credit can be not redeemed, the percents can be not paid, the liquidation terms can be breached.

Therefore one of the most important features of bank activity is making decisions for which client it is profitable to give credit. The activity of bank is different from other companies (trading or services) because bank does not give as many credits as clients want. It is evident that every company of trade or services would like to sell goods for example several times more than consumers used up to now. Bank usually contrary to these companies will not lend several times more money than clients borrowed before. Also bank does not give credit for every client which appeals to bank for loan even if client promises pay high percents which could compensate the risk of loan.

Banks normalize loans refusing give credits for one part of clients and limiting amount of loan for other part. Banks contrary to sellers of other products allways limit providing of their products (loans) for every client because banks assume risk. When bank gives financial resources for debtor it is not sure that the loan will be repayed.

Thus it is evident that for banks before giving credit it is very important to be able to estimate the reliability of clients. For this reason banks analyse the financial indicators and according to them make decisions for which clients and what amount of credit they are possible to give. In this article for the estimation of the reliability of bank's clients is offered one of possible methods of statistical analysis – discriminant analysis.

The purpose of article is to explain the essence of discriminant analysis, to describe the actions necessary to accomplish in order to estimate the reliability of bank's clients by discriminant analysis and to estimate the efficiency of this method in banking sector.

## The essence of discriminant analysis

Discriminant analysis is the section of mathematical statistics where methods are being constructed in order to solve problems of objects separation (discrimination) according to attributes characterizing these objects. Methods of discriminant analysis are being applied in various fields: medicine, sociology, psychology, economics etc. For example discriminant analysis can be applied:

- in medicine to diagnose a disease according to symptoms and results of examination of a patient,
- in sociology to elucidate what the priorities of voters are dependent on,
- in economics to separate companies into groups according to indicators of their activities,
- in archaeology to make decision whose were the found survivals etc.

When observing numerous statistical totalities it often occurs necessity to separate not single totality into single groups (classes). Such separation further statistically analysing data affords to reach good results in modelling of dependencies between different attributes.

Methodics of discriminant analysis was found and improved by many scientists from 1938. In sphere of discriminant analysis as in sphere of other multidimensional statistical methods worked R.Fisher, P.Mahalanobis, H.Hotelling and other famous scientists.

It is possible to divide all procedures of discriminant analysis into two groups and consider them as entirely independent methods. The first group allows to interpret differences between existing classes and the second group allows to classify new objects in cases when it is not known in advance which of existing class do they depend for.

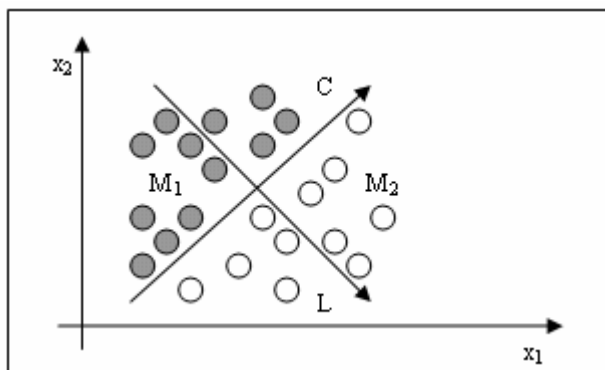
Let us assume that there is a set of objects – the general totality. Every unit is characterized with several attributes (variables)  $x_{ij}$  – the value of attribute  $j$  for object  $i$ ;  $j = 1, \dots, p$ ;  $i = 1, \dots, N$ . This totality is being separated into several (two or more) groups of similar objects.

The attributes according to which classes (groups) are being separated are called discriminant variables. All

these variables must be measured by scale of intervals or relations. Scale of intervals allows to describe differences between characteristics of objects quantitatively. When forming this scale it must be fixed datum-level freely and selected units of measurement. The examples of such scales are calendar time, scale of temperature etc. The centre of scale can be fixed by calculating average, mode and median.

Scale of relations is the separate case of interval scale. It allows to relate quantitative characteristics of attributes between separate objects. For example: previous experience, salary, taxes.

In theory the number of discriminant variables is not limited however in practice their selection must be implemented according to logical analysis of initial information. The number of objects must exceed the number of discriminant variables, i.e.  $p < N$ . Discriminant variables must be linearly independent. One more condition of discriminant analysis is the normal distribution of variables, i.e. discriminant variables inside all classes must be distributed normally. In cases when real image of observing objects is different from indispensable conditions it must be raised a question about expediency of discriminant analysis for the classification of new objects because for this reason it can be difficult to calculate classification criterions.



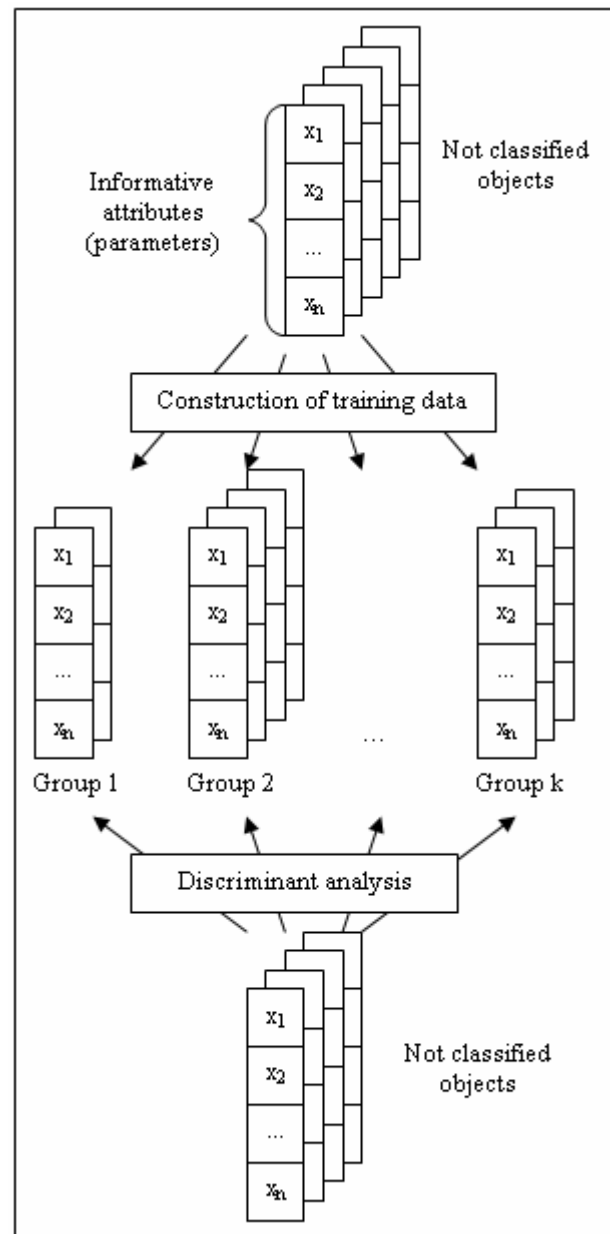
**Figure 1.** Characteristics of discrimination of variables

In Figure 1 there are depicted objects belonging to two different sets  $M_1$  and  $M_2$ . Every object in this case is characterized by two variables  $x_1$  and  $x_2$ . When looking at projections of objects (points) to both axes it can be seen that these sets intersect, i.e. according to every variable separately some objects of both sets have similar characteristics. In order to separate two sets in best way it is necessary to construct corresponding linear combination of variables  $x_1$  and  $x_2$ . In two-dimensional space this task can be solved by constructing new system of axes. New axes  $L$  and  $C$  must be laid out so that projections of objects belonging to different sets into axis  $L$  would be separated as much as possible. Axis  $C$  is perpendicular to axis  $L$  and divides two clouds of points in best way, i.e. so that sets are in different sides of this axis. In this case the probability of classification mistake is minimal. At formulated conditions it must be considered calculating coefficients  $a_1$  and  $a_2$  of classification function:

$$f(x) = a_1x_1 + a_2x_2.$$

Function  $f(x)$  is called canonical discriminant function,  $x_1$  and  $x_2$  – discriminant variables.

In discriminant analysis not classified objects (situations, processes) are being numbered in groups of objects formed in advance. The researcher must have corresponding number of objects and he must know what group (class, cluster, population) these objects belong to, i.e. he must have training data. It is possible to get training data by grouping objects without training data (for example it can be done by cluster analysis). The essence of discriminant analysis is shown in Figure 2.



**Figure 2.** Classification of objects by discriminant analysis

The quality of discrimination depends on correct grouping of objects when constructing training data. It is possible to get very good results constructing training data by method of nearest neighbourhood while constructing it by method of  $k$ -means allows to classify objects by discriminant analysis nearly 100% successfully. It can be explained that of all methods of cluster analysis only method of  $k$ -means allows to create clusters not intersecting each other.

Before starting discriminant analysis it is also important to separate informative attributes which characterize objects (informative are attributes according to which it is possible to classify objects successfully). For example it can be done by dispersive, correlation or factor analysis of data.

Sometimes it can occur situations where there is not enough attributes for correct classification of objects or there are unnecessary attributes which could make results of classification not understandable. In that cases it is necessary to carry out complementary researches including specification of attributes according to which objects are being numbered in formed groups. The number of attributes according to which objects are being classified allways must be as many as it is necessary for correct classification.

Further when suitable attributes for the discrimination of objects are determined and the attributes according to which it is impossible to find differences between groups are rejected, the classification functions are being constructed. The object is being numbered in group which classification function has the highest value.

#### Estimation of the reliability of bank's clients based on discriminant analysis

For the estimation of the reliability of bank's clients (companies) by using discriminant analysis these conditions are indispensable:

- bank from it's long-time activity must have accumulated as more as possible data about clients (financial and other indicators),
- bank must know which clients had not the liquidity problems in the past and which of them had these problems.

So for the discriminant analysis is necessary information shown in Table 1. This information about clients makes training data:

$x_1, x_2, \dots, x_n$  – attributes characterizing every client,

LP – information about the reliability of client in the past (“0” – client had not liquidity problems, “1” – client had liquidity problems).

**Table 1**

The data necessary for discriminant analysis

| Client | LP  | $x_1$    | $x_2$    | ... | $x_n$    |
|--------|-----|----------|----------|-----|----------|
| $k_1$  | 0/1 | $x_{11}$ | $x_{21}$ | ... | $x_{n1}$ |
| $k_2$  | 0/1 | $x_{12}$ | $x_{22}$ | ... | $x_{n2}$ |
| ...    | ... | ...      | ...      | ... | ...      |
| $k_m$  | 0/1 | $x_{1m}$ | $x_{2m}$ | ... | $x_{nm}$ |

The attributes characterizing clients can be not named, i.e. they can be encoded due to the safety of client's data. It does not influence on the statistical analysis.

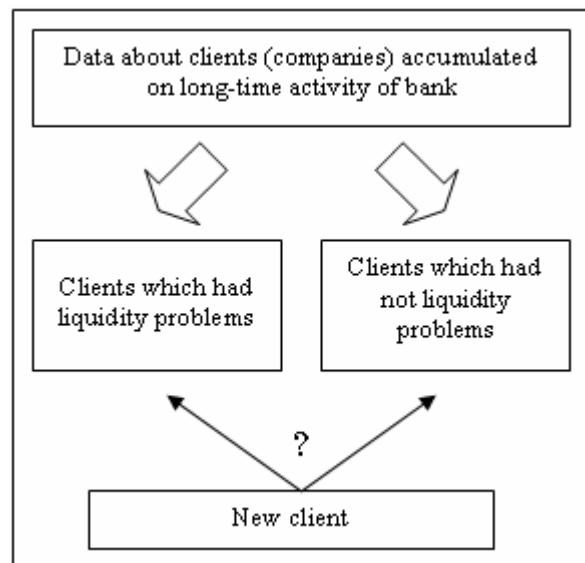
The reliability of new client can be estimated according to training data, i.e. bankers by using discriminant analysis solve problem shown in Figure 3.

For the estimation of the reliability of new bank's clients by using discriminant analysis it is necessary to implement these actions:

1. To detect the not informative attributes which do not fit for discriminant analysis by implementing the

analysis of variance (ANOVA). The not informative attributes further must be not analysed.

2. To calculate the coefficients of classification functions.
3. To construct the classification functions.
4. To classify bank's clients (according to training data number the clients in the reliable and not reliable groups).



**Figure 3.** The classification of bank's clients

Further there are detailed these four stages.

1. *Detection of the attributes which do not fit for discriminant analysis.* At first it is necessary to detect which attributes characterizing the bank's clients fit for the discrimination of clients and to eliminate attributes which do not help to indicate the differences between groups. Which attributes statistically surely differ in groups and which do not it is possible to estimate by ANOVA.

The purpose of ANOVA is to ascertain do the averages of dependent variable differ in different populations. By using the statistical criterions according to the sample we decide about all population. We study one group of bank's clients and come to the conclusion about all clients. At best this conclusion is just very probable. We can make the mistake in two ways: by ascertaining that in different groups of clients exist the differences between averages of some attributes but really they do not exist (the mistake of first rate), or by not finding these differences however they really exist (the mistake of second rate). It is possible to conform every statistical criterion so that when applying it the mistake of first rate will not exceed the earlier fixed number  $\alpha$  (called significance level). It guarantees that the correct zero hypothesis will be rejected not too often.

In general the statistical hypothesis is:

$H_0: \mu_1 = \mu_2 = \dots = \mu_k$ , here  $\mu_1, \mu_2, \dots, \mu_k$  – the averages of variables in different groups,

$H_1$ : at least two averages are different.

For example if the significance level is fixed as  $\alpha = 0.05$  and such criterion is applied many times, approximately in 95% cases the correct zero hypothesis will not be rejected.

In the ANOVA results window of program *Statistica* could be calculated  $p$ -levels according to which it is

possible to make a decision are the averages of any attribute different in separate groups of clients when the statistical hypothesis is:

$H_0: \mu_1 = \mu_2$ , i.e. the averages of attributes are not different in groups of reliable and not reliable clients,

$H_1$ : the averages of attributes are different in these groups.

Then must be fixed the significance level  $\alpha$  and:

- hypothesis  $H_0$  must be rejected if  $p < \alpha$ ,
- hypothesis  $H_0$  must be not rejected if  $p \geq \alpha$ .

So when the analysis of variance is completed in the window of results  $p$ -levels of all attributes are displayed.

For example the significance level  $\alpha = 0.01$ . Then it is necessary to verify do  $p$ -levels of all attributes not exceed 0.01.

**Table 2**

Example of  $p$ -levels calculated in ANOVA

| Attribute | $p$ -level |
|-----------|------------|
| $x_1$     | 0.006110   |
| $x_2$     | 0.000000   |
| $x_3$     | 0.878896   |
| ...       | ...        |

In Table 2  $p$ -level of attribute  $x_1$  is 0.006110. This value does not exceed 0.01 so we consider that the averages of this attribute statistically differ significantly in the different groups of clients. The  $p$ -level of attribute  $x_3$  exceeds the fixed significance level ( $0.878896 > 0.01$ ) so the averages of this attribute do not differ significantly in separate groups of clients.

Therefore the attribute  $x_3$  must be not included into discriminant analysis because the recognition of bank's clients according to this attribute would be not reliable.

2. *Calculation of the classification function coefficients.* Further in program *Statistica* must be calculated classification function coefficients for the classification of bank's clients (Table 3).

**Table 3**

Coefficients of classification functions

| Attribute | $LP = 0$ | $LP = 1$ |
|-----------|----------|----------|
| $x_1$     | $a_1$    | $b_1$    |
| $x_2$     | $a_2$    | $b_2$    |
| ...       | ...      | ...      |
| $x_n$     | $a_n$    | $b_n$    |

$a_1, a_2, \dots, a_n$  – coefficients of clients which had not liquidity problems in the past ( $LP = 0$ ),

$b_1, b_2, \dots, b_n$  – coefficients of clients which had liquidity problems in the past ( $LP = 1$ ).

3. *Construction of classification functions.* The function of clients which according to bank's data had not liquidity problems in the past is  $f_1$ :  
 $f_1 = a_1x_1 + a_2x_2 + \dots + a_nx_n$

here  $a_1, a_2, \dots, a_n$  – coefficients of classification function of client's group  $LP = 0$ ,

$x_1, x_2, \dots, x_n$  – attributes characterizing bank's clients.

The function of clients which according to bank's data had liquidity problems in the past is  $f_2$ :

$$f_2 = b_1x_1 + b_2x_2 + \dots + b_nx_n$$

here  $b_1, b_2, \dots, b_n$  – coefficients of classification function of client's group  $LP = 1$ ,

$x_1, x_2, \dots, x_n$  – attributes characterizing bank's clients.

4. *Classification of bank's clients.* The essence of the classification of bank's clients is:

- if  $f_1 > f_2$  the client will be numbered in group of clients  $LP = 0$ , i.e. it will be considered that in future this company will not have liquidity problems,
- if  $f_2 > f_1$  the client will be numbered in group of clients  $LP = 1$ , i.e. it will be considered that in future this company will have liquidity problems.

So if the attributes of new client are inserted into functions  $f_1$  and  $f_2$  and the results of them are compared it becomes possible to estimate the reliability of this client.

## The efficiency of discriminant analysis

The efficiency of discriminant analysis for the estimation of the reliability of bank's clients was tested when analysing data of 20000 bank's clients (Table 4).

**Table 4**

Data used to test the efficiency of discriminant analysis

| Number of row | Number of client | LP  | $x_1$ | $x_2$ | ... | $x_{26}$ |
|---------------|------------------|-----|-------|-------|-----|----------|
| 1             | 4                | 0   | 50.27 | 32.16 | ... | 0        |
| 2             | 5                | 0   | 67.21 | 64.32 | ... | 0        |
| ...           | ...              | ... | ...   | ...   | ... | ...      |
| 20000         | 30000            | 0   | -3.64 | 96.98 | ... | 0        |

Table 4 consists of:

- Number of client – unique number of bank's client,
- $LP$  – information about client's reliability in the past ( $LP = 0$  – client had not liquidity problems,  $LP = 1$  – client had liquidity problems),
- $x_1, x_2, \dots, x_{26}$  – 26 attributes characterizing every client.

All of 26 attributes which characterize clients were encoded  $x_1, x_2, \dots, x_{26}$  due to the security of client's data. The values of these attributes were also encoded multiplying them by particular coefficients.

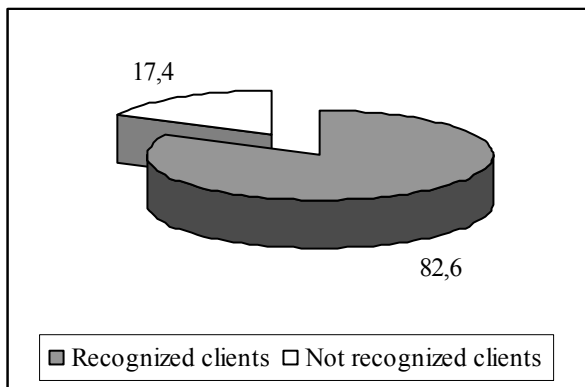
There was accomplished ANOVA and after that 9 attributes were rejected which averages do not differ significantly in groups of reliable and not reliable clients.

**Table 5**

Estimation of efficiency of discriminant analysis

| Number of client | LP  | $x_1$    | $x_2$    | ... | $x_{17}$  | Estimated LP |
|------------------|-----|----------|----------|-----|-----------|--------------|
| $k_1$            | 0/1 | $x_{11}$ | $x_{21}$ | ... | $x_{171}$ | 0/1          |
| $k_2$            | 0/1 | $x_{12}$ | $x_{22}$ | ... | $x_{172}$ | 0/1          |
| ...              | ... | ...      | ...      | ... | ...       | ...          |
| $k_m$            | 0/1 | $x_{1m}$ | $x_{2m}$ | ... | $x_{17m}$ | 0/1          |

In program Microsoft Excel the data analysing tables were constructed where by implementing necessary calculations and logical operations clients were classified. The classification of clients into the reliable and not reliable groups was realized according to 17 attributes.



**Figure 4.** The correctly estimated reliability of bank's clients by discriminant analysis, %

The efficiency of discriminant analysis was estimated by comparing the information about reliability of clients in training data with the prognosis of their liquidity crisis predicted by discriminant analysis (Table 5). For client which during classification was numbered in group of reliable clients in column "Estimated LP" is indicated "0" and for client which was numbered in group of not reliable clients – "1". The reliability of client was estimated correctly if the prognosis of its liquidity crisis predicted by discriminant analysis "Estimated LP" is the same as the real information about reliability of this client "LP".

Of the analysed 20000 bank's clients the reliability was estimated correctly for 82.6% (Figure 4).

So if this bank had indispensable data (attributes  $x_1, x_2, \dots, x_{17}$ ) about new clients bankers could estimate the reliability of them by using discriminant analysis with probability of 82.6%.

## Conclusions

1. Discriminant analysis is one of statistical data analysis methods by which it is possible in advance to estimate the possibilities of bank's clients to pay debt and percents when the term expires.
2. The method of discriminant analysis for the estimation of the reliability of bank's clients can apply banks which have accumulated data about their clients. Data must consist of enough informative attributes according to which it could be possible classify clients.
3. There was analysed data of 20000 bank's clients and demonstrated that the efficiency of method for the prediction of liquidity crisis reaches 83%.
4. Discriminant analysis of bank's clients data can help make decisions for bankers for which clients and what amount of credit it is worth to lend and for which ones to give loans is not profitable.

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# BUSINESS ENVIRONMENT AND STATE SUPPORT FOR DEVELOPMENT OF SMALL BUSINESS IN REGIONS OF LATVIA

Vilhelma Nikitina

## Abstract

The article provides a discussion about the results of the research on the state of business and its environment in the context of regional development in Latvia, as well as it analysis the factors influencing it. There are traced differences in the business environment in various regions of Latvia. There is substantiated the necessity for a purposeful state policy for creation of favorable and equal (as regard opportunities) for development of business, especially, small and medium-sized enterprises and increasing their competitiveness in the regions of Latvia.

## Keywords

Business -macro environment, SME sector, state support.

## Introduction

Entrepreneurship has a crucial role in the contemporary economic activities because only its development ensures increase of productivity and competitiveness in the market. Entrepreneurship has an important role in the development of regional economy as well by ensuring increase of resource allocation effectiveness. It also creates other positive phenomena in economy, for example, stability and development of "human capital". In Latvia business environment crucially changed in the early 1990s as regaining state independence and transition to free market economy created prerequisites for development of private initiative. This period (1992-1995) private enterprises were established most actively – according to the results of the survey among the enterprises of Latvia in 2002 - 35%, but according to the Report to the government of Latvia in 1998 – even 63% of the respondents. Therefore, the enterprises founded in this period were the basis for contemporary private entrepreneurship in Latvia.

During the period of economic transformation there were observed significant changes in the economic activities in Latvia. According to the official statistical data in 2004 in Latvia there were registered 87 784 economically active business entities in the market sector (excluding agriculture and cattle breeding farms as well as fishing farms), out of them more than a half of them (53%) are commercial companies, 41% - self-employed individuals, 6% - individual businessmen. In 2004 there were 51 440 economically active business entities (businessmen and commercial companies) [2, 53]. Latvia and other EU countries have a similar distribution of economically active business entities according to their size: microenterprises comprise 78.1%, small enterprises – 17.8%, medium-sized enterprises – 3.6%. The small business sector provides about 63% of GDP [6, 129].

The small business is relevant due to its self-financing and self-risk, however, the main point is the ability of SMEs to adjust to external conditions of business environment by solid changes, fast reaction to customers' needs as well as changes in competitors' performance.

### *The aim of the research.*

To explore and assess the external environment of business in Latvia and the theoretical basis of factors

influencing it as well as trace the differences in business environment of the chosen regions in order to identify the problems and opportunities of SMEs in the context of regional development and select the appropriate kinds of state support for promotion of SMEs development.

### *The novelty of the research.*

- General research of business environment is supplemented by a new aspect - regional – and there is researched business environment in the chosen regions of Latvia.
- There is compared the state of SMEs sector, its problems and development opportunities in the regions of Latvia.
- There is assessed the small business policy till 2006 as well as there are offered trends for its improvement in the context of regional development.

## Business Environment in Latvia

After regaining its independence Latvia has dynamic, however, irregular social-economic changes, thus the economic activities have also faced rise and fall periods if taking into consideration the national business statistics for the last 10 years. The dynamics of enterprise registration shows that in the early 1990s the number of enterprises increased every year reaching the maximum number in 1995, e.g., 11320 enterprises. In 1996 there was observed a sharp decline of newly founded enterprises – even by 16% in comparison to 1995. It can be explained by the influence of the financial crisis in Latvia when many large banks went to bankruptcy and consequently numerous enterprises, especially small and medium-sized enterprises, lost their savings in banks and were not able to continue their business operations. In the late 1990s the number of newly founded enterprises continued decreasing. 1998 was a devastating year for the national economy of Latvia when due to the economic crisis in Russia many companies having economic relations with it suffered financial losses, but 700 enterprises went to bankruptcy. In 2000-2003 there were registered about 7300 new enterprises per year [8].

However, during last three years the national business statistics show certain changes in the dynamics of the increase in the number of newly founded enterprises. In 2004 there were registered 10224 new enterprises, e.g., 2535 enterprises or 33% more than in 2003 (partially it is

connected with the necessity to re-register from the Company Register to the Commercial Register). In 2005 there were registered 11009 new enterprises and their annual increase was 7.7%. During 9 months of 2006 there were registered 8781 new enterprises [8], and according to the forecasts of the Ministry of Economics of the Republic of Latvia in 2006 the number of newly founded enterprises is going to increase by 10% in comparison to 2005 [6,129]. This positive trend might indicate improvement of business environment, but it, in its turn, to some extent might be related to the effectiveness of measures taken in the country to promote development of business environment. However, in Latvia an external factor has a crucial role in this process – after accession to the EU the opportunities of local enterprises increased (operating under conditions of a single EU market enterprises must take into consideration four kinds of freedom – free movement of goods, services, capital and human resources among the EU Member States). Therefore in case of Latvia we cannot talk about regular increase of the number of new enterprises as it was observed in economically developed European countries under certain objective positive conditions. In addition, in Latvia the indicators of national economic activities are not as good as expected.

A relevant indicator characterizing economic activities is the number of economically active enterprises per 1000 inhabitants. Recently the average indicator in Latvia has increased from 12 per 1000 inhabitants in 2000, to 18 in 2003 and 24 in 2005 [6, 129]. However, in this respect Latvia is still lagging behind other EU Member States having on average 51 enterprises per 1000 inhabitants. Latvia is lagging significantly in regional indicators – all the time the lowest indicator is in Latgale region – 9.5 enterprises per 1000 inhabitants (2003) [7].

Besides, the statistical data about ceasing one's business in Latvia are pessimistic: in 1997-1998 there were more closed enterprises than founded, in 2000-2003 the total number of enterprises increased by about 2/3 of the number of newly founded enterprises, but in 2004-2005 – by about a half of the newly founded enterprises [8]. It indirectly indicates that in Latvia there are problems for operating new enterprises.

### **Small and Medium-sized Business Sector in Latvia and its Regions**

As a result of social and economic changes in Latvia there have also been observed relevant changes in the sphere of enterprises. In 2004 in the market sector the distribution of registered economically active business entities (excluding agriculture and cattle breeding farms and fishing farms) according to their size was as follows: microenterprises (up to 9 employees) – 86.6%, small enterprises (10-49 employees) – 11%, medium-sized enterprises (50-249 employees) – 2.1%, other – large enterprises (more than 250 employees) [2, 53]. Therefore out of the total number of economically active business entities 99.6% corresponded to the definition of SMEs.

The Law on Commercial Activities Support Surveillance in the Republic of Latvia being in force since 2003 provides a new definition of SMEs (harmonized with the Regulations No. 70/2001 of the European Commission).

SMEs face specific difficulties being compensated in the EU and national legislation by providing various support. A legally safe and easy-to-apply definition is necessary in order to avoid diversity in interpretation of SMEs in the common market. The task of the new definition is to definite strictly the enterprises belonging to the SMEs sector and being entitled to use the SMEs support.

SMEs are a driving force of any country. They are a significant provider of work places creating the spirit of initiative, thus being able to influence competitiveness and employment. The actualized definition of SMEs is a large step towards improvement of SMEs business environment in Latvia.

SMEs very often face difficulties in attracting financial resources and gaining credits, especially it regards to new enterprises. SMEs have limited resources reducing their access to new technologies. Further more precise definition of the SMEs status and its application in Latvia (taking into consideration Recommendations of the European Commission being in force since January 1, 2005) will help these enterprises in such support areas as development of financing and introduction of innovations.

In Latvia similarly to economically developed countries small and medium-sized enterprises have a large potential, especially in the field of employment.

In 2005 in total in the SMEs sector there were employed 69.9% of individuals working in the private sector, out of them ¼ in sales and repair services [6, 129:7].

The flexibility of SMEs and their ability to adjust to changing market conditions are the features, which under favorable conditions can turn into opportunities for creating new work places, increasing employment, involvement of free labor force in the labor market. In Latvia there a view, that the situation in the national labor market is bad, still exists. Partially it is proved by macroeconomic indicators. During last three years the unemployment level has slightly decreased but is still comparatively high – 8.7% (2004). The highest unemployment level is observed in Latgale region – 18.7%: in Ludza district – 27.6%, Rezekne district – 27.3%. In addition, about ¼ of the unemployed are long-term unemployed [2, 40, 45].

In Latgale region GDP per capita comprises only ½ of the average indicator in the country, but in comparison to Riga it is 3 times smaller. At the same time Latgale region is the largest one and about 16% of all inhabitants of Latvia live there. Latgale region similarly to other regions having relatively low GDP per capita have a relatively high proportion of production and public services (services provided by municipal administration, educational and health care institutions) in the total added value. It has poorly developed commercial services, transport and communication services, relatively lower is the contribution of trade if compared to the average indicator in the country [2, 73, 79]. Thinking of balanced regional development the economic activity in regions should be increased. In Latvia there is observed concentration of enterprises in some large cities - Riga, Liepaja, Daugavpils and Ventspils. It can be explained by more developed business infrastructure and communications, easier access to information and financial resources, including the EU funds. Outside Riga

there are located only 43% of all economically active enterprises [6, 112], and this indicator tends to decrease thus making the gap between cities and rural territories wider and social and economic problems in regions sharper. So, the level of entrepreneurship in the regions of Latvia is not sufficiently high and there are opportunities for growth in the coming years, but to attain it, it is needed to provide conditions for even development of entrepreneurship both in cities and rural territories.

As observations show functioning of SMEs is relevantly influenced by the economic situation. In the economic literature there is an opinion that the region and location as enterprise growth factors can be expressed in two ways – availability of resources and lifestyle. As the most important factors of regional and local business environment can be considered the following ones: the state of manufacturing and social infrastructure and its development opportunities, the extent of solving economic and social problems, local government support [4, 277]. Furthermore, the state and development of enterprises depend on macroeconomic conditions and implementation of the national macroeconomic policy.

In Latvia there are successfully implemented measures for improvement of business environment, especially as regards the influence of legal and administrative procedures on enterprises.

According to the research “Entrepreneurship in 2006” conducted by the World Bank among 155 countries, Latvia business environment has the 26<sup>th</sup> place. It is indicated that Latvia is among 12 countries where reforms are the most actively implemented. It is a very positive evaluation of the measures taken by Latvia for improvement of macroeconomic conditions for business [6, 122]. The survey of businessmen mentioned above shows that 30% of respondents would not like to have any changes in the country, but 2/3 of respondents consider that new reforms are needed and the existing procedures require additional measures.

The subjects of small and medium-sized business had different assessment of the trends of changes on their level and extent after Latvia acceded to the EU. A majority (71%) of respondents (the survey was conducted in the eastern border region – Ludza town and district in the middle of 2005) considered the current changes to be positive or more positive. As the most positive changes there were mentioned the following ones:

- increase of trade turnover and sales;
- increasing attraction of financial resources using the EU Structural funds.

As negative changes there were mentioned the following ones:

- increasing level of inflation;
- decreasing purchasing power of individuals;
- lack of information about decisions made by government and other public institutions regarding SMEs and future changes in the SMEs business sector (the extent of such information increases, thus its search and acquisition on timely basis requires more and more time);
- flow of local labor force from regions to Riga and abroad.

Nowadays it is more complicated to make decisions about independent economic activities than it was at the beginning of the transition period when very often it was enough just to have a wish to be in business, but the offered product easily found its customers.

The respondents of the survey mentioned above pointed out several processes making functioning of local enterprises more complicated:

- increasing competition when it is more and more complicated for SMEs to enter some market;
- unlimited flow of foreign capital and goods, sale of well operating local enterprises to foreigners, increasing demand for such offers, enforcement of rules by large chains in sales and construction spheres;
- ensuring production and sales standards, lack of resources for such purposes.

Thus only flexible and dynamic enterprises have a chance to stay in the market being able to follow the changes of the external environment and forecast them.

SMEs are a significant sources for development of national economy, thus the state policy ought to be target-oriented. The government shall pay attention to both environmental aspects: internal aspect by providing permanent training and education possibilities for potential and existing businessmen, creating various support institutions, for example, business centers, business incubators training business skills and providing support for new enterprises [5, 119], as well as external aspect by orienting the state policy towards improvement of economic environment where SMEs operate.

Summing up the views of publicly available sources and groups of interests, there can be traced problems to be solved in the SMEs sectors in Latvia in the nearest future:

- large tax burden;
- limited access to state subsidies, EU financial resources due to the high level of corruption and bureaucracy;
- unarranged market surveillance, ineffective protection of local producers;
- drawbacks in legislation regulating SMEs;
- drawbacks in the state support policy and its implementation, especially for improvement of small and medium-size business environment on the regional level.

### **Improvement of Small Business Support Policy in Latvia**

SMEs development policy is determined in several government documents. This policy is based on the following main prerequisites [7]:

- measures mostly will be horizontal, their implementation will be supported by the resources of the national budget, various EU programs and funds, including Structural funds, Regional development fund and Social fund;
- the main aim of the measures is ensuring promotion of favorable business environment in order to facilitate the competitiveness of enterprises in the market;



- measures will be implemented in compliance with the trends determined by European Small Enterprises Charta and taking into consideration the specific conditions of SMEs development in Latvia.

SMEs have their own advantages to be supported when creating favorable business environment, for example, their mobility. In Latvia there should be facilitated preferential financing of small experimental and science-related enterprises or market research enterprises, especially considering the fact that our country has comparatively well educated and trained human resources.

Empirical observations show that new small enterprises being able to resist two critical years (about 80%) have a tendency to accumulate experience and develop in the further period, thus becoming medium-size and large enterprises so crucial for the country. Therefore, in the coming years Latvia must concentrate on promotion of small and medium-sized business. However, SMEs have their drawbacks and problems, for example, high risk of failure, but this drawback can be eliminated by implementing differentiated SMEs support measures. Up to now in the economic literature in Latvia there was a focus on difficulties in establishing and launching SMEs, but deeper observations of the SMEs sector show that for SMEs exactly the second year and the third year are turning points in their activities. Reduction of risk in the fifth year and sixth year indicates that the enterprise has had successful business activities during four years, therefore, its opportunities for successful development increase.

Thus the country shall take measures to make easier the development and strengthening of new enterprises in the market on the one hand, and make easier the termination procedure for old enterprises having difficulties or enterprises having low productivity and let them leave the market on the other hand. In the future the state policy should be more oriented towards support of creating new modern work places, not focusing on keeping them because the compliance of an enterprise with the rapidly changing market requirements is the basis of economic

growth, which, in its turn, requires a high level of enterprise liquidation (change or substitution).

The following support is needed for development of SMEs: training in the finance, marketing and legal fields; development of information search and exchange skills, rise of the educational level. It would improve the abilities of enterprises to acquire new knowledge and technologies, thus reducing the differences existing among the enterprises in Latvia and the knowledge-based development of enterprises in Europe.

The regional aspect is a crucial business support aspect in Latvia. During last ten years unequal social and economic development of regions has become a typical feature of Latvia. This tendency becomes stronger and significantly influences making strategically important decisions, especially as regards geographical allocation of investments, and other economic processes in the country. Therefore, the influence of regional differences as a macroeconomic factor on business will still be present for a long period of time. Within the framework of regional environment enterprises need assistance in improvement and arrangement of business infrastructure because later on it will cost more; protection of the local market because there is large dependence of employment on various economic spheres, even enterprises causing high failure risk for a region in case it has development difficulties. Besides, there must be facilitated cooperation between institutions and regions to support development of SMEs.

Business is supported in many European countries, there are created special institutions involving the interested parties of various levels (state or national, regional, local) in order to ensure balanced and equal social and economic development of a territory, especially supporting observation of equal opportunities principles. The experience of Poland could be useful on business development issues because the economy of Poland mostly has SMEs both in cities and rural territories.

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Vilhelma Nikitina

## VERSLO APLINKA IR MAŽOJO VERSLO IŠSIVYSTIMO ATRAMA LATVIJOS REGIONUOSE

Santrauka

Latvijoje apskritai verslo išorinė aplinka pagerėja, tačiau regionuose įmonių veiksmo sąlygos susidaro labai skirtingai. Ir verslo išsivystimo dinamika gali būti skirtinga regionuose. Verslo regionalinės aplinkos skirtumai lemia, kad atsilikusiuose regionuose, koks yra Latgalos regionas, palyginti mažas yra mažųjų ir vidutinių įmonių sektorių įnašas į bendrąjį vidaus produktą ir į užimtumą. Reikalinga konsekventiška valstybinė politika, kurios tikslas - palankių sąlygų formavimas verslui visuose regionuose, ypač mažųjų ir vidutinių įmonių išsivystimui ir jų konkurencingumo pakėlimui.

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# STUDIES AND WORKING. ANALYSIS OF STUDENT'S ATTITUDE TOWARDS WORKING WHILE STUDYING

Regina Padaigienė, Nijolė Sinkevičienė, Jadvyga Vasiliauskaitė

## Abstract

The article analyzes why students, when entering higher schools, choose particular specialties, which criteria are the most significant when choosing a job and what influence the working has on studies as well as the attitude of students towards finding employment according to their vocation in the region or the EU countries. The article is based upon survey of full-time and part-time students of Faculties of Technologies, and Management and Administration of Kaunas University of Technology Panevėžys Institute, carried out in 2005-2006. The main objective of the research is to identify the differences and similarities of attitudes towards working and employment opportunities of employed and non-employed students.

## Keywords

Vocational training, employment criteria.

## Introduction

Lately, knowledge has been gaining increasingly substantial significance in Lithuania and in the world. Volume of information is intensively expanding, the people's need for knowledge is growing and becoming a constant one. Social, economic and technological changes occurring in the country, in particular in the framework of integration to the European Union, raise new requirements to vocational training. The issue as to whether (and to what extent) education and qualifications match the current and future needs, seeing as effective application of advanced technologies and production potential depends increasingly more on the quality of the individual's vocational development, is acquiring special importance. It is imperative to constantly coordinate the supply of qualifications with the needs of labor market and to improve the competitiveness of the national labor force.

**Object of research. Studies and working. Assessment of students' attitude towards working while studying.**

**Purpose of research.** To determine the differences and similarities of attitudes towards working and employment opportunities of employed and non-employed students.

## Research organization methods

During the research, students of two fields have been surveyed: technologies and social sciences. In order to achieve the purpose of research, full-time and part-time students of Faculty of Technologies and Faculty of Management and Administration of Kaunas University of Technology Panevėžys Institute have been surveyed in 2005-2006. Students of various study programs have been selected for the sample of respondents: in the Faculty of Technologies: automatics and management engineering, mechanical engineering and construction engineering; in the Faculty of Management and Administration – business administration and

management. Questionnaires have been distributed to students of various courses. They are comprised of 25 questions. A number of responses have been prepared for every question as well as their percentage distribution. When compiling the questionnaires, it was aimed at taking into account why students, when entering the higher schools, chose a particular speciality, which criteria are the most important when choosing a job and what effect working has on studies, what is the students' attitude towards the possibilities to find employment according to the speciality in the region or the EU countries.

## Analysis and interpretation of research results

**General social and demographic characteristics of the students.** In total, 250 questionnaires have been distributed. Out of these, 243 have been filled in completely. The majority of those surveyed prior to the studies lived in the town of Panevėžys (73,7 %). There have been significantly less of those who arrived from the district and the county of Panevėžys (respectively 12,3 % and 2,1 %). The rest of the students have come from other towns (6,2 %), other districts (5,8 %) and other counties (2,1 %). The authors suppose that some of the respondents have selected the KTU Panevėžys Institute with regard to the available funds and the parents' or their families' financial status. Some of the respondents are married and have regular jobs. It can be stated that the major segment of respondents are the residents of Panevėžys.

Distribution by gender of students who took part in the survey is more or less equal: 45,8 % of females and 54,2 % of males. Students of social sciences participated in the survey more actively, as can be seen from Table 1. The main motive is that gender has no impact on the selection of vocation. Everybody's possibilities, when choosing a speciality, are equal.

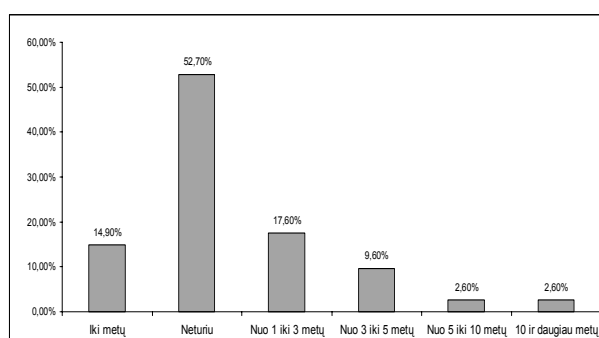
**Table 1**

Students' distribution by study programs

| Faculty of Technologies               | By study programs % | Faculty of Management and Administration           | By study programs % |
|---------------------------------------|---------------------|--|---------------------|
| Automatics and management (full-time) | 8.80                | Business administration (full-time)                | 26.40               |
| Mechanical engineering (full-time)    | 7.0                 | Management and business administration (part-time) | 27.70               |
| Vehicles engineering (full-time)      | 8.40                |  |                     |
| Construction engineering (full-time)  | 2.20                |  |                     |
| Automatics and management (part-time) | 1.80                |  |                     |
| Mechanical engineering (part-time)    | 1.80                |  |                     |
| Construction engineering (part-time)  | 15.90               |  |                     |

The age of those surveyed: 62% of respondents were within the age range from 19 to 24, 22% - 25-29, 11.10% - 30-39 and 4.9% - of 40 and more years of age.

**Total duration of employment.** A larger part of the respondents (52.70%) have never been employed. Other respondents distribute as follows: 14.90% have been employed up to one year, 17.60% - for 1-3 years and 9.60% - for 3-5 years. It can be noted that as the employment duration increases from 5-10 years and more, the number of students decreases (Figure 1).

**Figure 1.** Students' distribution by duration of employment

### Selection of studies

**Motives for selection of studies.** Everyone expects much from the selected vocation: to be interesting, in demand, to guarantee good salary and provide the possibility for self-realization. Needs, aptitudes and interests are probably the strongest motives when selecting a speciality. Replies of respondents show that 30.9% of students have selected a particular study program in hopes that the selected speciality will ensure a well-paid

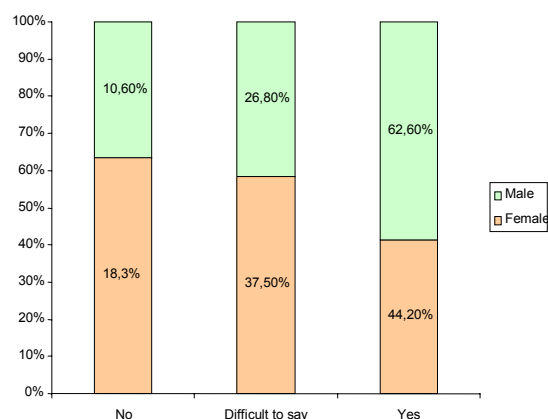
job. A very important motive, when choosing a study program, is the fact that the studies are organized close to the place of residence (26,4 %). A large share of respondents, when choosing a profession, expected that the chosen speciality would ensure a regular (20,1 %) and interesting (18,0 %) job. Only 4,60 % of those surveyed wanted just to continue education, when speciality was not important.

It is not sufficient just to accumulate information about the studying conditions, possibilities for further education or employment perspectives. The key is to become familiar with oneself, to assess one's aspirations and abilities. When choosing studies, 49% of respondents indicated that it was their choice. The data of research shows that students make their choice of specialties, basing upon motives: 16,10 % indicated that the speciality looked interesting, whereas 13,5 % - that it was a popular speciality. Some of the students chose studies after consulting with their parents (9,10 %). Others have been advised by friends (5,30 %) and vocational guidance specialists (4,30 %). The research data shows that teachers did not have significant impact on studies' choice (1,10 %). A small part of respondents (1.60%) indicated that they chose that particular study program, where students were easily admitted.

To the question "If you could start studying anew, would you choose the same speciality again?" a half of the respondents (54%) noted that they would choose a different vocation. This shows that many of them had not assessed their possibilities and were disappointed with their choices. One third (32%) of the students did not have any opinion. There were only 14% of those who were not disappointed with their choice. This shows that, when choosing a speciality, the students assessed themselves as individuals. They did not make their choice of a speciality randomly.

Positive selection of speciality helps the individual to strive for the set objectives, i.e., to complete the bachelor's studies and continue education in master studies, although there are some difficulties and encumbrances anticipated on the way. In the Faculty of Management and Administration, 66 students would not change their speciality, whereas in the Faculty of Technologies the number hovers around 64. Forty three students in social sciences and 36 in technologies have doubts about their choice of speciality. In the Faculties of Management and Administration and Technologies, respectively 21 and 13 students would like to change their specialties.

Motivation sphere in the selection of vocation is a very complicated formation and manifests in acts as well as behavior that are selected subject to what is relevant, meaningful, valuable and significant to the individual. More males would tend to select the same study program (62,20%) than females (44.20%). If they could choose studies anew, 18.30% of females and 10.60% of males would choose different study programs (see Figure 2).



**Figure 2.** Distribution by gender of responses about the possibility to start studies anew

When replying to the question what sort of knowledge will not suffice for professional activities, the respondents indicated the lack of practical training. The issue of practical training is acute to students of social as well as technological sciences. It is interesting to note that the responses of these who would choose the same speciality distributed as follows: 70,2% indicated that in professional activities they would lack practical training, 84.60% - general skills of personal nature, 5.6% - theoretical knowledge. It can be stated that these students properly realize the significance attached to the choice of studies. Respondents who were not convinced whether they would choose another speciality indicated the lack of practical training (68,10 %), general skills of personal nature (19,40 %) and theoretical knowledge (8,30 %). Participants of the survey who would not choose the same speciality indicated that in professional activities they would lack practical training (75 %), theoretical knowledge (15,60%) and general skills of personal nature (9,40 %).

### Employment of students

Participants of the survey were asked, when they started considering employment. Out of them, 35,80 % started considering employment right after graduation from the secondary school; 25,50 % - after entering the higher school; 11,90 % - when studying in the second – third course, and 2,50 % - when studying in the fourth course. 7,40 % of respondents have not considered employment so far.

Changes that have been lately occurring in Lithuanian economy have impaired the people's position in the labor market. As unemployment grows, social differentiation of the people increases and living standard of the people who do not have regular jobs deteriorates. When asked, what reasons induced the respondents to seek employment, they replied as follows: 75,7 % indicated financial motives, whereas 24,3 % wanted to acquire more practice. Financial reasons led to seek employment 74 students of technologies and 90 students of social sciences. A larger part of full-time students (88) indicated that financial reasons induced them to get jobs. It can be stated that the majority of part-time students (76) enter the higher schools already having jobs. According to the respondents, 30 students of the Management and

Administration Faculty and 23 students from the Faculty of Technologies would like to acquire more practice. To the question "Have you got a job?", 60.1% replied positively, 21% so far are unemployed, 15.20% had jobs previously, but currently are unemployed, whereas 3.70% have their own businesses. More than a half of students, when studying in the I-II courses, find jobs regardless of the chosen field of studies. As can be seen in data presented in Table 2, it can be stated that women and men find employment equally.

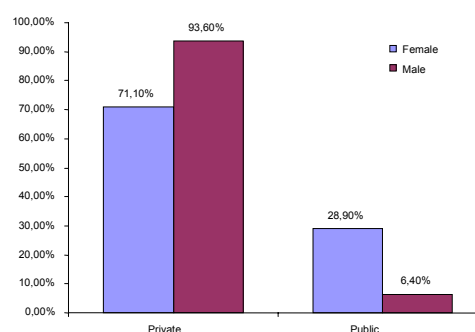
**Table 2**

Number of women and men who found jobs while studying

| Course | Women  |      | Men    |      |
|--------|--------|------|--------|------|
|        | number | %    | number | %    |
| I      | 28     | 53,8 | 24     | 46,2 |
| II     | 13     | 40,6 | 19     | 59,4 |
| III    | 10     | 83,3 | 2      | 16,7 |
| IV     | 4      | 50   | 4      | 50   |
| V      | 1      | 25   | 3      | 75   |

As the respondents indicated, to 37,30 % of them working is less of an impediment than not, to 33,30 % - more of an impediment than not, to 16,90 % - is not an impediment altogether, and to 12,40 % - a significant impediment. It can be stated that it is essential for the students to coordinate the time devoted for working and studies.

The research has shown that students successfully seek employment in private companies. After assessing the research results, it can be seen that 93,60 % of men and 71,10 % of women found employment in private companies. Public enterprises offered more jobs to women (28,90 %) and to only 6,40 % of men (see Figure 3).



**Figure 3.** Distribution by gender of those who found jobs in private and public companies

Among the students, 42.7% work according to the chosen and studied speciality, whereas 57,3 % are involved in other jobs. After summarizing the data, it can be seen that 64 % of part-time and 36% of full-time students work according to the speciality. The responses of those surveyed show (Table 3) that students of social sciences are more successful in finding employment

**Table 3**

Distribution of students who found jobs according to speciality

| Study program                                      | Yes    |      | No     |      |
|--|--------|------|--------|------|
|  | Number | %    | Number | %    |
| Automatics and management (full-time)              | 3      | 30   | 7      | 70   |
| Automatics and management (part-time)              | 2      | 50   | 2      | 50   |
| Mechanical engineering (full-time)                 | 8      | 57.1 | 6      | 42.9 |
| Mechanical engineering (part-time)                 | 2      | 50   | 2      | 50   |
| Construction engineering (full-time)               | 1      | 33.3 | 2      | 66.7 |
| Construction engineering (part-time)               | 22     | 66.7 | 11     | 33.3 |
| Vehicle engineering (full-time)                    | 2      | 22.2 | 7      | 77.8 |
| Management and business administration (part-time) | 20     | 36.4 | 35     | 63.6 |
| Management and business administration (full-time) | 12     | 31.6 | 26     | 68.4 |

After completing the studies, 22.10% of respondents expect to continue working in the same workplace, whereas 51.20% have not yet made a resolution. 26.7% of students hope to move to another employer.

When analyzing the data submitted in questionnaires, it was interesting to find out what main criteria determined the choices of jobs (Table 4). The majority of respondents indicated that salary had to meet their own needs as well as those of their families (40,70 %), job had to provide maximum possibilities for improvement (35,80 %), and 35% wanted to be promoted due to their achievements.

**Table 4**

Key criteria when choosing a job

| The key criteria when choosing a job                               | Yes    |       | No     |       |
|--|--------|-------|--------|-------|
|  | Number | %     | Number | %     |
| Good conditions for communication and balanced inter-relationships | 35     | 14.40 | 208    | 85.60 |
| The salary meets my own needs as well as those of my family        | 99     | 40.70 | 144    | 59.30 |
| Achievements enable  | 85     | 35.00 | 158    | 65.00 |

|  |    |       |     |       |
|--|----|-------|-----|-------|
| promotion  |    |       |     |       |
| The job matches one's qualification                                | 33 | 13.60 | 210 | 86.40 |
| The job ensures maximum possibilities for improvement              | 87 | 35.80 | 156 | 64.20 |
| I do not care  | 1  | 0.40  | 242 | 99.60 |
| I do not think about any conditions, working is the most important | 4  | 1.60  | 239 | 98.40 |

As can be seen from the data in the questionnaires, when choosing a job, presence of good conditions for communication and balanced inter-relationships is important (14,4 %) as well as job matching the qualifications (13,6 %). There were such respondents (5), to whom nothing is of importance when choosing a job. 54 students of social sciences and 45 of technologies indicated that the salary must fulfill their own needs as well as those of their families. There was an insignificant difference between full-time (51) and part-time (47) students in their marking of criteria that the job must fulfill the needs. Men (56) care more than women (43) about salary fulfilling their needs.

After summarizing the data, it can be stated that the job providing maximal possibilities for improvement is equally important to students of both faculties. There were more full-time students (53) who noted this criterion as important. 48 men and 39 women wanted to be able to improve in their jobs.

After assessing the data, 39 students of social sciences and 46 students of technologies, when choosing a job, take into account the possibility to be promoted because of their achievements. This is the opinion of 46 full-time and 30 part-time students. This criterion is important to more men (56) than women (28).

When assessing the responses of those surveyed, the authors state that students of both faculties (Management and Administration – 18, Technologies – 17) care about good conditions for communication and balanced inter-relationships. This is equally important to men (19) and women (16).

When seeking to find out about jobs that match the qualifications, 19 students of the Faculty of Technologies and 14 – of the Faculty of Management and Administration think that this is an important factor. This criterion has been noted by 22 full-time and 11 part-time students.

After summarizing the data, the following factors that affect employment have been discerned: working experience and skills (29,60 %), acquired speciality (27,60 %), personal qualities (activeness, honesty, independence, etc.) (26,70 %), education (24,30 %), financial status of parents and connections (16,90 %), motivated choice of profession (7 %), coincidence (6,60 %), economic situation in the region (3,70 %), Labor Market and the provided services (0,80 %). (Table 5)

**Table 5**  
Criteria that affect the students' employment

| Criteria that influence the students' employment the most    | Yes    |        |
|--|--------|--------|
|  | Number | %      |
| Working experience/ skills                                   | 72     | 29,60% |
| Acquired speciality  | 67     | 27,60% |
| Personal qualities (activeness, honesty, independence, etc.) | 65     | 26,70% |
| Education  | 59     | 24,30% |
| Financial status of parents, connections                     | 41     | 16,90% |
| Motivated choice of profession                               | 17     | 7,00%  |
| Economic situation of the region                             | 9      | 3,70%  |
| Coincidence  | 16     | 6,60%  |
| Labor Market and the provided services                       | 2      | 0,80%  |

There were 38 respondents of the Faculty of Management and Administration and 34 of the Faculty of Technologies who thought that working experience and skills have impact on their finding employment. After summarizing the replies, it can be seen that full-time (35) and part-time (37) students assess the working experience and skills in getting employment as equally important. This criterion was noted by 47 men and 25 women.

According to the respondents, acquired vocation will have influence when getting a job – it was noted by 42 students of engineering study programs and only 25 students of social sciences. 38 full-time and 29 part-time students suppose that that the acquired speciality will be taken into account when seeking employment. When analyzing the data, it can be seen that this criterion was noted by 42 men and 25 women.

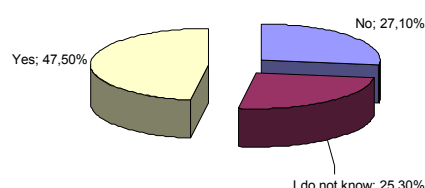
After assessing the results obtained during the study, it can be stated that 45 students from the Faculty of Management and Administration and 20 students from the Faculty of Technologies think that when seeking employment, personal qualities is the factor that matters the most. 41 full-time and 24 part-time students indicated the importance of personal qualities when getting employment. Contrary to the men (29), women (36) think that the employment of higher school graduates is the mostly determined by personal qualities.

After comparing the data illustrating how education affects success in finding employment, this criterion was marked by 22 students of social sciences and 37 students of technologies. It can be stated that the effect of education on finding a job is equally assessed by part-time (30) and full-time (29) students. A similar number of women (29) and men (30) noted the criterion of education as important in getting employment.

Some of the respondents think that financial status of parents and connections have impact on finding employment: 22 students of social sciences and 19 students of technologies. Such is the opinion of 24 full-time and 17 part-time students. By gender, the responses distributed as follows: 22 men and 19 women.

The impact of motivated choice of profession when seeking employment was indicated by 10 students of the Faculty of Technologies and 7 students of the Management and Administration Faculty. Coincidence was noted by 8 students in each of engineering and social studies.

The study has shown that about a half of students (47.5%) after graduation would like to get a job abroad. Some of the students (25,30 %) have not made any resolutions. Another group (27,10 %) of students indicated that they would not go abroad to work (Figure 4). When replying to the question whether they would like to go abroad to work after studies, 56 responded that they would not like that, whereas 56 students had not made any decisions and indicated that they did not know, and 104 agreed that they would like to go abroad after studies to work. 59 students of social sciences and 45 students of technologies would like to go abroad. A major part of those willing to go abroad is comprised of full-time students (63). 58 men and 47 women would be willing to go abroad to work.



**Figure 4.** Distribution of responses about willingness to go abroad to work

According to the data of the research, 57,30 % of respondents think that the acquired education will be sufficient for them to find jobs according to vocation in the European Union countries, 34,50 % chose the response “difficult to say”, whereas 8,20 % think that the acquired education will not suffice.

## Conclusions

1. A major part of respondents are citizens of Panevėžys. Residents of the town comprise 73,7 %, arrivals from the district of Panevėžys - 12,3 % and from the county of Panevėžys - 2,1 %.
2. As duration of employment increases from 5 to 10 years and more, the number of students goes down. Respondents, whose age was within the range of 19-24 years, comprise 62 %, whereas those in the range of 40 and more years - 4,9 %.
3. When entering a higher school, the students expect that the selected speciality will ensure a well-paid job (30,9 %), possibility to study close to the place of residence (26,4 %), that the selected vocation will ensure a regular (20,1%) or interesting job (18,0 %). However, now, even 54% would choose a different vocation, which shows that many of them did not assess their possibilities and now are disappointed with their choice.
4. Even 60,1 % of students are employed and chose their jobs to meet their own needs as well as those of their families (40,70 %), whereas 35,80 % noted maximum possibilities for

- improvement. However, after graduation, only 22.10% plan to continue working in the same place, whereas 51,20 % have not yet decided. This shows that the jobs were selected to improve their financial status while studying.
5. It can be stated that it is very important for students to coordinate the time devoted for work and studies, seeing as to 16,9 % of respondents working is not an impediment altogether, whereas to 12,4 % it is a substantial impediment.
  6. Students assess positively the possibility to find employment in the EU countries, as after graduation 104 would like to go abroad to work, whilst 56 have not made any resolutions.

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Regina Padaigienė, Nijolė Sinkevičienė, Jadvyga Vasiliauskaitė

#### STUDIES AND WORKING. ANALYSIS OF STUDENTS' ATTITUDE TOWARDS WORKING WHILE STUDYING

##### Summary

Straipsnyje išanalizuota, kodėl studentas studamas (-a) į aukštąją mokyklą pasirinko konkrečią specialybę, kokie svarbiausi kriterijai renkantis darbą ir kokia yra darbo įtaka studijoms, koks studentų požiūris į galimybes įsidarbinti pagal specialybę regione ar ES šalyse. Straipsnis parengtas pagal 2005 – 2006 m. m. atliktą KTU Panevėžio instituto Technologijų ir Vadybos ir administravimo fakulteto dieninių ir vakarinių studijų studentų apklausą. Pagrindinis tyrimo tikslas – nustatyti dirbančių ir nedirbančių studentų požiūrį į darbo bei įsidarbinimo galimybes skirtumus ir panašumus.

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# INNOVATION IN HIGHER MATHEMATICS EDUCATION

Alma Paukštienė, Birutė Ragalytė

## Abstract

In this article is presented how we can study mathematics in higher school. Suggestions how resume mathematics education in higher school is presented. Analysis of students research is given. Applications programs Mathcad and Microsoft Excel in study mathematics is presented.

## Keywords

Mathematics and computers, various study methods in study mathematics, innovations in study mathematics.

## 1. Theoretical research

Mathematics is the main foundational discipline not only for science and technology, but also for various other spheres of human activity. Mathematics and the education of students in mathematics must be regarded as a crucial predictor of a nation's future progress in many areas, including science, technology and industry.

Different types of change, which vary in quality and in difficulty present different challenges to the innovators. Process changes in higher mathematics education oriented around the mathematics pure and applied. The essence of all these activities is that the student operates in a more autonomous and reflective and less imitative way than in the traditional curriculum.

In article "The reform of mathematics education at the upper secondary school level in Japan" is writing, that in Japan, reviewing the purposes of mathematics education and reforming the national mathematics curriculum is driven principally by social factors, particularly the transition to an information and high technology society [2].

In learning mathematics, priority should be given to understanding concepts, awareness of basic facts, clarity of logical relations and convincing mathematical experiences through use of computers would be most helpful.

The main objective in studying mathematics using the computer is to have students actually doing mathematics, rather than improving student's information processing abilities. Studying mathematics with computers students can easy, because they have good informatics technology knowledge in school.

Computer simulation in mathematics can be in mathematics can be especially useful. We support use of the computer for enriching the mathematical learning of students.

Using programs Mathcad and Microsoft Excel we demonstrate mathematics courses:

- ✓ vectors, operations on vectors,
- ✓ complex numbers and solutions of equations,
- ✓ matrix and linear computation: matrices and their operations, inverse matrices,
- ✓ solving systems of linear equation,
- ✓ functions: exponential, logarithmic, trigonometric.
- ✓ functions and limits: rational and irrational,
- ✓ composite functions and inverse functions,

- ✓ differential calculus: differentiation of functions and composite functions, applications of derivatives;
- ✓ integral calculus: indefinite and definite integrals, applications of integration,
- ✓ solving differential equations
- ✓ curves: equations and curves, the ellipse and hyperbola, parametric representation, polar coordinates.
- ✓ 3D Scatter plot of a function.
- ✓ solving and optimization extension,
- ✓ calculation of probability, probability distribution,
- ✓ statistics: arrangement of data, representative values and measures of dispersion, correlation.
- ✓ analysis of data and hypothesis.

Study mathematics we can in various ways. We think, what students in higher school must not only understand analytic solution method, but also the practical application of a mathematics theory.

1 Table

Various ways study mathematics

|                                    | Analytic solution method | Excel | Mathcad |
|------------------------------------|--------------------------|-------|---------|
| Matrix and linear computation      | +                        |       | +       |
| Functions and limits               | +                        |       | +       |
| Differential calculus              | +                        |       | +       |
| Integral calculus                  | +                        |       | +       |
| Solving differential equations     | +                        |       | +       |
| Solving and optimization extension | +                        | +     |         |
| Curves                             | +                        | +     | +       |
| 3D Scatter plot of a function      |                          |       | +       |
| Statistics                         | +                        | +     |         |
| Analysis of data and hypothesis    | +                        | +     |         |

Students understand mainly in mathematics is applied mathematics. They can use computers and solve many problems. Program Mathcad can solve many mathematics problems include programming. This program delivers the most powerful solver technology available, allowing you to solve the highly advanced systems found in finance and technical calculating, operations research and manufacturing and other technical and business fields.

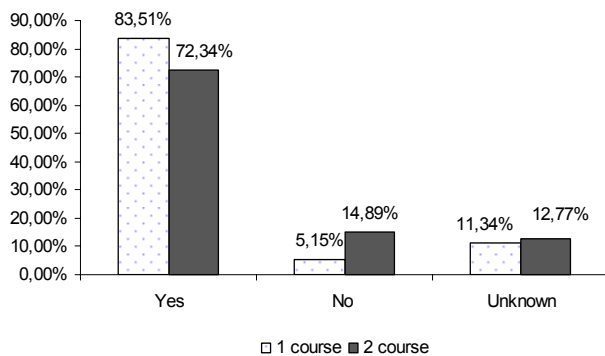


Program Microsoft Excel we can use to solve optimization routines. This program facilitate the solution of many problem: statistics, data analysis, hypothesis.

## 2. Research results

Research purpose is quiz analysis mathematics studies and methods and compare students opinion in different courses.

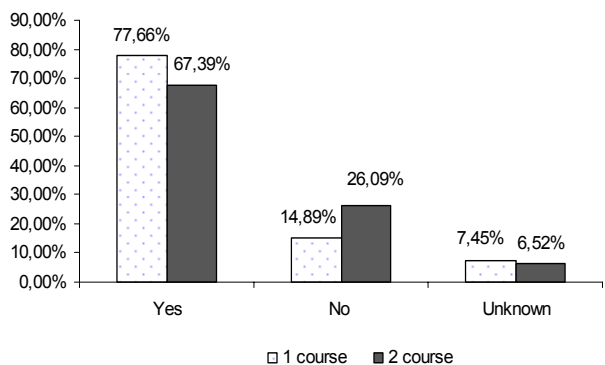
In research involved students 1 and 2 courses in Panevezys college (98 students 1 course and 48 students 2 course). We compare answers students in different courses.



**1 example.** Students opinion about informatics technology use in mathematics education.

Many students think, what informatics technology must be involved in mathematics education. Students in the first years of study think, what informatics technology must be applied in mathematics education. Many students in second year study think so, but less in percent. We think, what students study mathematics with computers is sufficient difficult.

We involved students opinion about mathematics study methods.



**2 example.** Students opinion about mathematics study method – theory.

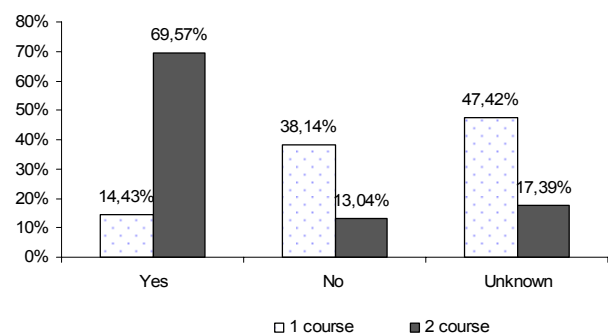
Students think that theoretical lecture is good study method, but students of 2 course understand what this method is good, but they want and more practical tasks. In 2 table is presented different students opinion about different ways study.

**2 Table**

| Method / Course          | Various methods study mathematics |    |         |          |    |         |
|--------------------------|-----------------------------------|----|---------|----------|----|---------|
|                          | 1 course                          |    |         | 2 course |    |         |
|                          | Yes                               | No | Unknown | Yes      | No | Unknown |
| Problem solving          | 72                                | 22 | 6       | 78       | 15 | 7       |
| Discussion               | 57                                | 25 | 18      | 64       | 22 | 13      |
| Using computers programs | 81                                | 6  | 13      | 84       | 11 | 4       |

Many students think, that many methods in study mathematics is suitable. Many students prefers using computers programs in mathematics study.

The knowledge of subject is dependent of number hours divided to study.

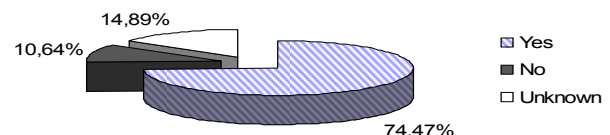


**3 example.** Students opinion about numbers of hours divided to study program Mathcad.

47,42% students of 1 course yet unknown whether number of hours divided to study program Mathcad is suitable. They don't unknown because they yet study.

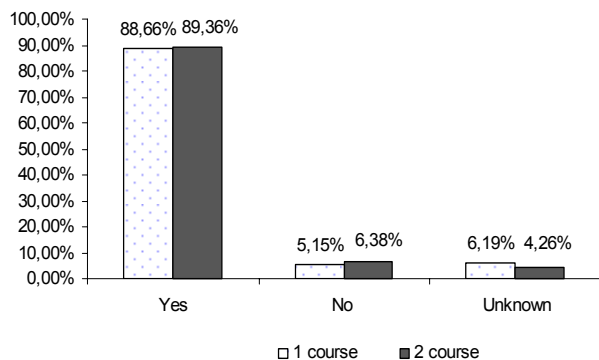
38,14 % students of 2 course think, what number of hours attached to study program Mathcad is to short. They apply this knowledge in study other discipline. Students of second course study program Mathcad in half then students in first course. We think, that situation in study program Mathcad improvement.

We research students opinion: Can this knowledge (knowledge in program Mathcad) use in study other discipline study. Research results we can see in 4 example.



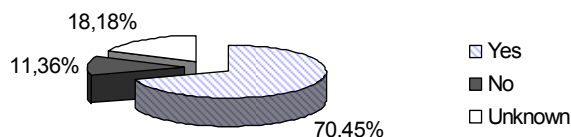
**4 example.** Students (2 course) opinion about program Mathcad application in study other discipline.

Students have good informatics technology knowledge. They want study mathematics with computers.



**5 example.** Students opinion about application computers in mathematics study.

Students of second course applied programs Microsoft Excel in study theory probability and mathematics statistics.



**6 example.** Students opinion about program Microsoft Excel applied in study theory probability and mathematics statistics.

Research results show, that students in second course think what program Microsoft Excel release study theory probability and mathematics statistics.

## Conclusions

1. Students acceptable various methods in study mathematics.
2. Students wants study mathematics using informatics technology.
3. Students can solve many problems in mathematics using computers programs.
4. Computer programs release study mathematics, economy time.

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Alma Paukštienė, Birutė Ragalytė

## INOVACIJOS AUKŠTOSIOS MATEMATIKOS DĖSTYME

### Santrauka

Straipsnyje nagrinėjama, kaip mokinti aukštosios matematikos taikant informacines technologijas. Apžvelgiama užsienio šalių patirtis mokinant matematikos. Aptariama, kokie šie mokymo trūkumai ir privalumai. Pateikiama studentų apklausos analizė. Lyginami 1 ir 2 kurso studentų apklausos rezultatai. Nagrinėjama, kaip galima sėkmingai panaudoti kompiuterines programas Microsoft Excel ir Mathcad geresniam aukštosios matematikos mokymui.

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# THE ROLE OF HUMAN RESOURCES IN EXTREMITIES MANAGEMENT

**Birutė Pitrenaitė**

## Annotation

In every State because of natural, technical, ecological or social hazards extreme conditions can emerge causing a danger to human lives, health, property or nature, peace. The Authorities are responsible for protection of people, property and State affairs against the impact of extremities. In order to ensure public safety and peace it can become necessary to transform governing of the State, to restrict some Human rights and freedoms, to apply some extraordinary powers. Managing and localizing Extremities states of Emergency and War can be implemented.

The Author analyses what role Human Resources play in Extremities Management because one of the main elements influencing the effectiveness of ruling in Extreme conditions is preparation of Officials and Specialists to govern in state of Emergency or state of War. These states are complex, requiring not only additional organizational means and financial, material resources, but also the specific theoretical and practical preparation of the staff. The Officials can be required to work in peculiar, varying circumstances, to perform exclusive functions, to make expeditious decisions on which human lives can depend.

Insufficient preparation of the staff can generate some problems of governing of State during localization of extremities and elimination after-effects. These possible problems may be the cause of additional death and loss. It must be considered that in extreme conditions it can be impossible to improve staff's skills therefore governing staff and specialists have to be trained still in normal conditions.

## Keywords

Extremities management, human resources, restriction of human rights, state of emergency, state of war.

## Introduction

Contemporary State as the key guarantee of country's national security must be able to rule the country not only in favourable times but also in extremities. Natural disasters, terrorist attacks, growing militarization, ethnical and religious upheavals, territorial disputes, abandoned or failed reforms, state disruption, and political tension may lead to local and regional instability [1], determine ruination of the human race, property destruction and to do much harm to the environment and State affairs. Duty of the State is to forecast threats, to assess them, to prepare for their defeat, and when they come in to play to organize liquidation and elimination of outcomes. For the purpose of these tasks every single country has the Extremities Management System (hereinafter the EMS). When creating the EMS the State pursues the following objective – to maximally ensure security of humans, property and environment under extraordinary conditions – and strives to formulate efficient structure, properly regulate its operation, adequately prepare the staff and to provide this system with sufficient logistical means. This paper analyzes one of the above-mentioned problems – the influence of the staff on efficiency of the EMS operation.

Distinctive combination of conventional and specific fields of the EMS system raises special requirements for the staff. Operation under extraordinary conditions requires for understanding of threats against processes and people in responsible institutions, for assessment of those threats and for provision of means that reduce negative impact of those threats exertion. One of such means is proper preparation of the staff for operation under extraordinary conditions.

Although problems of human resources are analyzed by many foreign and Lithuanian scientists, for instance

R.Grigas, A.Savanevičienė, B.Martinkus, A.Sakalas and others, however there are only one or two papers that are directly dedicated for the specifics of the public management under extreme conditions (A.K.Orenius, B.Pitrenaitė). Considering present situation in this field and degree of its exploration, this paper deals with the following key tasks:

- to analyze changes in public management under extreme conditions;
- to identify institutions that take part in management of extremities and in localization, elimination of extremities' impact;
- to examine specifics of EMS system operation and to determine and assess key factors influencing performance of the system;
- to assess influence of human resources on efficiency of extremities management; and
- to analyze processes of staff preparation and problems thereof.

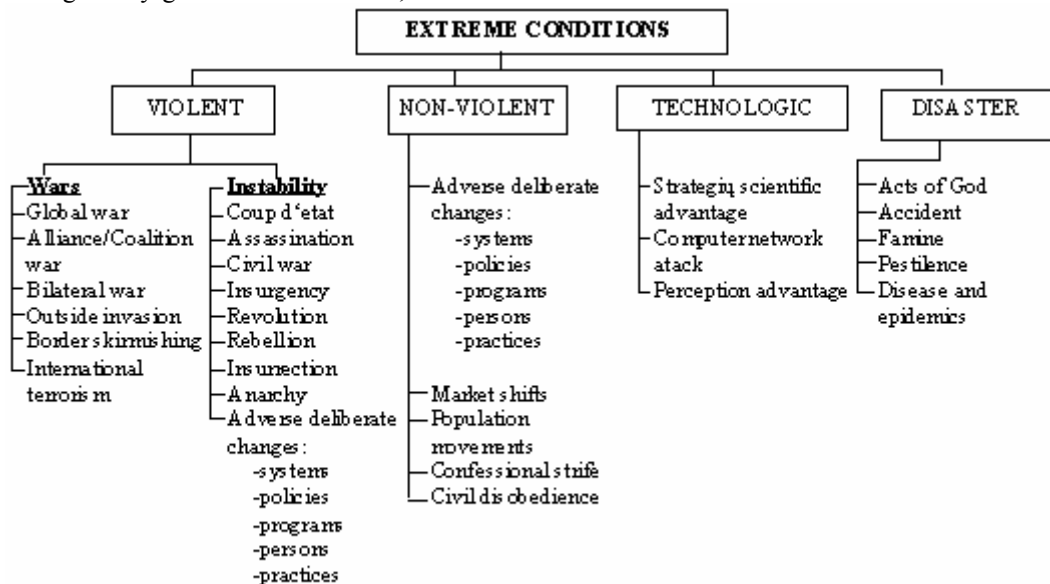
When dealing with these tasks methods of causality and structural-functional analysis are used as well as methods of process simulation, decomposition and synthesis. The object of investigation is operation of the EMS when liquidating extremities and the subject – preparation of the staff that participates in this activity.

## 1. Changes in Public Management under Extremities

On international, regional or national scale because of some threats, extreme conditions can emerge causing a sudden and great danger for human lives and health, property, nature or they can lead to ruination of the human race, harm and great property losses [2]. These dangers can be caused by factors of *natural*, *technical*, *ecological* and *social* nature or by the sum of different factors. Events when scale of the factors exceeds the established innocuous level become the extreme ones.

According to the nature of extreme situation that is formed by the extreme event or by the sum of different events, all the events can be grouped as follows: *violence*, *non-violence*, *technological events* and *disasters* (ref. to Fig. 1). It's worth mentioning that type of the extreme event may change or may determine exertion of the other – more dangerous – event (for instance, non-violent resistance to changes may grow into violent one, natural

disaster may raise anarchy, and perception advantage may lead to invasion and etc.). Therefore it's necessary to ensure State's preparation for extremities management and this requires for provision and implementation of some legal, organizational means and allocation of human, material and finance resources.



Source: according Euro – Atlantic Partnership Council recommended Crisis Management Handbook)

Figure. 1. The types of extreme conditions

Under extreme conditions the fundamental human rights – to life, freedom and safety – fall in danger. Therefore when striving to protect rights, restriction of human freedoms' use can become necessary as well as restriction of the activity of physical and juridical bodies performing under normal conditions.

However in order for the State to start applying restrictions on human rights and freedoms provided in the Convention for the Protection of Human Rights and Fundamental Freedoms and in the Constitution of the Republic of Lithuania it is necessary to:

- have introduced special legal regime and after its introduction to –
- have reformed (adjusted to act under extreme conditions) operation of the State and municipality's institutions.

Legal basis for reorganization of the State's governing is ensured through announcement of *state of emergency*. The state of emergency is imposed following the decision of Seimas or the announcement of the President (when his decision is confirmed by Seimas and signed by the Prime Minister). After Seimas' decision or President's decree on imposition of state of emergency comes into force the following changes in governing of the State are undertaken:

- all the territory of the State is covered by the operation of institution responsible for extremities management;
- the direct rule can be imposed in territories of municipalities;
- commandant's head-quarters can be formed for the protection of the public order;

- by necessity Lithuanian army can be used;
- mobilization reserve can be used [3].

Moreover in order to maintain public peace and reduce impact of threat and eliminate its outcomes it is necessary to use (extraordinary) means that are not used under normal conditions:

- depending on criticality degree of the extreme situation, it is possible to restrict use of rights and freedoms embedded in the Constitution of the Republic of Lithuania;

- it is possible to start using on larger or smaller scale extraordinary means that help to ensure public peace and to eliminate more efficiently and promptly causes of extreme situation as well as to reduce its impact.

The special group of factors dangerous for the State – armed conflicts, war – can threaten not only public peace, human lives and property but also sovereignty of the State, its territorial integrity. Under conditions of armed conflict as under the state of emergency the special legal regime is imposed on the country – *the state of war*. It is evident that under the state of war course of extreme events and potential outcomes are more complicated than under the state of emergency therefore more and harder extraordinary means are applied and governance of the State is reformed more radically:

- there are more restrictions on human rights and freedoms and they are applied on larger scale;
- levy in mass or partial mobilization is announced;
- governance of the state is reformed;
- war commandants are appointed;

- court-martials can be established;
- systems of municipalities and economy are adjusted to state of war;
- armed forces and its reserve and formations of civil safety are transferred from peace to fighting trim;
- on purposes of population defence or evacuation able-bodied persons and organizations of all types might be subject to compulsory works or requisitions;
- there's military patrolling, inspection of persons is possible as well as their detention, evacuation of residents and other extraordinary means [4].

All the above-described peculiarities characteristic to the state of emergency and to the state of war only partially illustrate that State governing in extremities becomes complicated and problematic. In order to prevent loss of human lives, of private and State property, in order to retain constitutional system and country's sovereignty it is essential that the State had created and implemented effective and efficient Extremities Management System.

## 2. Extremities Management System

Intricacy of extremities management determines complexity of management system as well. This system is comprised of two constituents – i.e., of analyzable dimensions of the system:

- *territorial-administrative* (of management levels) dimension of extremities management, and
- dimension of *functions performed* in extremities.

In accordance with the first dimension Extremities Management System can be decomposed into the following levels:

1. *municipality level* – administrations of municipalities, specialized institutions or subdivisions in the structure of municipalities or under them (for instance, Fire Prevention and Rescue Services);

2. *county level* – heads (governors) of the counties, specialized institutions or subdivisions in the structure of counties heads administrations or under them (for instance, Civil Safety Service of the County, military unit deployed in the territory of the county);

3. *state level* – the President of the Republic, Seimas, Board of State Defence, the Government, Ministries, Lithuanian army, specialized institutions under the Government or Ministries (for instance, Fire Prevention and Rescue Department under the Ministry of

Internal Affairs, Crisis Management Centre under the Ministry of National Defence).

In addition to above-mentioned institutions every municipality and country contains Centre for Extremities Management that is formed of staff taken from various institutions [2], and on the national scale the Commission of Extremities operates. Functions of these centres and the Commission are dependant on the situation – i.e., under normal conditions these institutions perform functions of planning and preparation for extremities management, and under extreme conditions they perform functions of coordination and management within their competency.

In special cases, when state of emergency or state of war is imposed, specific institutions may be established that operate only under these conditions:

- in case of state of emergency commandant's head-quarters may come into play as well as specifically formed general-purpose formations and task-forces, and functions of the municipality board may be carried out by the Government Representative (in case the direct rule is imposed);

- in case of state of war commandant's head-quarters come into play that are ruled by war commandants in the counties, also courts possessing special authority – the court-martials – can be established and formations of a civil safety can start operating.

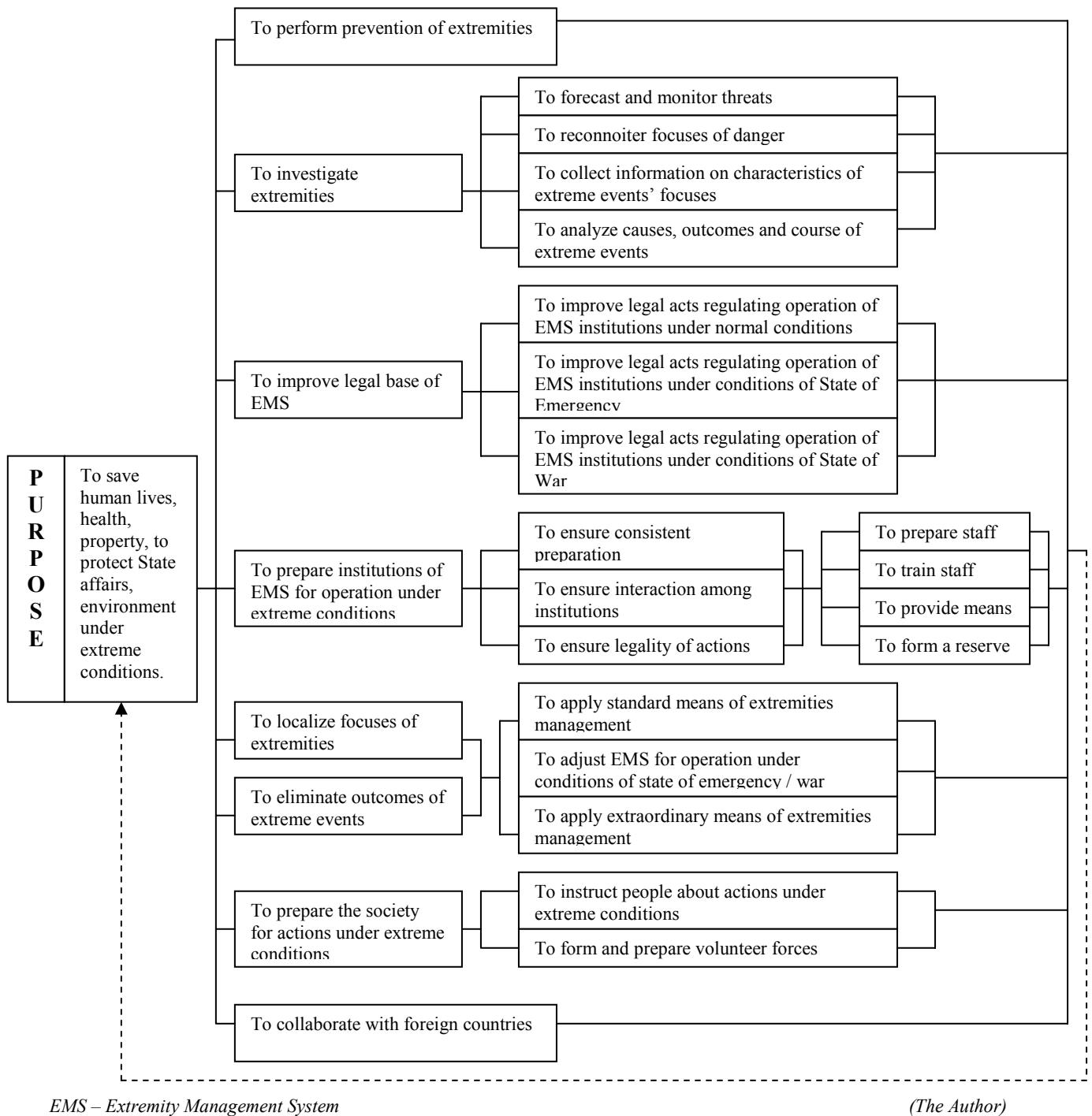
It is evident that this complex Extremities Management System performs many different functions. Analyzing the system in accordance with the dimension of performed functions allows for identification of three main activity trends:

- functions of extremities *prevention and monitoring*;

- functions of *operational management* (localization of extreme events, elimination of outcomes, etc.);

- functions of *logistical support* (material, technical, financial and etc. provision).

However in order to identify preferential functions, their influence on the whole performance of the system, and to determine inter-functional relations it is necessary to decompose and systematize presented characteristics. After this task was accomplished, functional framework of Extremities Management System was constructed that illustrated operation of different institutions in the field of extremities management (ref. to Fig. 2).



**Figure. 2.** Functional framework of extremities management system

Analysis of the system's functional framework reveals how functional characteristics are related to territorial-administrative dimension of the Extremities Management System. For instance, function "to instruct residents about actions under extreme conditions" is carried out by institutions of all the levels depending on the scale of organized training and all the responsible institutions must ensure constant preparation. Meanwhile the right to apply extraordinary means belongs only to the institutions possessing appropriate authority (army, police, war

commandant's head-quarters, public order defence bodies, and etc.).

Importance of the functions and scale of implementation is influenced by the conditions of institutions' operation. For instance, legal acts undergo improvement only under normal conditions and it is hardly possible to allocate time and capacities for this purpose in the extreme situation. In case of Emergency or War State function of reserve formation is virtually not implemented. However if this was not sufficiently effectively implemented under

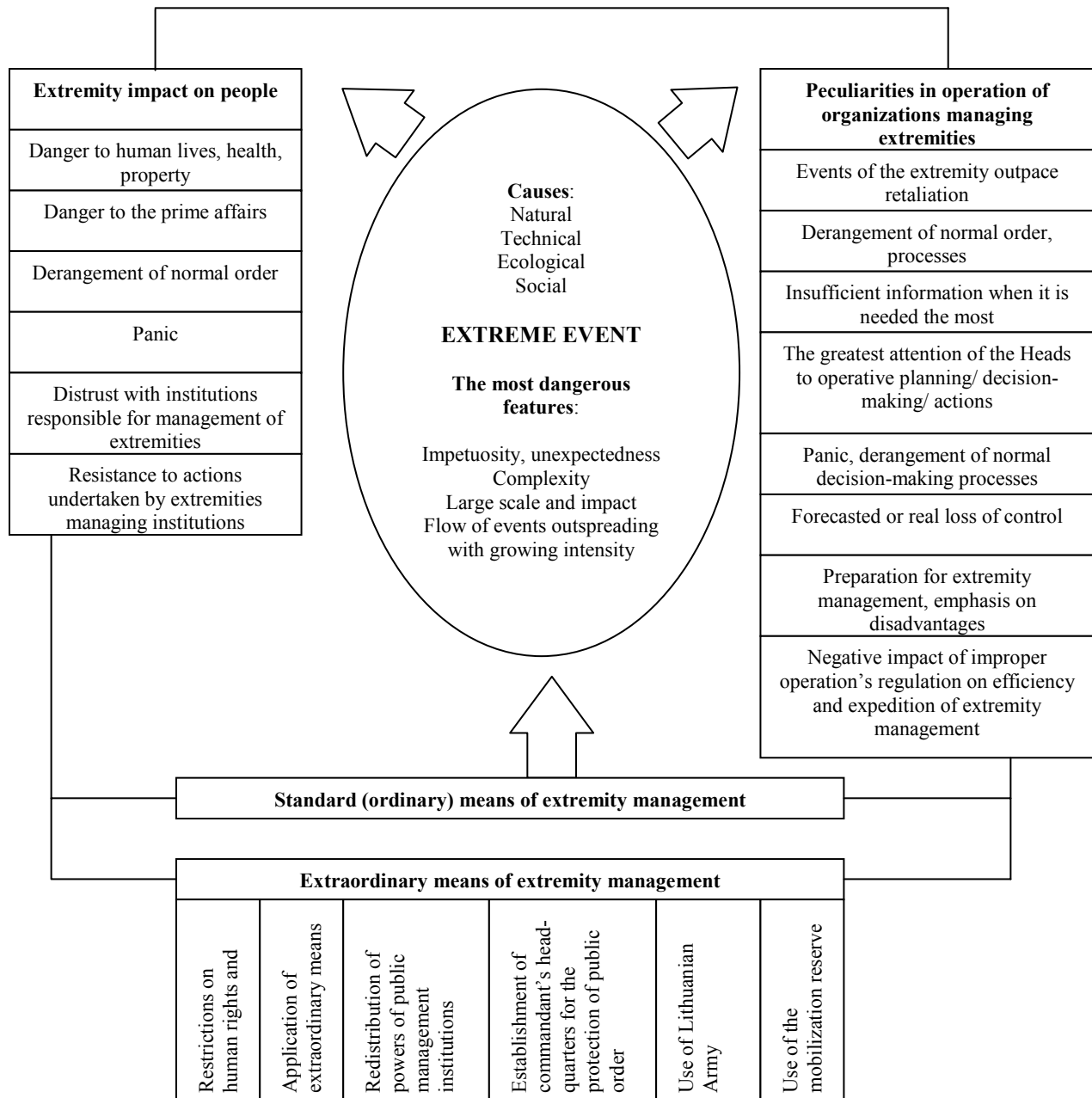
normal conditions, limitations of the operation show up during extremities and can have hard outcomes.

The functional framework illustrates that all the fields of system's operation are interrelated and only when all the functions are properly performed system's operation under extreme conditions is efficient and its purpose is achieved. On the other hand preferential function stands out of the background improper implementation of which would have negative affect on the whole performance of Extremities Management System and vice versa – effective implementation of this function determines good results of various tasks performance. It is true to say that the most important and the prime task is preparation of extremities management (hereinafter EM) institutions. Realization of this task is the greatest contribution to the result of the whole system operation. Therefore it is

necessary to determine specifics of the institutions' operation in extremities and factors that lead to preparation of EM institution for the operation under extreme conditions.

### 3. Specifics of the Institutions' Operation under Extreme Conditions

Because of the extreme event threats can occur not only for human lives, property, nature and State affairs, but operation of EM institutions is also more or less affected (ref. to Fig. 3). Extremity can also cause danger for members of the structure that individually makes decisions and for the key values and norms of the institution.



(The Author)

Figure. 3. Framework of the extremity

The key purpose of the EM institutions is to start controlling situation as quickly as possible and to minimize harm for people, property, environment and State affairs. Circumstances limit time for retaliation and create necessity for making critical decisions. When decisions are made under normal conditions, the very important role in State's administration falls to officialdom: it is the well-developed link of the work related to official rules and order and written reports [5]. However one cannot say the same about decision-making under extreme conditions in which case governing is never done according to the methods of everyday work. Ordinary procedures usually are slow (time-consuming) which is unacceptable in critical situations. Therefore when extreme events occur, heads of responsible institutions are forced to change the rules, to use shortcut procedures, to limit number of members participating in decision-making to those that play the key roles only. Moreover it may be necessary to transform organization of the operation for some time as it is vital to increase number of staff that undertakes situation monitoring, planning, implementation and assessment.

Since extreme event usually affects not only one institution, the key feature of decision-making turns to be the growing centralization, because the more threatening extreme situation is, the higher level undertakes key decision-making.

Institutions find themselves in especially complex situation when State of Emergency or State of War is imposed on the country because of the correspondent circumstances. In this case not only internal order of institutions, procedures of operation and processes of decision-making are changed but also when transforming ruling of the State, tasks of the institution's operation, competency, subordination and etc. can be changed. Operation of some institutions can be confined and their authority may be suspended or because of the extreme event they can find themselves incapable of working at all. In this case part or all functions must be taken over by other institutions (for instance, war commandant's headquarters can perform functions of counties heads administrations). This kind of situation is a serious challenge for both the institution that conveys its functions as well as for the one that takes them over.

In state of emergency or state of war after State governing structure is changed heads and staff of institutions can be required to execute unusual orders and directions given by "outside" officials. In this case decision-makers can face lack of information, loss of control, lack of specific knowledge necessary for unusual operation. This kind of interferences impede governing even under normal conditions however under extreme conditions they become especially significant as they can lead to unacceptable ill-timed decisions accompanied by severe outcomes.

In extremities institutions of EM can be provided with the power to use extraordinary means (for instance, imposition of the curfew, restrictions on the traffic, evacuation of residents, prohibition of meetings, and etc.) if normal means are not sufficient for protection of residents, property and environment. Application of extraordinary means is related to some restrictions of human rights and freedoms therefore it is likely that

residents may resist to the actions of its staff because of the distrust of EM institution. This is especially relevant in management of extremities caused by social factors. Behaviour of residents and at the same time course of extremities management and its efficiency largely depends on the performance of media. Inappropriate communication with representatives of media may cause resonance and unacceptable burdensome circumstances and vice versa – constructive communication improves turnover of information and enhances efficiency of extremity management. Therefore institutions in EMS must duly estimate importance of media performance and create effective system of public relations.

A very important factor that affects State's preparation for operation under extreme conditions and also efficiency of this operation is its proper regulation. In order to ensure effective and efficient governance of the State, rational consumption of human, financial and material resources and in order to avoid upheaval after the threat occurs in the State it is necessary to clearly and exactly regulate procedures of transition to the state of emergency, to establish restrictions on operation of institutions participating in State's governing as well as to determine specific authority, conveyance and take over of the functions and etc. [6]. However even precise description of procedures for realization of different processes does not guarantee right and timely decisions, saturation of sufficient capabilities and use of sufficient means for organization of such the governing that ensures effective actions in order to overcome the extremity. Potential interferences may be minimized through preparation and training in scenarios of different types of extremities; following these actions appropriate retaliation is easier organized.

Analysis of the specifics of operation of EM institutions under extraordinary conditions reveals that staff of institutions is the most sensitive for the "pressure" of extremity. On the other hand it is the key and the most important resource upon skills and preparation level of which efficient management of hazardous situation depends.

#### **4. The Role of Human Resources in Extremities Management**

In order to assess importance of human resources in operation of EM institutions at first it is necessary to find out what do staff of EMS "produce" – i.e., what is the "product" of their work? The "product" of Extremities Management System's operation essentially is a general-purpose service that can be offered for the public only in exceptional case – only when extreme situation emerges and under normal conditions it specifically has no real expression therefore in this sense it is virtual. In order to measure the quality of the service it is necessary to cause extreme conditions that undoubtedly will never coincide with the real conditions of operations under the state of emergency or state of war [7]. Moreover the conditions themselves are characterized by the level of uncertainty that is shaped by many different factors (resources of time for preparation of liquidating actions, various aspects of logistical provision, adequacy and credibility of information on extremity and etc.). One of the key



factors influencing efficiency of extremities management is the staff. Success of localization of imminence or existent extremity is greatly dependant upon staff's qualification. However staff itself is greatly influenced by particular external and internal factors that must be determined and assessed.

#### **4.1. Factors of Human Resources Affecting Efficiency of Extremities Management**

Extremity causes great pressure inside the institution; staff can be required to perform unfamiliar functions in peculiar or even hazardous surroundings. Under these conditions staff is affected by the following types of factors:

- human factors;
- organizational factors; and
- provision factors.

*Human factors* include such interrelated factors as stress and competency. Human beings are most pervious to stress when they face unusual situation that is capable of having serious outcomes for themselves and for others, when they are responsible for particular task. Although worry is a natural reaction in extreme situation however it reduces self-confidence and degrades quality of work. Persons participating in management of extraordinary events can be traumatized by the impact of large-scale event (for example when there are injuries and deaths) and public pressure, and this may cause a feeling of guilt or personal and occupational inadequacy. As behaviour and achievements are affected by three main factors – skills, decision (willingness) and circumstances [8] – negative impact of stress can be reduced through development of staff's competence. While selecting staff for management of extremities it is important to assess properly their personal features. Persons intended to take part in extremities management must be confident of their own capabilities, endurance and resistance to stress under unfavourable conditions. The question of great importance is whether the staff is instructed about the roles that may fall to them under conditions of potential extremities. In Extremities Management System special attention must be paid to staff preparation processes as efficiency of extremities management largely depends on them. Next staff preparation system is therefore studied at length.

Human factors influence organizational ones and vice versa – possibility of occurrence of negative impact conditioned by human factors is dependant upon suitability of organizational means. *Organizational factors* include:

- assignment of functions, responsibility and authority;
- regulation of the operation;
- chain of command and coordination of actions of managers in different levels;
- gathering, processing, storage, transfer of information and other factors.

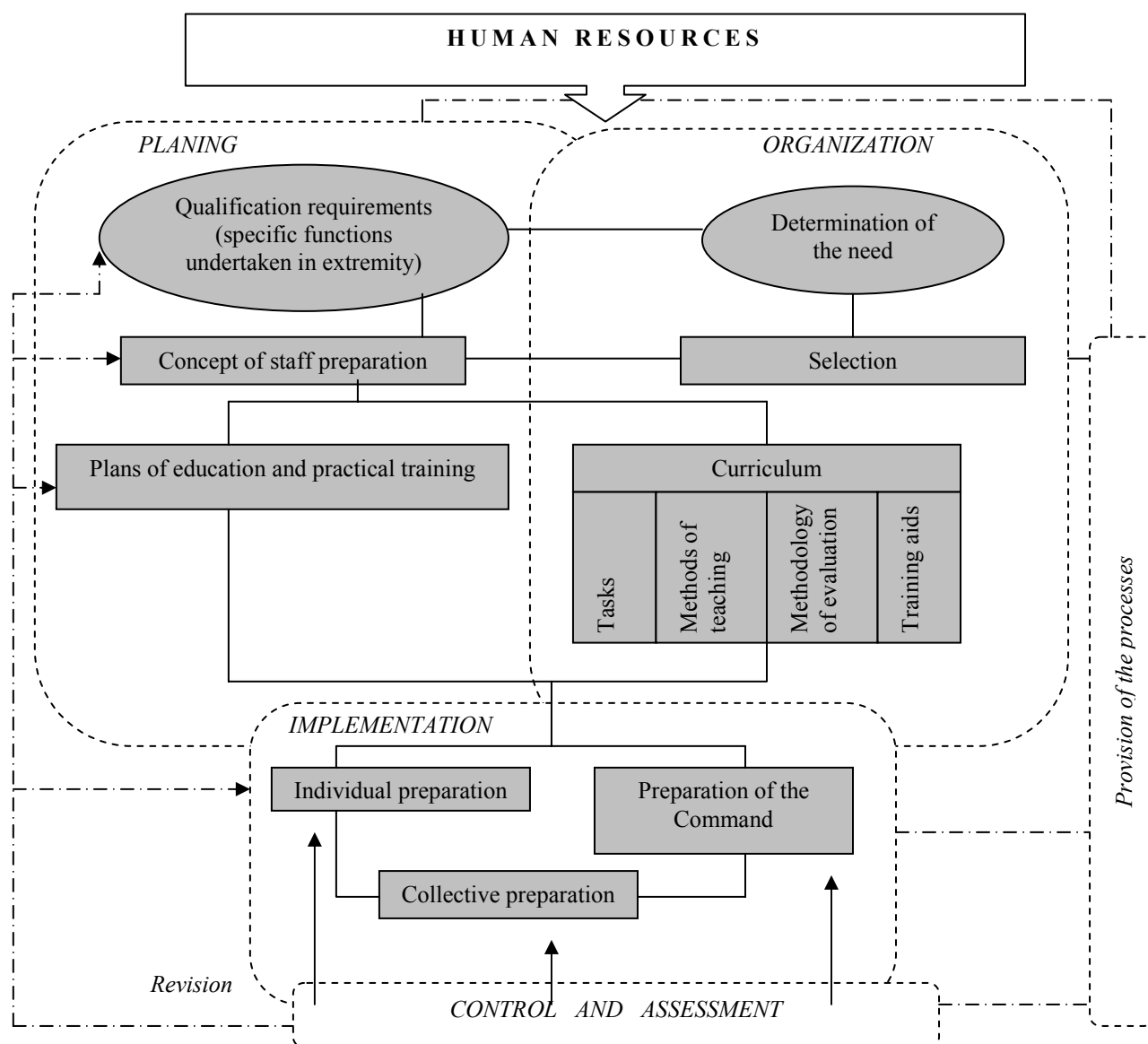
All of these organizational means can be related to human resources by two aspects. On the one part these means are developed by people and therefore their competence determines quality of those means. On the other part if functions and responsibilities are properly assigned and activities are clearly and thoroughly regulated, if turnover of information and managerial procedures allow for operative preparation and making of decisions then prerequisites for efficient management of extremities exist.

No activity is possible without allocation of necessary material resources. *Provision factors* are no less important than human or organizational ones and accordingly affect the latter ones. Insufficient, inadequate provision can lead to additional tension and stress, impede or completely prevent implementation of organizational means. It is understandable that absence of facilities for personnel's work and rest causes even stronger discomfort under either complicated conditions. If reliable network of communications and information systems is absent, if operative transfer of information is not ensured this will definitely impair efficiency of the extremity management.

Success of retaliation depends on personal features, professional competence and skills of the key participants, on suitability of organizational procedures and on adequacy of provision. When extreme situation emerges it is of course too late to start developing desired capabilities and powers [9], therefore it is necessary to prepare for operation under extraordinary conditions in advance.

#### **4.2. Processes and Problems of Staff Preparation**

Staff preparation is a process aiming at getting ready different institutions of EMS for implementation of tasks provided by law. In order to achieve this aim preparation must never be spontaneous; it must be continuous and continual (repetitious) process of planning, organization, implementation, control and assessment. Planning, organization and implementation are three individual but interrelated key processes. Procedures of control and assessment ensure quality and improvement of staff preparation and all those processes require for system of necessary means provision (ref. to Fig. 4).



(The Author)

Figure. 4. Staff preparation framework

Preparation of EM personnel must conform to general requirements:

- it must be *precise and soundly planned*;
- resources allocated for staff preparation must be *used rationally*;
- it must be carried out under *realistic conditions* as far as possible;
- *it must be safe* – it must be carried out in strict conformity with tactical and technical standards and following safety measures;
- staff preparation *must be effective* – i.e., pursuance of established standards develops professionalism of staff, ability to work in group, discipline and motivation.

In order to effectively prepare staff for retaliation every single institution in EM system must assess the following aspects of the most difficult changes in operation:

- how can *subordination of institution change* in case of state of emergency or state of war; i.e., how will structure of EMS change;

- what *qualification requirements* are raised for the staff managing extremities;
- what *additional functions* not performed under normal conditions are provided by law for the cases of emergency;
- with what institutions *preparation for retaliation must be integrated*;
- how can *effective communication* with media be ensured?

Above-mentioned aspects are very important because if necessity emerges for the staff to perform tasks for which they are not prepared and if they lack adequate knowledge, tension will rise even more, and panic and upheaval can occur not only inside the institution but in the whole system as well. For instance in the wartime personnel of the army defend the State not only by the sword but the law on state of war provides that military officers of different levels take part in governance of the State as well:

- after establishment of commandant's headquarters, functions of counties heads and their administrations can be assigned to war commandants as well as organization of functions of self-rule institutions;

- they can be subject to rule divisions that are not concerned under normal conditions (including State border defence services and by necessity specialized platoons of police);

- military officers can be subject to conduct pre-trial investigation (when corresponding institutions of peacetime are unable to perform functions assigned to them), court-martials can be established in activity of which soldiery take part.

Commandants, staff of Military Police and State Security Department, persons appointed by War Commandants or by Heads of military units can be remarkable specialists of their field however they can lack theoretical knowledge and experience in performance of public management functions. Lack of preparation can lead to inappropriate decisions that result in illegal restrictions of human rights and freedoms. Analogous defects of operation can occur when specialists of particular field being inducted from the reserve are unable to perform their functions under extreme conditions (for instance civil lawyer can be inappropriate for work in court-martial).

In order to avoid suchlike interferences in the work of the staff and resulting outcomes, Extremities Management System demands for staff preparation concept. It would combine all the aspects of instructing how to manage in the extremity, when preparing staff of different levels, heads and all types of units of extremities management institutions. It would be purposeful to present in this concept recommendations for planning, organization, implementation and assessment of personnel preparation of all EMS' levels. At the moment staff preparation in Lithuanian EMS is decentralized – every single institution plans, organizes and implements preparation of the staff following its own order. Hereby high professionalism in accomplishment of specific tasks is ensured however on the scale of the whole system after imposition of state of emergency or state of war the lack of knowledge in extraordinary management functions may occur. For instance, Battalion Chief appointed as War Commandant can perfectly manage and operate military units however he can have too poor insight in public management when performing functions of the County Head and collaborating with civil institutions.

Comparison of EMS frameworks in Lithuania and Denmark shows several similarities and one fundamental difference. In Denmark there's one institution – EM Agency – that centrally manages different types of extremities but not in Lithuania. Danish framework for EM staff preparation is, of course, different too: structure of EM Agency contains three institutions of different educational fields – Academy, Staff College and Technical College. Therefore one can suppose that Danish staff preparation for management of extremities is more effective and at the same time management under extraordinary conditions is more efficient.

Irrespective of staff preparation frameworks that are used in Extremities Management Systems, one of the fundamental principles of this process is to pay the prime

attention to preparation for accomplishment of extremities management tasks. In order to realize this principle, preparation must be planned in order to:

- pay appropriate attention to the task of potential extremity management;

- coordinate operation of related units that observe and localize the extremity, transfer information and provide logistical support;

- allocate sufficient time for preparation for potential extremities;

- achieve required level of professionalism in the future;

- ensure interaction of different institutions in EM system and stability of every single unit; and

- consume resources economically, effectively and efficiently.

Planning allows for proper allocation of the time and other resources (human, material, funds and etc.) committed for staff preparation in order to get ready for tasks accomplishment with available resources.

It is difficult to plan the staff preparation on the scale of the whole system because the following specific interrelated problems of EM system are encountered:

- *strategy of staff preparation is not implemented on the scale of the whole system* that must ensure unified preparation for extremities management and valid order for training, and qualification improvement of statutory and civil servants is not sufficiently matched;

- *insufficiently clear mechanism for matching plans on general actions of institutions of different institutional subordination* in order to ensure effective interaction among different units of EM system;

- *problems concerned with improvement of EM system* because when amending provisions of the law (for instance at the moment amendments to the order of preparation and use of mobilization reserve is being considered in Lithuania) different attitudes and interests of institutions are encountered as well as irregularities in financing and tasks settled for implementation.

These and other problems in EM system determine complexity of staff preparation planning process. It is necessary to emphasize that planning process is inseparably associated with organizational process and directly dependant upon need for staff preparation, qualitative and quantitative composition of human resources, training aids used and orders applied. At the same time it is evident that implementation of the preparation is directly influenced by provision, curriculum and plans. It's true to say that if at least one of these factors is not ensured (or is insufficient) desired level of staff preparation effectiveness will not be achieved – i.e., personnel won't achieve expected results and won't be ready to perform tasks. Planning, instructing and training are the most important elements that ensure proper preparation of institutions in EM system for retaliation in case of any imminent or existent extremity. Preparation of EM staff can be grouped in following stages:

1. *Individual preparation* – at this stage the staff being possessed with basic education in their specialty are taught of basic (general) skills of extremities management and at the same time they undergo

preparation as specialists (for instance, soldier, policeman, medic, communications specialist, etc.);

2. *Collective preparation* – individual preparation is followed by instructing of collective actions, i.e., how to act in extremity interacting with other members of the group, with other groups, other units of EM system while improving already acquired individual skills. At this stage the most important thing is not the technique of every staff member as of an individual, but how they act as a team. The larger divisions are prepared for the collective actions, the more complex is preparation of the staff.

3. *Preparation of Command* – for the preparation of Command special requirements must be raised as representatives of the Command must not only be individually trained as professionals of their field and possessed with skills of teamwork, but they also must be capable of governing subordinate and attached divisions. Preparation of Command must be implemented in consecutive manner – the larger unit of EM system is in his (her) command, the higher step of training must be passed.

Educational process must be provided with all the necessary curriculums that must include clearly stated methods of teaching and evaluation as well as tasks, methodologies of teaching, necessary literature and training aids (stands, posters, dummies, audio and video equipment, training fields, etc.). Educational process comprises theoretical learning and practical training therefore every curriculum must be prepared combining theory and practice. Every curriculum must be prepared in consideration of the following:

- *knowledge* – what professional skills must be developed and improved? Attention must be paid to extremity's physical and psychological impact on community, country and requirements for retaliation;

- *interaction and coordination* – it is essential to assess control system where retaliation takes place considering that success of extraordinary situations management is only ensured by concerted collective actions of different units (interaction among forces). Therefore compatibility of staff preparation programs and plans of different institutions in EM system is of special importance;

- *communications* – it is the most important aspect of retaliation in any case of extremity in absence of which different institutions would be unable to work as a team. Therefore it is essential to teach how to receive and transfer information in precise, proper and timely manner, how to use information technologies, terminology, communications system;

- *media* – press agents need to be prepared that would be able to organize work with representatives of media and to present such an amount and quality of information that publicity would not make any harm for the efficiency of extremity management and would not throw into panic;

- *outcomes* – after extremity is over social and psychological support must be an established component of retaliation and reconstructive processes. Therefore stress experienced by potential extremity casualties and of persons taking part in its management needs to be considered in staff preparation;

- *practice* – it is the only effective way to ensure implementation of plans and programs aiming at assessment of means covered by them and, if necessary, to revise and improve them. Training is a very important part of management that provides staff with information, motivation and trust in persons intended to take part in management of extremities. Although it was mentioned early that it is impossible to generate real extraordinary conditions, however reality needs to be maximally simulated.

Inseparable and continuously implemented component of staff preparation is control and evaluation that should help to answer the question: “Are units of EM system ready to perform tasks set for them?” Therefore control and evaluation procedures need to be covered in staff preparation program and most of the attention must be paid to evaluation of readiness to perform tasks and to their accomplishment under extraordinary conditions.

Implementation of educational processes would be impossible without allocation of material and financial and human resources. Therefore in order to procure them there must be functioning provision sub-system for staff preparation inside logistics system of general EM system that conforms to the following main requirements:

- to satisfy staff preparation requirements for logistical means depending on available resources;

- in peacetime to perform continuously, effectively and economically; and

- to quickly switch from peace to state of emergency.

Education forms staff of special category, prepares them for extraordinary activity and logistical provision determines quality not only of this staff preparation, but also of the service offered by EM system.

After analysis and assessment of State governance specifics under extreme conditions, influence of these conditions on operation of institutions in EM system and role of human resources in extremities management, one can make an assumption that in order to improve efficiency of extremities management exclusive attention must be paid to policy of specialists' preparation and their qualification improvement. High level and quality of this task realization can be ensured only through careful planning and organization, proper implementation of staff preparation tasks, control and assessment of achieved results and sufficient provision of processes with logistical means.

## Conclusions

1. The State when doing its duty – to maximally ensure security of people, property and environment under both normal and extraordinary conditions – forms Extremities Management System (EMS) that is a specific constituent of the Public Management System. The EMS is exclusive in that under state of emergency or state of war it is given an exceptional power to realize extraordinary (specific) means. This power determines complexity of system's functions and structure.

2. When realizing received power the three main activity trends can be identified in operation of EMS – prevention and monitoring, operative management and logistical support. Quality, effectiveness and expedition

of these activity trends depend on intellectual, professional features of human resources performing their functions in various levels of the system.

3. Variety of functions performed in Extremities Management System, structure encompassing several levels and specifics of operation conditions require for specific staff preparation that ensures ability of personnel to perform tasks in effective and operative manner under extreme conditions in cooperation with human, organizational and provision factors.

4. For the preparation of EMS personnel specific staff preparation system must be established that ensures continuous and continual (repetitious) process of planning, organization, implementation, control and assessment. Realization of this process demands for the following: to formulate strategy of staff preparation, to have clear order for matching plans on general actions of institutions of different institutional subordination and to project trends for improvement of EMS structure and operation.

5. Staff preparation consists of several stages: individual, collective and Command preparation. Educational process must be provided with unified, appropriately matched curriculum and training aids ensuring both theoretical and practical preparation. In order to realize educational process provision sub-system is needed in EMS logistics that satisfies needs of staff preparation by logistical means, is flexible (quickly transferred from peace to state of emergency) and acts effectively and continuously under normal conditions.

6. In order to ensure organizational development of EMS (formulation of new objectives and correction of the existent ones, turnover of functions, improvement of structure or staff preparation and etc.) it is essential to use methods of causality and structural-functional analysis as well as methods of process simulation, decomposition and synthesis and others. These methods allow for better insight and sound perception of processes in the system, enable to determine influencing factors, to identify problems of the system and to provide means for their solution.

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Birutė Pitrenaitė

#### ŽMOGIŠKŲJŲ IŠTEKLIŲ VAIDMUO EKSTREMALIŲ SITUACIJŲ VALDYME

Santrauka

Kiekvienoje valstybėje dėl gamtinių, techninių, ekologinių ar socialinių priežasčių gali susidaryti ekstremalios situacijos, kurios sukelia grėsmę gyventojų gyvybei, sveikatai, turtui, gamtai. Valstybės pareiga kuo veiksmingiau apsaugoti žmones, turtą, valstybės interesus nuo ekstremalios situacijos poveikio. Tam, kad būtų užtikrintas visuomenės saugumas ir rimtis, gali prireikti apriboti piliečių teises ir laisves, taikyti nepaprastąsias priemones ir pertvarkyti (pritaikyti veikti ekstremaliomis sąlygomis) valstybės ir vietos valdžios institucijų veiklą. Prireikus taikyti tokius pokyčius, reikalinga įvesti ypatingą teisinį režimą pagal situacijos pobūdį – nepaprastąją ar karo padėtį.

Autorius nagrinėja žmogishųjų išteklių vaidmenį ekstremaliuose situacijose, nes vienas iš pagrindinių veiksmų, atliekamas šiose situacijose valdymo veiksmingumui, yra įvairių viešojo valdymo lygių specialistų pasirengimas veiklai nepaprastojoje ar karo padėtyje. Čios padėties yra sudėtingos, reikalaujančios ne tik papildomų organizacinių, finansinių, materialinių priemonių, bet ir specifinio teorinio bei praktinio personalo parengimo. Pareigūnams gali tekti veikti ypatingomis, permainingomis sąlygomis, vykdyti išskirtines funkcijas, operatyviai priimti svarbius sprendimus, nuo kurių gali priklausyti žmonių gyvybės.

Nepakankamas personalo pasirengimas gali sukelti valstybės valdymo problemą lokalizuojant ekstremalias situacijas ir čalinant jų poveikį, o čios problemos – sulygoti papildomas netektis ir nuostolius. Be to, reikia įvertinti, kad nepaprastosios ar karo padėties metu personalo mokymas gana problemiškas tiek laiko, tiek galimybių požiūriu, todėl specialistus ir vadovus būtina rengti dar įprastomis sąlygomis, skiriant tam reikalingus resursus ir lūpas.

#### About the author

Birutė Pitrenaitė, candidate doctoral, assistant in Mykolas Romeris University, Faculty of Strategic Management and Policy, Department of Management Theory, bir.pitrenaitė@mail.ru, tel.: (8 5) 271 4682, scientific interests: national safety, extremities management.

# PARAMETRICAL DESIGNING BUILDINGS WITH AUTODESK REVIT

Danguolė Plungytė

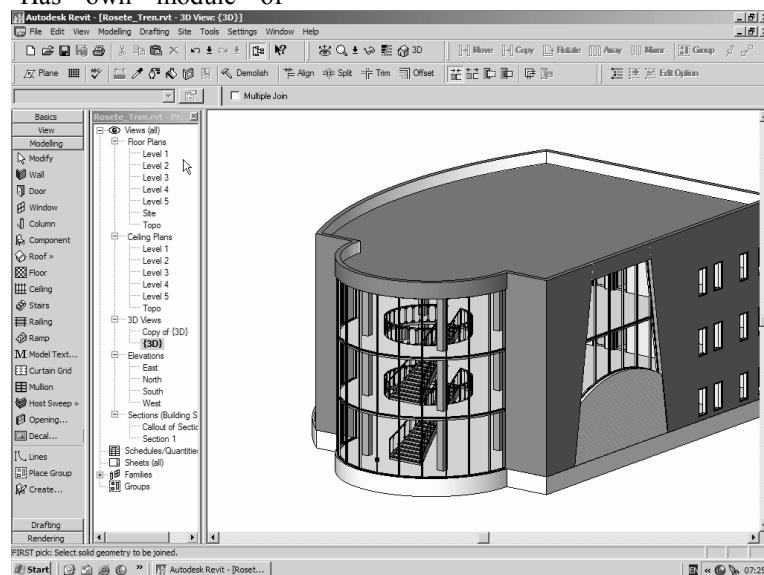
## Introduction

Each expert in the field of architectural 3D designing sooner or later collides with shortage of knowledge in application of that working toolkit which it uses. The market constantly develops, grows, demanding from the executor of more and more qualitative and fast work. To the executor more perfect tools, capable to deduce his work on a new technological and professional level, in turn, are required. In this process of constant updating and development the basic problem is covered for those who aspires to keep abreast from promptly developing industry.

Autodesk Revit Building the package for architectural designing and design which provides a high level of parameterization of objects. Has own module of

visualization. It is intended for designing and design of civil and public buildings and constructions.

It is the new system of architectural - building designing using high technologies of company Autodesk. Autodesk Revit Building offers the most natural method of designing: from a outline-conceptual sketch of the three-dimensional form of the future building created with the help of tools of volumetric modelling, to the information - building model containing the maximal study of a building (1 pic.).

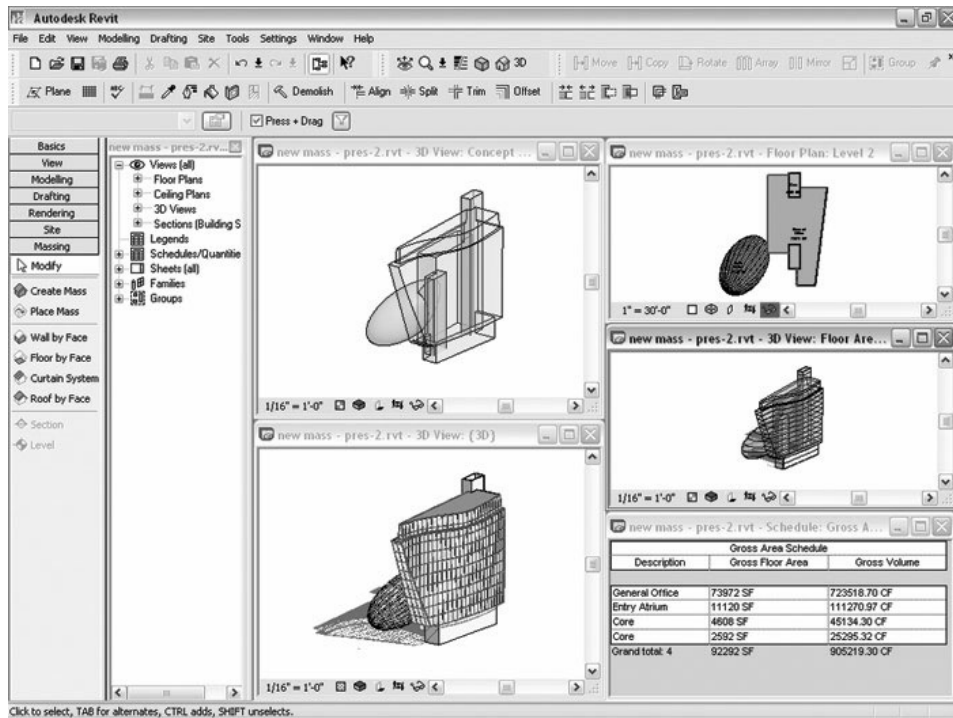


1 picture. Tridimensional model draft

## Advantages Autodesk Revit Building

Autodesk Revit Building has such features:

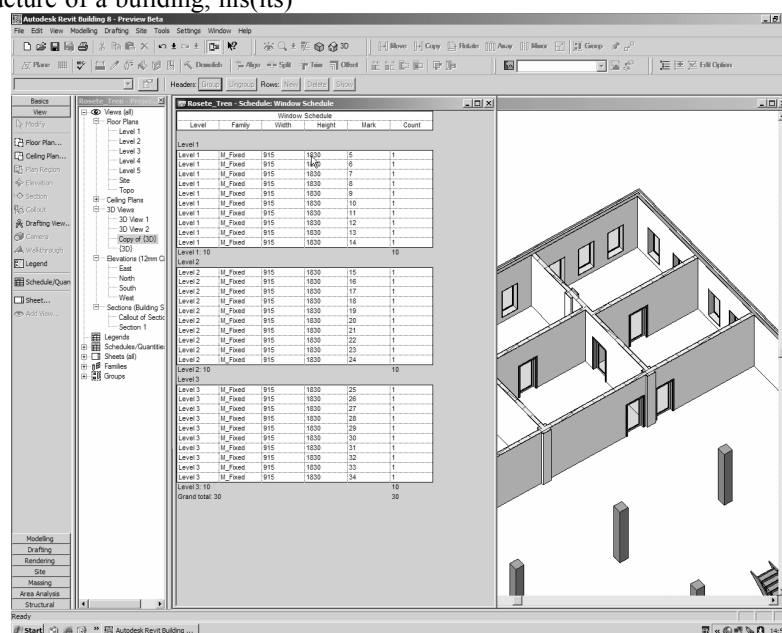
- unified information model of a building;
- absolute parameterization of objects and models;
- tools creations of free forms;
- technology Worksets for teamwork above the project of group of architects;
- unique the tools providing communication(connection) Autodesk Revit Building with platform Autodesk (with use of these tools interaction of architects and experts of adjacent specialities is carried out).



2 picture. United informative model

Base idea of Revit-model is the uniform information model of a building which represents an integral architectural - composite image of the future construction. ( 2pic.). The Revit-model differs from decisions which are used in other similar technologies, first of all parameterization: objects of model are connected with each other and constantly trace a condition of the objects connected to them. During designing the architect automatically connects various objects: for example, fixes distance between two axes, adheres height of walls of a ground floor to a level of the second floor, etc. Due to such communications the architect can freely "play" structure of a building, his(its)

form, in volumes, working above an architectural composition as a whole. The model completely keeps the parameterization: for example, moving axes of the project, we move also all objects connected to this axis (bearing, walls, partitions, etc.). Besides Revit possesses unique tools for creation of free forms - it is possible to be absolutely confident, that the program will allow to construct and show to the customer any form which is necessary for putting in pawn in a basis of a building.



3 picture. Specification windows in a building

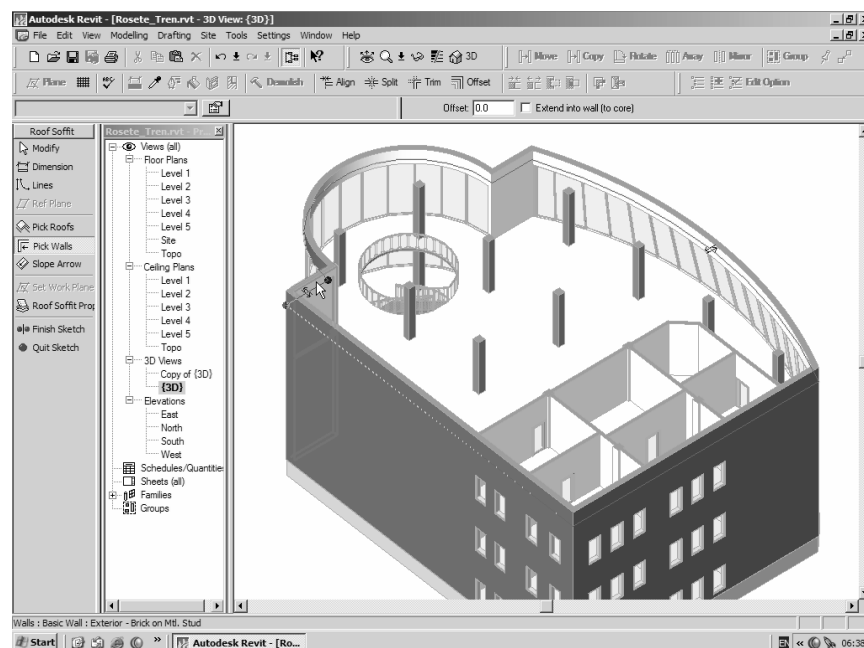
Any three-dimensional model of a building contains huge set of various objects, and Autodesk Revit Building offers all necessary objects for building designing: walls, overlappings, windows, doors, beams, columns, etc (3pic.). But before a building part huge work under architectural – planning decision is necessary. Having received volume of a premise, it is necessary for architect to work the colour decision, design of premises, to receive quantitative characteristics of projected object. Such work is carried out in close interaction with the customer: the unique decision which is taking into account individual wishes of the client is created. At this stage the technology of parameterization also will help - means Autodesk Revit Building uneasy to create new object of any form (for example, a complex element of furniture), and the user does not have necessity to study programming languages: all objects are created with the help of standard tools Autodesk Revit Building.

### Interaction in group

The objective approach allows to organize teamwork of group of architects above one project. For realization of this technology the principle of reception of working

tasks (Worksets) which allows to divide the project into logic parts is used and to define, who from participants of design collective with what site works. The expert borrowed in the project, can receive the working task from model Revit and work only with it. The executed working task automatically is poured in a file of the main project (4 pic.).

Means huge number of coordination, negotiations and discussions - thus each expert works in the specific software. Clearly, that is required to provide fast and exact data transmission from one program in another. In Autodesk Revit Building for these purposes technology Model Linking which allows to unit some Revit-models in one or insert on model sheets already developed sites from library of AutoCAD-drawings is realized. Thus, with help Autodesk Revit Building you minimize routine operations on updating and the coordination of the project, reduce risk of a mistake at designing. Due to realistic and instant visualization of projected designs time of decision-making is reduced, rates and volumes of manufacture of end production increase.



4 picture. Modelling of designs

### True 3D design

A major difference between Autodesk Revit Building and AutoCAD is that you work with true architectural models rather than geometry. This translates to increased design productivity because it allows you to switch from plan to 3D rendered view to schedule as you like. Because you are creating a parametric building model when designing in Autodesk Revit Building, you can quickly make changes to your design and all dependencies automatically update, increasing the accuracy of your work as your design evolves.

### Families vs. Blocks

AutoCAD users are accustomed to storing symbols in individual DWG files. With Autodesk Revit, you store similar parametric components in family files. Family files can contain many styles of components, providing easy organization and data sharing, and offer numerous placement options. You can customize family files; for example, you can modify alignment planes or add subcategories to objects. You can also create intelligent



parametric objects or customize the ones included with Autodesk Revit.

### Conclusions

1. Autodesk Revit, saves time on labour-consuming, repeatedly repeating and it is a lot of time borrowing(occupying) problems(tasks).
2. Autodesk Revit reduces number of design mistakes when we change decisions as each drawing sheet, everyone 2D and 3D the kind, each detail and each list is a kind of the same database.
3. Autodesk Revit finds co-ordination of work of all command(team) easily processes changes and it creates flexibility designing.

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Danguolė Plungytė

### PARAMETRICAL DESIGNING BUILDINGS WITH AUTODESK REVIT

#### Summary

In article it is examined opportunities parametrical modelling by program Revit. It is one of programs of designing in which function which is integrated enables to organize work in a team.

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# NATIONAL ACCOUNTING STANDARDS IN LATVIA – A WAY PER ASPERA AD ASTRA\*

Artūrs Prauliņš

## Abstract

Active development of documents regulating the accounting and preparation of financial statements in different countries of the world and the European Union give special relevance to studies of accounting standardization processes in Latvia after regaining of independence. Following a short historical review of Latvian national standards' development since 1996, the main focus in the article falls on improving the efficiency of standardization process and possibilities to ensure adherence by the requirements included in the standards in practice. Basing on the results of analysis of current mechanisms for the development of accounting standards in Lithuania and Estonia, the author presents multiple conclusions related to the expediency of using progressive experience of these Baltic States for the improvement of regulating of accounting system in Latvia.

## Key words

Standardization, Latvian national accounting standards, international standards of financial accountability, Accounting Council.

The purpose of this article is to analyze the process of national accounting standardization in Latvia and the possibilities to improve its efficiency by taking over Lithuanian and Estonian experience. Object of the research is standardization of accounting on a national level. To attain this objective, comparative analysis of standardization authorities' activities from a historical perspective has been carried out and positive experience of the neighboring Baltic countries analyzed. This way, the first attempt has been made in the scientific literature to identify and formulate the prerequisites for effective development, adoption, implementation and adherence in practice by the Latvian national standards of accounting. Beginnings of national accounting standards of the Republic of Latvia should be sought only 4 years after the adoption of the first major normative acts – the Law on Financial Accounting (*«Par grāmatvedību»*) and the Law on Annual Statements of a Company (*«Par uzņēmumu gada pārskatiem»*) of 14 October 1992, that regulate the book keeping and financial reporting in independent Latvia. Planned amendments to the Law on Financial Accounting [2] granted the Latvian Association of Sworn Auditors (*Latvijas Zvērinātu revidentu asociācija*) a right “(1) to develop or introduce alterations in accounting standards of the Republic of Latvia on the basis of international accounting standards and European Union directives, that regulate the accounting, as well as to engage in legislation; (2) to provide official explanations regarding the accounting standards of the Republic of Latvia”.

However, upon adoption of the respective law [1] on 6 November 1996, the highest legislative authority of the country – the Parliament – decided that the right of the Association to engage in development, adoption and publication of accounting standards is in breach of the principle of division of powers. Accordingly, the Association was granted a right only to develop draft standards and give recommendations on application, whereas the Cabinet – to adopt the regulations of accounting standards (and thus, the latter acquire a binding status). Thanks to active operations of the Committee of Methodology of the Latvian Association of Sworn Auditors, the first 2 draft standards had been developed at the end of 1997 (No 7 “Cash flow

statement” and No 1 “Reflection of accounting policies in financial statements”). However, the absence of clear mechanism for adoption of draft standards in capacity of regulations of the Cabinet turned out to be a substantial obstacle on the way to standardization of accounting.

For a lengthy period of time, all attempts of the interested organizations and parties to find an optimal solution of the problem were unsuccessful. Only 7 months later, on 6 May 1999, the Parliament passed draft amendments to the Law on Financial Accounting, that provided for the regulation of the standard development and adoption process by the Law on Standardization. A week later, in the constitutive meeting, a Latvian Financial Accounting Standards Technical Committee was established, that is further referred to as LFASC (*Latvijas Finanšu grāmatvedības standartizācijas tehniskā komiteja*), the key tasks of which were described as development and approval of Latvian financial accounting standards in compliance with international accounting standards and inclusion of amendments to the international standards in national standards. [6,10; 7]

It is noteworthy that in comparison to its predecessor – Accounting Standards Advisory Council – the competence and functions of the new Committee were significantly broadened (for instance, development of common terminology and fund-raising). Although establishment of LFASC could be reasonably considered as significant progress and even an escape from a blind alley, in which the financial accounting found itself in the course the few last years, however, as indicated by the further flow of events, the glum forecasts of individual theoreticians and specialists came true (for instance, [6,10]), that bespoke of failure to comply with the requirements of national standards in practice because of their non-mandatory nature. Among other reasons of unsuccessful implementation of accounting standards in Latvia, the author deems it necessary to mention insufficient funding from the state [7; 8] and inaccessibility of the adopted standards to the accounting people at large, seeing as the exclusive rights provided by the Law on Standardization to the office of state “Latvian Standard” to the adopted standards restricted their spreading and made it impossible to obtain the standards in trade network.

The next barrier on the way to accounting standardization can be the lack of effective coordination of activities from the side of Ministry of Finance that works out the state policy in the area of financial accounting, and the Ministry of Economy that implements the policy in the field of standardization.

Eventually, the failure to overcome these difficulties became obvious. The 15<sup>th</sup> of February, 2002, could be considered the beginning of the new era in standardization of national accounting. The latest amendments to the Law on Financial Accounting adopted by the Parliament imposed it on the Cabinet to establish an Accounting Council (*Grāmatvedības padome*) and to approve its code. [4] The law stated that the purpose of the Council's operation includes improving of quality of financial reporting and working out of standards and regulations, determining the drawing up of financial statements, by coordinating them with IAS.

Had the procedure for adoption of standards remained analogical to that adopted previously in LFASC, after comparative analysis of tasks and functions of the new council and its predecessors it can be concluded that the sphere of activities of the first one was substantially broadened owing to improved regimentation in the code. It included the passive aspect (for instance, assessment of developed normative acts and their drafts) as well as active support of the standardization process and, what is the most important, detail regulation of the process. It is noteworthy to mention as another novelty the instruction to finance the council from state budget and the obligation of the Ministry of Finance to provide for its operations. Thus, two of the most important problems of LFASC have been resolved – absence of the mechanism of financing and unclearly formulated competence of the Ministry of Finance.

The principles of establishment of the Accounting Standard Council were also borrowed from the working experience of Advisory Council and the LFASC. However, the fact that the law does not define the empowerments of the authority to resolve the issue pertaining to the incorporation of new members independently, without any doubts bespeaks of return to the model of 1996 and strengthening of the state role in standardization of financial accounting. Thus, Anglo-Saxon model is being gradually expelled by the system prevailing in Continental Europe.

Although on 2 September 2003 (i.e., one month after approval of the code of the Accounting Standard Council) the Ministry of Finance assured that those standards that would be developed first of all and sent to the Cabinet for approval in the obligatory capacity were not yet known, the point of view of the council could have been forecasted. It started working on "Principles for preparation and drawing of financial statements" and "Cash flow statement". Similar choice ("Reflection of accounting policies in financial statements") had been made in spring of 1997 by the first authority of financial accounting standardization in Latvia – the Committee of Methodology of the Latvian Association of Sworn Auditors.

Many of the representatives of academic community and the accounting circles placed high hopes and expectations to the establishment and beginning of activities of the

Council. Unfortunately, it is noteworthy that the Council lived up to them only in part. As a matter of fact, the Ministry of Finance expected to have the first standards of financial accounting adopted at the end of 2003, but this task turned out to be unworkable. Only on 5 February 2004, the Accounting Council adopted a resolution on approval of standards No 1 and No 2. For year 2004, the following plan of standards' development was approved:

No 3 "Taxes on income"

No 4 "Profit or loss of the reporting period, material errors and changes of the accounting policy"

No 5 "Events after the balance sheet date"

No 6 "Leasing"

No 7 "Revenues"

No 8 "Long-term contracts"

No 9 "Property, plant and equipment"

No 10 "Accruing, possible liabilities and contingent assets" [9]

Item 2 of the rules of the Cabinet No 728 "On mandatory Latvian accounting standards and the procedure for drawing up of cash flow statements and statement on changes in equity capital" of 24 August 2004 [5] imposed the obligation to comply with the standards No 1 "Principles for preparation and drawing of financial statements" and No 2 "Cash flow statement", thus not touching upon other standards that were planned to be worked on by the Accounting Council in the immediate future. Adoption of standards No 3 "Events after the balance sheet date" and No 4 "Changes of accounting policy, changes of payment and errors of preceding periods" automatically necessitated the inclusion of corresponding changes to the rules – on 10 May 2005 Item 2 was supplemented, by spreading the obligatory status on the new standards as well. However, imposition of this status on the following standards – No 5 "Long-term contracts", No 6 "Revenues", No 7 "Property, plant and equipment" and No 8 "Accruing, contingent assets and liabilities" – was introduced by means of new rules issued by the Cabinet No 776 "On obligatory Latvian accounting standards" (in force since 22 October 2005) and the latest amendments to these rules have been introduced by the rules of the Cabinet No 706 of 29 August 2006.

Although in comparison to the predecessors, activities of the Accounting Council are more successful, this fact does not necessarily corroborate their efficiency. From the moment of establishment of this organization, already 3 years have passed and only 8 national accounting standards have been adopted over that period. As of the end of September 2006, the last resolution on adoption of the regular accounting standard was published on 28 December 2005. At this stage, 3 standards are under development: "Tax on income", "Rent" and "Investment property".

When compared to the performance of the National Accounting Council of Estonia and Institute of Accounting of Lithuania, the rates of standards' development and adoption in Latvia are intolerably slow. Should the situation remain the same, according to the author, such a state might circumstantially in the immediate future help forward a discussion on practicality of continuing the development of national standards. Considering that currently the Accounting

Council is engaged solely in development of new standards, a legitimate question arises as to its capacity to include into the scope of its obligations the realization of the adopted national standards (in case modifications were to be included in the corresponding international accounting standards) and methodical administration of financial accounting in compliance with Article 15<sup>2</sup> of the Law on Financial Accounting and Items 5.3.-5.4. of the Code of the Accounting Council.

After carrying out an analysis of experience of the neighboring Baltic countries and on the basis of results of the study carried out by the International Bank [12], the author proposes several suggestions on how to improve the efficiency of the accounting standardization process in Latvia:

1. To ensure in practice compliance with the provisions of documents that regulate the record-keeping and drawing up of financial statements of a company, it is imperative to create in Latvia an organization, analogous to the Financial Reporting Review Panel, operating in Great Britain, and to grant the corresponding empowerments.

2. A working group should be formed that would include representatives of academic circles (academics and lecturers of the leading national institutions of higher education that provide training according to the programs "Accounting, analysis and audit"), highly qualified practitioners (members of the Latvian Association of Sworn Auditors, Latvian Association of Accountants and other professional associations) as well as officials from the governmental sector (Ministry of Finance, State bank, Internal Revenue Service, Finance and Capital Market Commission), responsible for development of normative regulation. Following a thorough research, the group in cooperation with the Accounting Council should identify the differences existing between the national regulatory framework and the IAS and to work out specific suggestions on how to eliminate those as well as to prepare and regularly realize the plan for further approximation of the Latvian national and international regulation in the area of financial accounting and reporting.

3. Latvia should take advantage of the valuable experience of Lithuania and to develop and Concept for the development of national accounting and auditing system for the coming 10-15 years, by paying special attention to the plan for adoption of national accounting standards as well as their possible interaction with the international standards of financial accounting, by taking care not to forget the position and policy of the European Union regarding gradual introduction of international regulation on a national level.

4. Placement of draft national standards developed by the Accounting Council on the website of the Ministry of Finance cannot be considered as sufficiently informative

for the wide circle of directly or indirectly interested persons. Due to that in the future it is advisable not to limit with placement of information on the Internet, but to use specialized publications for that purpose as well (journals „*Bilance*”, „*Grāmatvedība un Revīzija*”, „*Latvijas Ekonomists*”, etc.)

5. It is imperative to translate the Latvian national accounting standards into English, by supplementing those with special appendices containing the listing of existing differences (including information about the absence of detailed regulation of individual methods of accounting) in comparison to the international standards of financial accounting. This approach will substantially facilitate comparative analysis of financial statements and help foreign investors to understand the peculiarities of national accounting regulation in Latvia and decision-making concerning the expediency of investing in companies that for some reasons do not draw up their statements in accordance with international standards (*IFRS*, *GAAP* of USA or Great Britain, etc.).

6. In future, the Accounting Council should breach the principle of complete matching of international and national accounting standards that had been rigorously adhered by until now (i.e., every international standard is rigorously matched by a specific national standard). In view of substantially lesser volume of national standards, the author considers it more expedient to combine in one national standard (for instance, "Financial reporting", "Profit or loss statement", etc.) several international subjects by subject.

7. Following the example of National Accounting Council of Estonia and Institute of Accounting of Lithuania, it is imperative to start exercising the rights provided by the Law on Financial Accounting "to examine the issues of general methodological character as well as those related to sectorial financial accounting; to publish their conclusions, recommendations and explanations", thus engaging in development and adoption of standards as well as actively participating in the process of methodical administration of financial accounting.

8. To determine the extent to which the requirements of national standards are complied with and deviations from them, the Accounting Council should, for purposes of detailed examination, every year select a certain number of annual reports, submitted by the companies to the Commercial Register of the Republic of Latvia. The data obtained from analysis, by indicating drawbacks or unclear formulations in the text of national standards, will help to determine the highest-priority directions for the Council's activities.

\* (*Latin phraseological locution*) *to the stars through difficulties*

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Arthur Praulinsh

#### NATIONAL ACCOUNTING STANDARDS IN LATVIA- A WAY *PER ASPERA AD ASTRA*

Santrauka

Veržlus buhalterijos tvarkymo ir finansinių ataskaitų paruošimą reglamentuojančių dokumentų vystymasis daugelyje pasaulio ir Europos Sąjungos valstybių suteikia ypatingą aktualumą buhalterijos standartizavimo procesų tyrimams Latvijoje po nepriklausomybės atnaujinimo. Pateikiant trumpą Latvijos nacionalinių buhalterinių standartų istorinio vystymosi apžvalgą nuo 1996 metų, straipsnyje pagrindinis dėmesys skiriamas standartizacijos proceso efektyvumo kėlimui ir į standartus įtrauktų reikalavimų laikymosi užtikrinimo galimybėms praktikoje. Autorius, panaudodamas teigiamą Didžiosios Britanijos ir Latvijos kaimyninių valstybių - Lietuvos ir Estijos –patirtį nacionalinės buhalterijos standartizacijos srityje, iškelia eilę pasiūlymų proceso tobulinimui Latvijoje.

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# IMPACT OF INCOME TAX ON ENTREPRENEURSHIP IN LATVIA

Anita Puzule

## Abstract

Income taxes have an effect on the state economic development and creation of favorable business environment. The author assesses the possibilities of enterprises and individuals' income tax improvements in this context and analyses the tendencies of entrepreneurship development in Latvia. In the research the author ascertains that there is a lack of innovative enterprises, entrepreneurship is based on SMEs with a rather low level of productivity and low wages. The income tax system is not always related to essential economic indices. In the conclusion of the research the author provides suggestions proving directions to improve the income tax system in Latvia.

## Keywords

Innovations; entrepreneurship; enterprises economic activity; income tax; tax allowance; tax rate.

## Introduction

The rapid growth of Latvia in the last years even more promote creation of disproportion in the national economy and the supply cannot meet the growing domestic demand. Society worries about undeclared employment as well as about low wages and salaries. It is foreseen in Latvia National development plan for seven coming years to create preconditions for a transition from the ruling economic model, which is characterized by employment of low qualification workers and manufacturing of products having low added value to an innovative development model. For a successful transition to innovative development it is necessary to support more Latvian entrepreneurs' strives to modernize technologies. Furthermore, it is necessary to facilitate wage increase especially to those categories of workers whose wages are the lowest in order to achieve increase of individuals' welfare by increasing the minimum wage, simultaneously rising the untaxed minimum (2).

Competitiveness of Latvia economy will depend on competitiveness of the state tax policy and favorableness of environment for small and medium size enterprises (SMEs) establishment and development of their services as well as their ability to stand the competition in the internal market of the European Union (EU). One of the aims of Latvia government for tax policy improvement is to promote business environment (3). Entrepreneurship mostly is influenced by the income tax; therefore, the research will be focused on it.

*The aim* of the research is to evaluate possible development of income tax in Latvia in the future as well as assess its impact on entrepreneurship.

## Methodology of Research

In order to carry out the research monographically descriptive method, statistical methods in economics as well as graphical data processing methods were used. Methodological issues were solved using statistical data, development programs approved by the Cabinet of Ministers of the Republic of Latvia (LR), documents developed by the Ministry of Finance of LR and the Ministry of Economics of LR as well as legislative acts of LR.

## Results

Considering the usage of taxes as an instrument promoting entrepreneurship one should take into account that its usage is restricted by objective factors. On the one hand, none of the countries can be completely independent in creating its tax policy, because under conditions of economic globalization one should reckon with international competition to attract capital and investments. Accordingly, there is always at least a minimal necessity to implement tax holidays promoting preconditions for attracting investments, thus competing with other countries. On the other hand, a restrictive factor for the usage of maximal extent of taxes as an entrepreneurship support instrument is a necessity to ensure a definite amount of budget revenues.

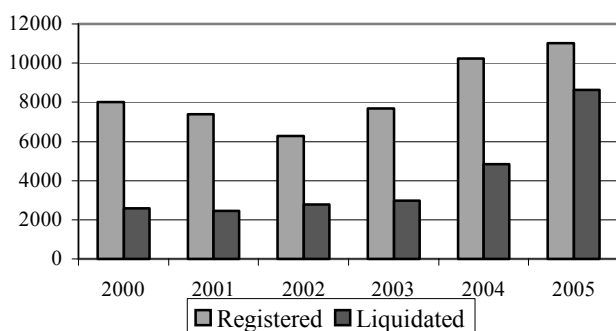
Advancement to knowledge-based economy is delayed because of transfer of technologies and insufficiency of innovations. There is a lack of innovative enterprises, state and private investments in the research and development of science. Only 19% of enterprises in Latvia are innovative and introduce to the market new or substantially improved products or offer advanced technologies. The proportion of innovative enterprises in Latvia is considerably lower than an average index in the EU countries where it is 45% of all enterprises. There are domineering branches of industry in Latvia related to processing of natural resources and employment of cheap labor. The proportion of high technologies used in industry is about 3 – 4% out of which the proportion of the export structure is less than 6% while in economically developed countries this number is about 30% (9).

The taxation of entrepreneurship and structure of individuals' income tax should be directed towards innovations and development. The EU Member States practice shows that innovation and development facilitation tax measures can be divided into four basic groups: small and medium business, risk capital, intangible investments – research and development (R&D) and share options.

A specific tax allowances system is directed towards SMEs to make them have an important role in launching innovations to facilitate productive development. Some countries implemented tax allowances in order to stimulate intangible investments (R&D). Countries offer tax allowances for the level of application (Italy, the

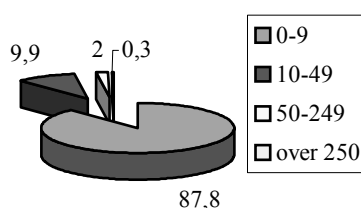
Netherlands), growth of R&D investments (Spain) or other tax allowances (Great Britain, Ireland) (7,26).

The analysis of dynamics of the number of enterprises in Latvia by years of establishment from 2000 until 2005 shows that the majority of enterprises were established in 2004 and 2005 (42% of all the enterprises were established in time of the analysis). Nevertheless, in 2005 the number of liquidated enterprises was the greatest as well (35.6% from all liquidated enterprises in the analyzed period). There is a tendency for increase of the number of established enterprises, which partly can be explained by re-registration of enterprises determined by the Commercial Law (Figure No.1).



**Figure 1.** The number of registered and liquidated enterprises in Latvia from 2000 until 2005 (10)

The development of entrepreneurship in Latvia is influenced by activities of established enterprises. Out of all enterprises registered in the Enterprise Register until January 1, 2005, 72.5% were actively working. Considering just the average number of people employed in enterprises in Latvia, 99.7% of all economically active enterprises can be classified as SMEs and only 0.3% are large enterprises having more than 250 employees (Figure No. 2).



**Figure 2.** Distribution of economically active enterprises in Latvia by number of employees on January 1, 2005 (5,236)

The largest proportion is enterprises having up to 9 employees comprising 87.8%. The number of enterprises employing more than 250 people is 335 and 211 out of them are located in Riga. Since creation of new workplaces depends on capital and investments as well as training possibilities and availability of qualified workers, Riga is the largest center of all activities.

One can conclude that in Latvia entrepreneurship is based on SMEs having a rather low level of productivity, and not always establishment of new enterprises create new and well-paid workplaces. The low level of business

activities is related to the lack of initiative in society as well as inefficient business environment, which is also influenced by the tax policy.

Even when tax burden is one of the lowest in the EU, small and medium-sized companies of Latvia complain about the high tax burden and tax administration, which is indicated as the largest problem for entrepreneurship development. In total there are beneficial tax rates in Latvia, but one must admit that for people with lower wage and small businessmen the tax burden is too high.

The total income tax system of Latvia is created from enterprises income tax and individuals' income tax. When these taxes were implemented for the first time, their rate was equal – 25%, but in time from 2002 to 2004 enterprises income tax rate gradually decreased to 15%, i.e., determining the rate of 22% in 2002, 19% in 2003, and 15% in 2004. Unfortunately, there are enterprises in Latvia as, for example, individual enterprises and fishing farms, which often pay the individuals' income tax and thus one entrepreneur is under better conditions than the other as well as individuals, who make their income from dividends, interests on deposits.

The income taxes in Latvia comprised 27.1% of the combined budget from income taxes in 2005 and they have a tendency to increase year by year (Table No. 1). Revenues from enterprises income tax increased 2.5 times, but individuals' – 1.9 times during last six years.

**Table 1**

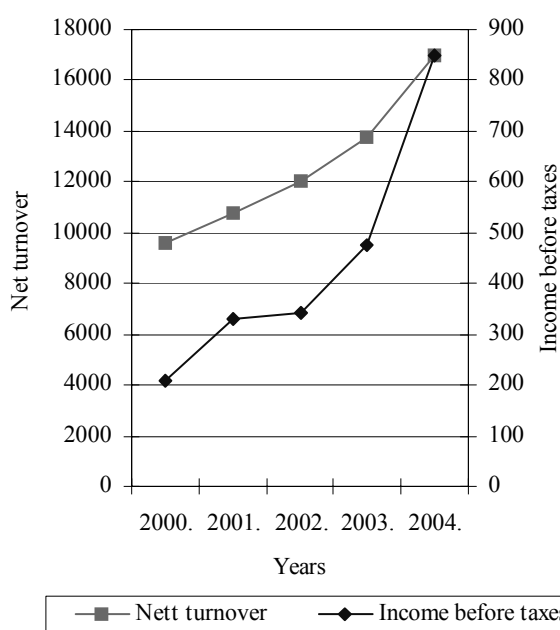
Revenue from income tax to the combined budget of Latvia from 2000 to 2005, millions LVL  
(4,19; 5,20; 6,40)

| Type of tax | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  |
|-------------|-------|-------|-------|-------|-------|-------|
| Enterprises | 73.7  | 98.4  | 109.7 | 93.9  | 127.8 | 180.7 |
| Individuals | 261.2 | 283.8 | 319.5 | 367.1 | 435.5 | 509.4 |

The enterprises income tax directly influences regulation of entrepreneurship, which taxable object is profit. The enterprise income tax depends on return of the production resources, management effectiveness, market situation and inflation. The proportion of enterprises income tax in the combined budget revenue is low; in Latvia it was 7.1% in 2005. Considering the low proportion of the tax in revenue of the combined budget, one can make a conclusion that enterprises try to pay less, hiding their actual profit although the situation is changing for better. Let's take a look at how indicators showing financial activities of Latvian enterprises have changed (Figure No.3). Net turnover has increased by 77%, but profit before taxes – 4.1 times. The quickest increase of profit was observed in 2004. It testifies the growth of economy and more rapid growth of profit in comparison to the revenue from the enterprises income tax, because they depend on the indemnity for previous years and assigned sums of allowances.

In Latvia there is one of the lowest enterprises income tax rates in Europe. But the application of tax allowances depends on the kind of production as well as the size of the enterprise. This approach is not purposeful in order to raise entrepreneurs' interest to orientate towards investments and introduction of new technologies.

From 2001 until 2005 the Enterprises income tax law anticipated rights to get 40% tax allowance within the framework of investment projects supported by the Cabinet of Ministers if investments were more than LVL 10 millions in three years having rights to use the unused part of allowance in next ten taxation periods (was excluded starting from 2006 because did not conform all the criteria for state support to commercial activities determined by the EU). The aim of tax allowances – development of new and large projects for investors coming with new technologies. The negative aspect is that investment allowances are foreseen to big enterprises, thus increasing inequality between large and small enterprises.



**Figure 3.** Indicators of enterprises financial activities from 2000 to 2004, millions LVL (5,31)

In order to stimulate the purchase of new technological products a special order of writing off depreciation was established starting from 2006; multiplying capital assets with a coefficient thus allowing to write off bigger amounts of expenses than the value of capital assets. It is worth considering the implementation of tax allowances to the part of profit directed to investments and R&D in order to promote development of production by investments and stimulate the growth of the innovations part.

The second representative of Latvia tax system is *individuals' income tax*. The proportion of individuals' income tax in the combined budget in 2002 was 20%. The individuals' income tax is directly dependent on the changes of the number of individuals employed in the national economy as well as the growth of the average wage. This fact influences entrepreneurship subordinately, because the gross wage interests employees more than net wage, but employers have to consider a sufficient net wage for their employees according to the efficiency of their work. In Latvia in 2005 the total labor costs included 41% of expenses on taxes (8,47). It is a relatively high indicator mainly

because of the low sum of individuals' untaxed minimum. Therefore employees' wage is frequently calculated and registered using minimum calculations although they get bigger amounts of money.

The research of individuals' income tax in other countries shows that the main feature is that the untaxed minimum in the EU Member States is much higher than in Latvia; it is calculated using progressive rates and income from dividends and deposits are taxed too unlike it is in Latvia. Let's take a look at changes in individuals' income tax legislation in last years and changes of factors influencing calculation of the income tax (Table No. 2). At the moment the individuals' income tax rate in Latvia is 25% (from January 1, 1997) of the taxable income. Until 1994 the individuals' income tax progressive rate in at principal work place was 15% to 35%. Progressive tax rates existed also in 1994 and 1995 because the basic tax rate of 25% was applied to the taxable income, but if income exceeded 20 annual untaxed minimums, then an additional tax of 10% was applied. In 1996 the situation changed because a regressive rate was applied. Tax was calculated by 25% rate, but it was calculated by 10% rate if annual income exceeded LVL 60,000.

In the period from 2000 to 2005 the average monthly gross wage increased by 64% but the net wage by 61.5% showing the growth of tax burden. However, income increase is irregular in different types of household groups, towns and rural areas. The Central statistical department survey shows that 59% out of all individuals employed in the private sector in October 2004 earned below LVL 150 (5,76), which is about LVL 108 after paying taxes, and is just a little more than the subsistence wage, therefore a possibility to increase the minimal wage should be considered. GINI index value increased instead of decreasing unlike it is determined in the common strategy of the national economy. It means that inequality in distribution of earnings increases and contemporary tendencies indicate that the state moves away from the aim of the year 2010 – index value 0.32 (in 2003 it was 0.36).

**Table 2**

Factors influencing calculation of individuals' income tax in Latvia from 2000 to 2005, LVL (4,58; 5,74; 6,12)

| Factor                        | 2000 | 2001  | 2002 | 2003 | 2004 | 2005 |
|-------------------------------|------|-------|------|------|------|------|
| Minimum wage                  | 50   | 50/60 | 60   | 70   | 80   | 80   |
| Average monthly gross wage    | 150  | 159   | 173  | 192  | 211  | 246  |
| Average monthly net wage      | 109  | 115   | 124  | 138  | 150  | 176  |
| Individuals' subsistence wage | 84   | 87    | 89   | 94   | 99   | 105  |
| Monthly untaxed minimum       | 21   | 21    | 21   | 21   | 21   | 26   |

Individuals' untaxed minimum in the period from 1997 until 2004 was constant and it resulted in the tax burden increase especially to people having lower wages. In 2005 the individuals' monthly-untaxed minimum increased from LVL 21 to LVL 26 (LVL 32 in 2006), but allowance for a dependant person – accordingly from LVL 10.50 to LVL 18 monthly (LVL 22 in 2006). In meantime the value of the subsistence minimum basket of



goods and services for individuals increased by 25% or LVL 21 and the minimum wage determined by the Cabinet of Ministers increased by 60% or LVL 30. Gradual increase of the individuals' untaxed minimum and allowances for dependent persons is an activity mentioned in Latvia national program of Lisbon for 2005 – 2008. It is envisaged that implementation of this activity would improve labor motivation and promote financial attractiveness of work. Though, one must admit that the individuals' untaxed minimum makes less than a third of the subsistence wage.

The existing individuals' income tax, which is calculated using the principles of the proportional system, can be considered as undemocratic, because one has to pay this tax even when the wage is smaller than the crisis subsistence minimum.

In order to develop further and improve the principle of tax policy justice and equality as well as to prevent segregation of society, the author suggests to transfer from the proportional to progressive rate of individuals' income tax, determining progression of the rate from 15% to 30% envisaging to tax income, which is untaxed with social insurance, applying the rate of 30% (LVL 20,700 in 2006); to approximate the untaxed minimum of an individual to the full subsistence basket of goods and services for individuals that in July, 2006 was LVL 118. The issue of allowances for medical expenses and education should be discussed as well, increasing it at least to LVL 500 yearly (LVL 150 at the moment), because studies at any higher education institution cost at least LVL 500 yearly. The author suggests taxing dividends and interests from deposits on the individuals' or enterprises' level in order to compensate the revenue to the budget from changes of sums of rates and allowances. The Ministry of Finance has developed conceptions project "About possibilities to implement constant

income tax to small enterprises" (for commercial activities) in order to reduce the obstacles for starting economic activities to persons who do not have knowledge in the sphere of bookkeeping and taxation. The Ministry of Economics in collaboration with the National Economy Council and Small and Medium Enterprises and Craft Council consider that the question about implementation of a simplified method for calculating taxes to small enterprises should be discussed together with the questions such as unification of the tax rate for all enterprises, therefore changes in legislation, determining that all entrepreneurs should pay an equal income tax of 15% should be made (11,28). The author agrees that 15% tax rate to all entrepreneurs is acceptable. Decreasing the tax burden to tax payers having lower income, the demand for consumer goods is indirectly promoted. It will make entrepreneurs to expand production, increase the net turnover of the enterprise and create new workplaces. As the feedback would be a possibility to increase wages for those who produce consumer goods and thus increasing income to the state budget as well as the proportion of shadow economy would decrease in this sphere. In this case a possibility to consume more will appear, enterprises' sales would increase, there would be a bigger profit and a possibility to invest would appear. Practice shows that an advantageous tax policy in 1992 – 1994 influenced establishment of new enterprises and attraction of investments. Considering author's offered adoption of allowances from the aspect of decrease of income to the budget, one has to admit that the total demand, individuals' reserves would increase and the budget would gain resources in the future when existing enterprises would have been developed and new enterprises established.

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Anita Puzule

## PAJAMŲ MOKEŠČIŲ ĪTAKA Ī VERSLININKYSTĒ LATVIJOJĒ

Santrauka

Autorē tyrimē apsvartos pajamų mokesčius kaip palankios verslo aplinkos sudarymo poveikio faktorių. Tyrimė apibūdinti ir Latvijos gyventojų ir įmonių pajamų mokesčiai, ir verslo išsivystymo tendencijos. Autorė konstatuoja, kad Latvijoje trūksta inovatyvų įmonių, verslas remiasi mažesnėmis ir vidutinėmis įmonėmis su palyginti žemu produktyvumo lygiu ir darbininkais su nepatenkinamu darbo užmokesčiu. Pajamų mokesčių pajamos biudžetė kasmet padidėja. Tačiau tenka pripažinti, kad Latvijoje mokesčių našta yra per aukšta žemiau atlygintiems darbininkams mažiosioms

īmonēms. Šīame straipsnyje autorē pateikia tyrimo rezultatus, kurie susiję su Latvijos pajamų mokeščių sistemos tikrinimu ir mokeščių naštos sumažinimu gyventojams.

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# THE PROBLEMS OF THE IMPLEMENTATION OF INFORMATION TECHNOLOGIES FROM THE ASPECT OF HUMAN RESOURCES

Aušra Repečkienė, Nida Kudokienė

## Abstract

This article consists of the analysis of the issues faced in organizations during implementation of information technologies (IT) from the aspect of human resources. The main changes (technological and social), related to implementation of IT, and the consequences conditioned by them are analyzed herein. There are also the major (socio-technical) reasons stated, which determine the resistance of the employees towards changes. The results of the quantitative research are described herein.

## Keywords

Information technologies, human factor, resistance to changes.

## Introduction

Both new science discoveries, global change in the public processes of global development, and globalization and internalization of economy condition internal and external changes in an organization.

The XXI century is approached as the age of information and the society is treated as information and (or) knowledge society. All through this century information is emphasized as a strategic resource. Strategic management of this resource aids in managing competitive advantage of an organization by cutting the duration of the production and (or) supply cycle, reducing operational costs, expanding the possibilities for income generation, etc. Therefore information technologies (IT) have been becoming innovations, which in turn are becoming increasingly important in many organizations (they alter production and consumption process, create possibilities to maintain close relations with business partners and competitors) and in the economy of the country generally. Furthermore, these innovations penetrate all areas of human activities and change human relations at various levels: individual, family, organization and society levels.

When integrated into activities of an organization, IT exerts influence on organizational structure, culture, politics and activities; and its implementation generates a more significant or a lesser organizational change. All of the abovementioned has certain consequences on interrelations of the personnel at the time when their work take another form, therefore the resistance of individuals to changes becomes inevitable. Stress, negative attitudes and faltering sense of obligation are generally characteristic to employees of any organization, which is involved in changes. According to Bagdonienė and Zemblytė (2002), by implementing IT, an organization must always recognize the fact that the changed conditions of activities require the corresponding management solutions, which would enable lessening and managing the negative social consequences created by IT implementation. According to Ginevičius, Bivainis and others (2005), the management of socio-technical changes helps the organization to keep its advantage and to become the leader of changes. In order to become full-rate participants of the global economy and to maintain the competitiveness of an organization, the consistent

application of all opportunities by altering managerial attitudes not only of the managers of an organization, but also of all its employees by increasing their expertise with the aid of traditional methods and by applying new managerial philosophies, is essential.

The experience shows that recently IT has been receiving sufficient attention in the technological context; however the analysis of the behavior and participation of human resources in the managerial level of an organization as IT is implemented is only fragmentary. Therefore a scientific problem arises both in theoretical and practical context – what is the impact of IT implementation in an organization from the aspect of human resources?

The objective of the research is to analyze the problems of the implementation of information technologies from the aspect of human resources.

In order to reach the objective of this research the analysis of science literature and the method of questionnaire survey have been applied.

## IT implementation as the process, conditioning the changes in the organization

One of the most relevant aspects of the management of today's organizations is the changes, which take place both in its external and internal environments, the evaluation of their significance on activity planning and the results, elimination of the likely negative impact of these changes and prediction and application of the possible positive consequences. Thus currently great attention is paid to identification and management of changes, since dynamic development of modern IT and their implementation in organizations and new-formed perception of the information concept are approached as innovations, which generate the changes of greater or lesser scale.

In the world of business IT make the revolution, related to significant changes in each and every organization in pursuance of both vertical and horizontal integration. IT function in the internal processes of organization is not supporting anymore, as it was previously, now it is becoming an integral part of production, manufacturing equipment and services' rendering (Drucker, 1999; Gardner, 2000). Internet and computer networks create business environment without walls, globalize the market and is becoming the instrument for the efficient business

and inexhaustible information resource, which, if used properly, may provide advantage in any activity. Computerization enables individual employees and their group to perform their work, which is spread (performed at different locations) and asynchronous (performed at different time periods), to receive required information, to communicate directly and coordinate their activities (Burgis 2005).

According to Barčkutė (2002), in the context of modern management information assumes a qualitatively new managerial aspect and is becoming an important part of the management process: needs are identified, information is obtained, organized and accumulated, distributed and applied.

As the experience shows, IT implementation is a long and complicated process. Only approximately 30 per cent of all projects are successfully implemented. A lengthy IT implementation period and changes, which take place in organizations, are psychologically depressing to its members, because there is a lack of knowledge; there are more mistakes made, the strain and risk in daily activities of a company increase.

When both socio-economic and technical changes take place in an organization, employees often tend to resist those changes. The analysis of science literature shows that the reasons for the resistance towards innovations, in this case it is the resistance towards IT implementation, are mostly of social type both on the level of employees and managers. Employees feel tension, associated with performance of functions, indeterminacy and complexity of work, they are unsure of their material circumstances, and it has impact on interrelations of employees and their satisfaction with work (Brazaitis, 2005; Rimas, 2000; Hiatt, Creasey, 2003). In opinion of Lodienė (2005), the obstacles, which prevent successful implementation of changes, are weak partnership, inadequate management and culture. Svirskienė (2005) comes to a conclusion, "that resistance to change is a natural and human element of organizational activities, a natural primary reaction of an individual", i.e. it normally occurs because of psychological and organizational factors.

According to Rimas (2000), the resistance towards innovations can be diversely expressed: by absence from work, significant fluctuation of personnel, spontaneous strikes become likely, the production becomes of an inferior quality, reluctance to perform work tasks. The tension, which develops due to the above mentioned factors, has a direct impact not only on the effectiveness of the tasks to be accomplished, but also it has an effect on the performance of the organization as a whole.

Though computer literacy certificate (ECDL) is successfully implemented and applied in Lithuania, the experience shows that besides the abovementioned social issues many organization managers in the Republic name the issue of employees' computer literacy as the problem, which stimulates resistance towards implementation of IT. According to Brazaitis (2005, p. 21), „among all potentially significant human barriers, which prevent IT application, the lack of IT expertise and information consciousness may be considered as the most essential“. Information literacy can also be attributed to this factor. Employees IT expertise and information consciousness and literacy is associated with

the individual's level of perception, which aids him or her in understanding IT potential, advantages, information protection issues, by using the possibilities and advantages provided by IT in reaching organizational objectives in one's activities.

Svirskienė (2005, p. 371) proposes, „strategically operating organizations think of changes as a normal and even beneficial matter and are constantly searching for changes and respond to them and use them as a possibility despite the increased risk“. Change management in the science literature is termed as a specific part of a managerial activity by applying various theories, multi-stage strategies, implementation of which, according to Zakarevičius (2003), enables successful progress of an organization to a more qualitative level. The measures for elimination of the resistance to changes are most related to the elimination of the resistance impact of the human factor (Zakarevičius, 2003). Employees, understanding that the effectiveness of changes in great part depends on their attitude and expertise, join the groups, where they exchange information, updated knowledge and thus improve and prepare for changes.

Organizational solutions, by invoking training processes and the efforts of employees themselves are characteristic to the management of resistance to changes. A special attention must be paid to self-training of employees, since the implementation of IT products does not itself ensure the desired result, for only skilled application of IT tools justifies the expectations and ensures an expected result. Furthermore, the manager of the company should consider the planned changes from the viewpoint of his or her employees and understand what thoughts and emotions stimulate opposing feelings.

In order to be successful in responding to changes, which occur in the environment and to avoid internal organizational contradictions, it is necessary to apply change management, when it is prepared for by designing a program and its implementation strategy, by creating positive climate in an organization, and by achieving the benefits not only for the organization as a whole, but also to each and every employee.

### **The research of the resistance of employees to changes from the aspect of IT**

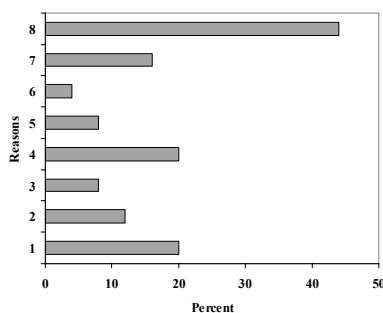
During the analysis of IT implementation process in an organization it has been aimed to find out what are the reasons which condition employees' resistance to changes. Basing on the analysis of the science literature the following research criteria have been set: IT in an organization and employees' abilities to use them; reasons, which determine employees' resistance towards IT implementation; the measures, employed for managing employees' resistance. To complete the research the method of questionnaire survey has been selected.

During the course of the research the employees of one production organization in the city of Panevėžys were questioned (100 respondents). The nonprobabilistic selection method of the sampling volume was chosen. Employees of finance, marketing, information systems and production department, whose work's nature was related to IT, participated in the research.

As the analysis of demographic results indicates, 12 per cent of managers, 44 per cent of the company's experts and the same percentage of workers have participated in the questionnaire survey. There have been 72 per cent of women and 28 per cent of men questioned, the majority of questioned individuals is of an active working age. The employees of this company, which have further education or higher education, comprise 20 per cent inclusive, 24 per cent of all questioned employees have completed secondary education, 32 per cent have occupational education and only 4 per cent of the questioned employees have basic education.

In the process of the questionnaire survey the opinion of respondents shows that the following IT is implemented in the company: computerized processing centers, a barcode system, system software, computer networks, an accounting and control system (it is in the stage of implementation). It has been determined that employees, except for the employees in the finance department, identify financial accounting and accounting and control systems as the same system, though in fact they perform different functions. Furthermore, the latter system is in the implementation stage, however not all respondents are aware of that. It may be presumed that the spread of information in the organization is not sufficient. Approximately 70 per cent of the organization's employees indicated that they are capable of performing tasks directly related to their work by using IT, and the remaining part of the respondent have no expertise in applying IT in various areas. Similar results have been obtained after analyzing how the respondents perceive the positive impact of the implemented IT on the quality of a product and (or) service. In view of the obtained research results and the knowledge that IT are becoming the most important factor of globalization and technological progress, such incompetence of employees may cause their "informational seclusion" and may have a negative impact on the performance of the organization.

The questionnaire survey assisted in clarifying the reasons, why employees resist IT implementation in the organization, which are diverse (1 – new work requirements, 2 – fast rhythm of IT process, 3 – the change in routine work conditions, 4 – the necessity to retrain, 5 – the habit of working without applying IT, 6 – changes in interrelations, 7 – the complexity of IT application, 8 – the change in the standard practice) and are presented in Figure 1.

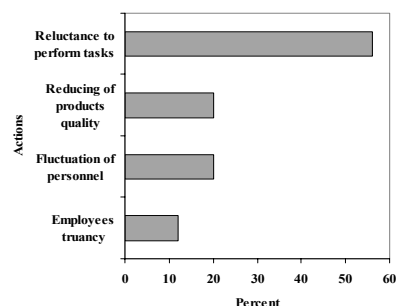


**Figure 1.** The reasons, why employees resist IT implementation in the organization

While analyzing the results, obtained during the research, the reasons, which stimulate the employees to resist the changes, in accordance with the answers, chosen by the respondents, may be divided into two groups: the first group has the most answers (20 per cent and more), and the second group has the least answers (up to 20 per cent). It may be maintained, that first group consists of social reasons: the change in the standard practice of the organization (44 per cent), the origination of new work requirements (20 per cent), the necessity to retrain (20 per cent). The reasons, which are ascribed to the second group, are related to IT expertise and information literacy. As the results in Diagram 1 indicate, the percentage distribution of the factors assigned to the latter group show a negative approach of the employees towards IT development and their ignorance on their influence on a better performance of the organization. The analysis of the influence of employees' education shows that the respondents (32 per cent), who have occupational education, are most of all resistant to changes taking place in this production company. The resistance of employees, who have higher, further and secondary education, is aroused by the social reasons, which belong to the first group and create tension.

Implementation of various technologies in the company has an impact on the psychological state of employees, which is mostly associated with the complexity of work and responsibility. The research shows, that IT implementation affects employees psychologically. This was confirmed by 52 per cent of the respondents, though 28 per cent of the respondents chose the answer, where they agreed with this only in part. It may be presumed that it is related to the tension, experienced at the time of work tasks' execution and without feeling satisfaction with work, and the latter factors may intensify the resistance of the employees towards IT implementation. The change in standard practices has an impact on employees of various age groups (from 16 to 60 years of age), meanwhile, according to the opinion of respondents, IT implementation has no impact on interrelations of people.

Furthermore, one of the purposes of the research was to highlight the forms of employees' resistance to changes, which evidence in the organization. As it is seen in Figure 2, 56 per cent of the respondents actually state that most often the resistance to changes is expressed by reluctance to perform work tasks, as a consequence, the rising tension may reduce the performance of the organization and to turn its objectives into nothing. The impact of other factors is lesser (see Figure 2).



**Figure 2.** The resistance actions of the employees, related to IT implementation in the organization

The research showed that integrated management of factors (nature of work, work conditions, equal wage), which determine satisfaction with work, might partially reduce employees' resistance to changes, generated by IT. This was confirmed by 44 per cent of all respondents. In order to survive in a competitive environment and manage the changes, related to IT implementation, the organization must run various training programs. According to the respondents, training programs are organized in the investigated organization, however in the opinion of the majority of the respondents (64 per cent); the most effective way to organize training is to arrange training with IT experts at their work places. It may be presumed that educated employees of active working age pertain to a certain maturity of the information society, and they associate IT application with more effective activities, though it does raise appropriate requirements. In summary of the research results it may be proposed, that implementation of IT in one way or another generates the resistance of the employees to changes, although the aim is to manage them. Furthermore, this process is influenced by the dynamic change of IT, in order to assimilate which, employees, especially those of the senior age, must devote a lot of time and effort by raising their qualification and developing appropriate competency. The attention must also be paid to the fact that IT level in the investigated company is not very high, since the available technologies are applied for data processing, information handling and for automation of some activities' processes, but not for integrated management of operational, administrative and strategic levels. According to the results of the research the presumption can be made that the employees of the investigated company are optimistic in evaluating application of IT in their work places and the possibilities, provided by them, and it may be interpreted as the acquisition of IT consciousness and IT expertise.

## Conclusions

1. On the completion of the analysis of the science literature it may be presumed that organizations are not self-contained systems as they are influenced by the factors of the external environment, which unavoidably initiate internal changes in organizations. IT implementation is directly associated with the socio-technical changes, which take place in an organization and are often met by the resistance. The reasons for resistance generally evidence in the social context of work, when individuals feel tension, are not sure about their material circumstances, interrelations of employees and satisfaction with work change. Furthermore, weak leadership and bad management influence it.
2. The research showed that employees, who apply IT, can perform their tasks, which are directly related to their work; however there is a lack of understanding on a positive impact of IT on the performance (production, sale, personnel management) of the organization. In the opinion of respondents, the main reasons for resisting changes associated with IT are: the change in the standard practice of the organization, origination of new work requirements, the necessity to retrain and the complexity of IT application, which evidence in the form of reluctance to perform work tasks.
3. In order to eliminate the problems, related to IT implementation problems in the investigated organization, the following most successful action strategies for fighting the resistance towards innovations are proposed: employee training and conveyance of information (in order to help the individuals to understand the reasons for the need of innovations), promotion (by using various motivation forms in order to help to adapt to changes), consolidation (by getting personnel involved in innovation activities and by distributing responsibility).

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Aušra Repečkienė, Nida Kudokienė

## THE PROBLEMS OF THE IMPLEMENTATION OF INFORMATION TECHNOLOGIES FROM THE ASPECT OF HUMAN RESOURCES

### Summary

Variety of Information Technologies (IT) is a significant factor of globalization and technological progress. Modern technologies blend in the activities of the organization and become its integral part. IT implementation has impact not only on the structure of the company, reorientation and adaptation of working processes and their management, but also it has influence on the human factor. This article, with reference to the results of the

completed research, highlights main reasons for employees' resistance to changes, faced during implementation of IT in the organization. Innovations often create particular social consequences, i.e. psychological tension, modification of employees' interrelations and diminution of satisfaction with one's work. In order to eliminate the highlighted reasons for the resistance to changes the following most successful strategies are proposed: employee training and conveyance of information, consolidation and promotion.

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# EVALUATION OF BUSINESS ENVIRONMENT INFLUENCING THE DEVELOPMENT OF ENTREPRENEURIAL NETWORKS IN LATVIA

Ilva Rudusa

## Abstract

The choice of the theme and the essence of the investigated problem, as well as the necessity of the research described in the article were designated by the fact that Latvia during its movement from the planned economy towards market economy developed very unevenly. There emerged uneven distribution of entrepreneurial activities in Latvia regions.

The objective of the research is to evaluate the business environment influencing the development of entrepreneurial networks in Latvia.

The research has developed the analyses of the accessible factors of the development of enterprises network: *composition of population; the potential of labour market; the position of higher education and research; economics composition.*

## Keywords

Environment; enterprises network.

## Introduction

In the research paper the essence and the necessity of the expounded problem is determined by fact that in the late 80<sup>th</sup> in Latvia's transition period from planned economy towards market economy the development of entrepreneurship was very irregular. As a result the irregular disposition of entrepreneurship's activities appeared in Latvia regions. When compare the development of regions, using region's development index (region of Riga – 100.00, region of Kurzeme – 30.9, region of Vidzeme – 24.6, region of Zemgale – 22.2 and region of Latgale – 0.00), we can see that only region of Riga corresponds to a highly developed region status, but other regions have status of problematic region [5].

One of possible scenario for leveling of regions development is the creation of entrepreneurial networks and clusters. The distribution of entrepreneurial networks and clusters facilitates the collaboration between enterprises, research institutes, and intermediary institutions. This collaboration advances innovation processes, economic activity and profitability and squares the development of region, as well [6].

The preconditions of successful entrepreneurial networks appearing and development depend on the factors of economic environment. We can divide these factors in several groups: resident population structure (quantity, age structure, migration tendencies, qualification's structure); potential of labor market (employment structure, specialization of workforce, qualification characterization); panorama of higher education and research (existing and planned universities and professional high schools (colleges with higher professional tuition), research institutions, technological parks) and economical structure (branch structure, enterprises structure, trade and production development, employment in branch, intensity of science and research, offer of innovative services).

The object of this research is to valueate the factors of business environment in Latvia regions.

Goal-subordinated work tasks:

1. To identify major economic environment factors which influence the development of entrepreneurial networks and clusters,
2. To evaluate development perspectives of entrepreneurial networks of every branch in regions, analyzing the factors of economic environment.

## 1. Theoretical Aspects

Entrepreneurial networks are geographically dispersed, but technologically and/or commercial tightly connected groups of enterprises whereas enterprises clusters have characteristic concentration in limited territory.

Their creation gives a considerable economy of costs which is particularly important for small and medium scale enterprises. So enterprises clusters, as networks increase the competitiveness of respective group of enterprises in world market. It is the reason why the countries give the support of different kind for their entrepreneurial clusters and networks [6; 2]

Practical experience evidences that the goals of entrepreneurial networks and clusters are connected with the reaching of specific economic results, e.g., optimization of logistics, raw materials delivery coordination with production, combined knowledge, experience and competence exchange, motivation of all in net involved enterprises for realization of a certain regional economic vision.

Uniting in entrepreneurial networks and clusters, the enterprises have wider access to the information about existing, unsatisfied needs of consumers. The employees of networks' enterprises can create new enterprises for satisfying these needs. There are lower entrance barriers in entrepreneurial network. Necessary resources (employees, information, technology, etc.) for creating a new enterprise are available with lower costs in the network [4].

While process of planning of entrepreneurial networks, there is necessary to evaluate the factors of economic environment, i.e., the circumstances in which these networks should operate. The analysis of present situation will let clear up the influence of conducive and



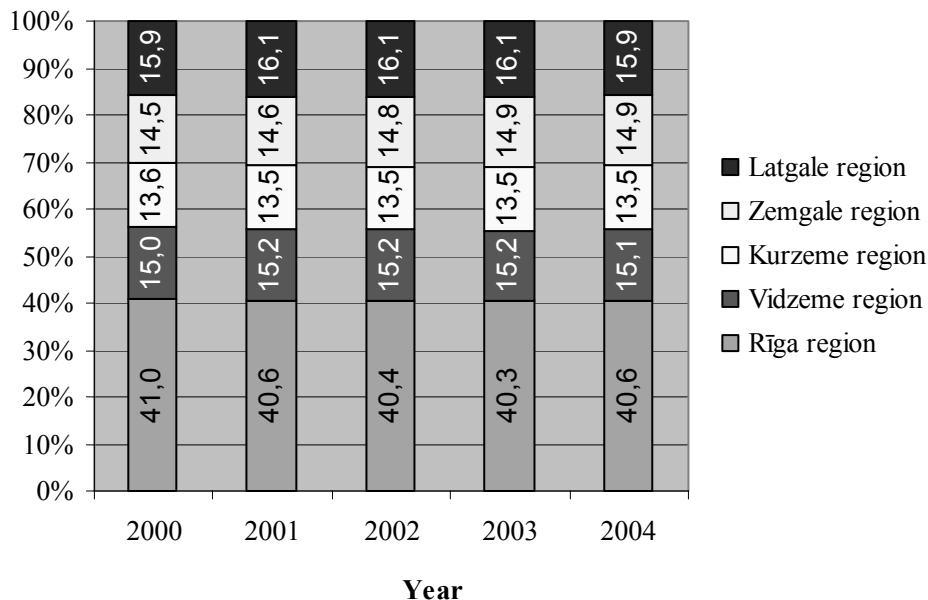
obstructive factors on networks creation and plan necessary contributions for the changes of environment.

## 2. Data And Empirical Results

During the research process there were identified following main groups of business environment factors which stimulate the development of entrepreneurial networks and clusters – structure of resident population, employment and economic structure.

**Structure of resident population** (quantity, age structure, migration tendencies)

Analyzing structure of resident population in Latvia regions during the period from 2000 to 2004, we can come to a conclusion that major part of residents ( $\approx 40\%$ ) lives in Riga region but in other three Latvia regions specific weight of residents' number is similar (Picture 1).

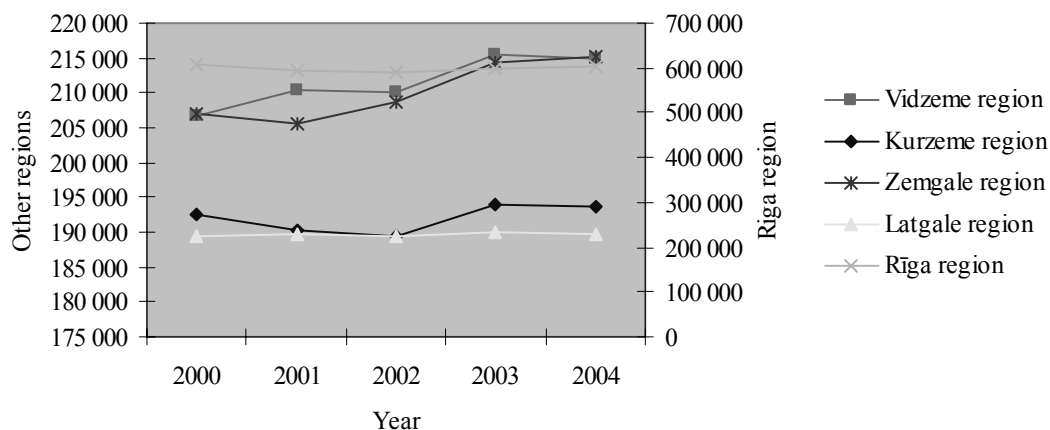


**Picture 1.** Structure of resident population in Latvia regions, 2000 – 2004

Source: Author's calculations using Central Statistical Bureau of Latvia data [3]

As it is seen in Picture 1, structure of resident population remains invariable during all the analyzed period. Analyzing age structure (see Picture 2), we can make a conclusion that major resident population number in working age is in Riga region and it is remained

unchangeable during all the analyzed period. In Vidzeme and Zemgale region the number of residents in working age is increased per 8 010 residents in Vidzeme and per 8 327 residents in Zemgale.



**Picture 2.** Resident population of working age in Latvia regions, 2000 - 2004

Source: Author's calculations using Central Statistical Bureau of Latvia data [3]

Analyzing structure of resident age in Latvia regions (see Table 1), we can see that in all region about 60% of all

residents are in working age and this structure doesn't change considerably during all the analyzed period.

Table 1

Structure of residents' population by age in Latvia regions 2000 – 2004

| Region  | Working age |      |      |      |      | The others |      |      |      |      |
|---------|-------------|------|------|------|------|------------|------|------|------|------|
| Year    | 2000        | 2001 | 2002 | 2003 | 2004 | 2000       | 2001 | 2002 | 2003 | 2004 |
| Riga    | 61.1        | 61.9 | 62.3 | 63.7 | 64.2 | 38.9       | 38.1 | 37.7 | 36.3 | 35.8 |
| Vidzeme | 57.0        | 58.6 | 59.1 | 60.9 | 61.3 | 43.0       | 41.4 | 4.9  | 39.1 | 38.7 |
| Kurzeme | 58.4        | 59.4 | 59.8 | 61.5 | 61.8 | 41.6       | 40.6 | 4.2  | 38.5 | 38.2 |
| Zemgale | 59.0        | 59.5 | 60.1 | 61.8 | 62.3 | 41.0       | 40.5 | 39.9 | 38.2 | 37.7 |
| Latgale | 58.1        | 59.5 | 59.9 | 61.8 | 62.3 | 41.9       | 40.5 | 40.1 | 38.2 | 37.7 |

Source: Author's calculations using Central Statistical Bureau of Latvia data [3]

Internal migration has a significant importance in the development of regions. Negative migration balance in various regions evidences about residents concentration

in one region. It can create threaten of resident diminution for less developed regions and delay considerably their economic growth.

Table 2

Internal long-term migration in Latvia regions 1998 – 2003

|                |                       | 1998 | 1999 | 2000   | 2001   | 2002   | 2003   |
|----------------|-----------------------|------|------|--------|--------|--------|--------|
| Riga region    | Increase of the base  | X    | 737  | 212    | -1 085 | -916   | 5 869  |
|                | Increase of the chain | X    | 737  | 949    | -136   | -1 052 | 4 817  |
| Vidzeme region | Increase of the base  | X    | 855  | -107   | -977   | 950    | -1 469 |
|                | Increase of the chain | X    | 855  | 748    | -229   | 721    | -748   |
| Kurzeme region | Increase of the base  | X    | -885 | -128   | -11    | 561    | -915   |
|                | Increase of the chain | X    | -885 | -1 013 | -1 024 | -463   | -1 378 |
| Zemgale region | Increase of the base  | X    | -34  | 21     | 2 170  | -1 270 | -865   |
|                | Increase of the chain | X    | -34  | -13    | 2 157  | 887    | 22     |
| Latgale region | Increase of the base  | X    | -673 | 2      | -97    | 675    | -2 620 |
|                | Increase of the chain | X    | -673 | -671   | -768   | -93    | -2 713 |

Source: Author's calculations using Central Statistical Bureau of Latvia data [3].

As it is seen in Table 2, long-term migration balance in Latvia regions is very variable. Analyzing absolute growth of chain of long-term migration balance, we can conclude that this indicator is negative. In 2003 very high and positive migration balance was observed in Riga region. It points to the residents' concentration in this region.

### Employment

Economic active (in working age) resident specific weight in total residents' number evidences about a real

availability of workforce, and it remains in the same level (see Table 1).

Analyzing the division of employed number per activities spheres in Latvia regions (see Table 4), it is seen that in all regions, except Kurzeme, a specific of employed in services sphere increases. The biggest increase of a specific weight is observed in Zemgale (in 1998 – 5.4%, in 2002 – 8.04%). A considerable increase of a specific weight is in construction sector whereas employed number in agriculture is decreased in all regions.

**Table 3**

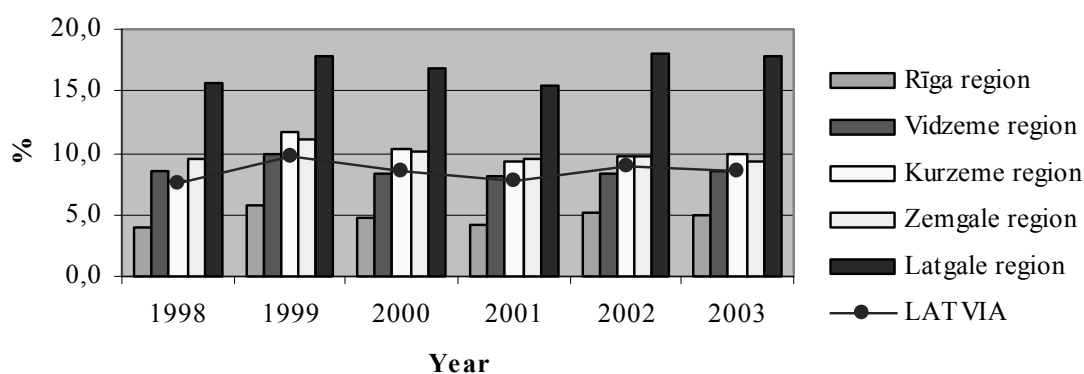
Structure of Employees at the main job by kind of activity in Latvia regions 1998 and 2002

| Region                            | Rīga   |        | Vidzeme |        | Kurzeme |        | Zemgale |        | Latgale |        |
|-----------------------------------|--------|--------|---------|--------|---------|--------|---------|--------|---------|--------|
| Year                              | 1998   | 2002   | 1998    | 2002   | 1998    | 2002   | 1998    | 2002   | 1998    | 2002   |
| Agriculture, hunting and forestry | 1,07   | 0,75   | 7,18    | 4,36   | 4,89    | 3,75   | 10,53   | 6,68   | 3,99    | 2,27   |
| Manufacturing                     | 19,84  | 17,89  | 18,41   | 26,71  | 20,84   | 22,60  | 19,59   | 23,66  | 20,85   | 21,72  |
| Construction                      | 5,77   | 6,17   | 3,11    | 4,40   | 6,28    | 5,80   | 4,18    | 4,66   | 3,94    | 4,45   |
| Services                          | 13,23  | 13,28  | 6,31    | 7,2    | 12,68   | 12,04  | 5,40    | 8,04   | 10,95   | 11,71  |
| Education                         | 9,11   | 8,71   | 13,44   | 14,80  | 12,79   | 12,09  | 15,57   | 14,74  | 15,24   | 14,97  |
| Other sectors                     | 50,98  | 53,21  | 51,54   | 42,52  | 42,52   | 43,72  | 44,74   | 42,21  | 45,03   | 44,89  |
|                                   | 100,00 | 100,00 | 100,00  | 100,00 | 100,00  | 100,00 | 100,00  | 100,00 | 100,00  | 100,00 |

Source: Author's calculations using Central Statistical Bureau of Latvia data [3]

Analyzing data about a specific weight of the searchers for employment in economic active residents' total number, it is seen that there are no considerable changes.

The highest specific weight of searchers for employment is observed in Latgale (17.8%), the lowest in Riga region (4.9%) (see Picture 3).

**Picture 3.** Specific weight of searchers for employment in economic active residents' total number in Latvia regions, 1998 - 2003

Source: Author's calculations using Central Statistical Bureau of Latvia data [3]

The employment level is tightly connected with the level of education. The people with highest and secondary professional education have invariably highest level of employment and it is 60 – 70% [1].

### Economic structure

Analyzing branches structures, we can divide four, in author's opinion, most important branches: agriculture and forestry, industry, tourism and transport. Enterprises number dynamics was chosen as an indicator to characterize the development of these branches in Latvia regions.

Enterprises number in transport branch in Kurzeme is observed during all the analyzed period, whereas in other branches this growth is seen only in two last years. Similar situation is in Zemgale and Vidzeme, also.

We can evaluate positively growth of enterprises in agricultural and forestry branches. Enterprises number of these branches is increased in all regions.

We can conclude from growing dynamics of enterprises number that national economy develops in all regions. Due to this development would happen more equable, the enterprises of different regions should be involved in common activities (marketing, information exchange, technology, etc.)

Table 4

Time rows analysis of enterprises number in Latvia regions

| Branch                                     |                                 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|--|---------------------------------|------|------|------|------|------|------|------|
| <b>Kurzeme</b>                             |                                 |      |      |      |      |      |      |      |
| Agriculture, hunting, forestry and fishery | Increase of the chain           | X    | -24  | 4    | -3   | -24  | 21   | 28   |
|  | Rate of increase of the chain % | X    | 0,93 | 1,01 | 0,99 | 0,92 | 1,07 | 1,09 |
| Industry                                   | Increase of the chain           | X    | 0    | -4   | 73   | -11  | 9    | 39   |
|  | Rate of increase of the chain % | X    | 1,00 | 0,99 | 1,12 | 0,98 | 1,01 | 1,06 |
| Tourism                                    | Increase of the chain           | X    | 38   | -10  | 22   | -18  | 21   | 14   |
|  | Rate of increase of the chain % | X    | 1,19 | 0,96 | 1,09 | 0,93 | 1,09 | 1,05 |
| Transport                                  | Increase of the chain           | X    | 9    | 9    | 31   | 9    | 28   | 37   |
|  | Rate of increase of the chain % | X    | 1,03 | 1,03 | 1,11 | 1,03 | 1,09 | 1,10 |
| <b>Zemgale</b>                             |                                 |      |      |      |      |      |      |      |
| Agriculture, hunting, forestry and fishery | Increase of the chain           | X    | -29  | -26  | -4   | 1    | 19   | 2    |
|  | Rate of increase of the chain % | X    | 0,88 | 0,88 | 0,98 | 1,01 | 1,11 | 1,01 |
| Industry                                   | Increase of the chain           | X    | 3    | 32   | 17   | -2   | 17   | 7    |
|  | Rate of increase of the chain % | X    | 1,01 | 1,08 | 1,04 | 1,00 | 1,04 | 1,02 |
| Tourism                                    | Increase of the chain           | X    | 3    | -2   | 25   | -8   | -2   | 19   |
|  | Rate of increase of the chain % | X    | 1,02 | 0,98 | 1,20 | 0,95 | 0,99 | 1,13 |
| Transport                                  | Increase of the chain           | X    | 8    | 9    | 16   | 12   | 4    | 27   |
|  | Rate of increase of the chain % | X    | 1,06 | 1,06 | 1,11 | 1,07 | 1,02 | 1,15 |
| <b>Vidzeme</b>                             |                                 |      |      |      |      |      |      |      |
| Agriculture, hunting, forestry and fishery | Increase of the chain           | X    | 7    | 5    | 6    | -14  | 25   | 34   |
|  | Rate of increase of the chain % | X    | 1,02 | 1,02 | 1,02 | 0,95 | 1,09 | 1,11 |
| Industry                                   | Increase of the chain           | X    | 39   | 39   | 22   | -11  | 21   | 37   |
|  | Rate of increase of the chain % | X    | 1,06 | 1,06 | 1,03 | 0,98 | 1,03 | 1,05 |
| Tourism                                    | Increase of the chain           | X    | 21   | -4   | 22   | -2   | 15   | 29   |
|  | Rate of increase of the chain % | X    | 1,16 | 0,97 | 1,14 | 0,99 | 1,09 | 1,16 |
| Transport                                  | Increase of the chain           | X    | 10   | 18   | 22   | 14   | 7    | 34   |
|  | Rate of increase of the chain % | X    | 1,05 | 1,09 | 1,10 | 1,06 | 1,03 | 1,13 |
| <b>Latgale</b>                             |                                 |      |      |      |      |      |      |      |
| Agriculture, hunting, forestry and fishery | Increase of the chain           | X    | -16  | -16  | -7   | -27  | 2    | 19   |
|  | Rate of increase of the chain % | X    | 0,90 | 0,89 | 0,95 | 0,79 | 1,02 | 1,19 |
| Industry                                   | Increase of the chain           | X    | 8    | 28   | 67   | -19  | 53   | 11   |
|  | Rate of increase of the chain % | X    | 1,02 | 1,07 | 1,15 | 0,96 | 1,11 | 1,02 |
| Tourism                                    | Increase of the chain           | X    | 5    | 7    | 30   | 2    | 2    | 3    |
|  | Rate of increase of the chain % | X    | 1,04 | 1,06 | 1,24 | 1,01 | 1,01 | 1,02 |
| Transport                                  | Increase of the chain           | X    | 22   | 5    | 11   | -2   | 6    | 26   |
|  | Rate of increase of the chain % | X    | 1,13 | 1,03 | 1,06 | 0,99 | 1,03 | 1,13 |

| Branch                                     |                                 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|--|---------------------------------|------|------|------|------|------|------|------|
| <b>Riga</b>                                |                                 |      |      |      |      |      |      |      |
| Agriculture, hunting, forestry and fishery | Increase of the chain           | X    | 23   | -2   | 18   | 1    | 7    | 29   |
|  | Rate of increase of the chain % | X    | 1,13 | 0,99 | 1,09 | 1,00 | 1,03 | 1,13 |
| Industry                                   | Increase of the chain           | X    | 292  | 103  | 311  | -64  | 121  | 184  |
|  | Rate of increase of the chain % | X    | 1,13 | 1,04 | 1,12 | 0,98 | 1,04 | 1,06 |
| Tourism                                    | Increase of the chain           | X    | 166  | -1   | 196  | -37  | 63   | 148  |
|  | Rate of increase of the chain % | X    | 1,20 | 1,00 | 1,19 | 0,97 | 1,05 | 1,12 |
| Transport                                  | Increase of the chain           | X    | 155  | -1   | 262  | 56   | 7    | 238  |
|  | Rate of increase of the chain % | X    | 1,12 | 1,00 | 1,18 | 1,03 | 1,00 | 1,13 |

Source: Author's calculations using Central Statistical Bureau of Latvia data [3]

## Conclusions

1. The development of Latvia regions is very irregular. Only Riga region corresponds to a highly developed region status.
2. One of possible scenario for leveling of regions development is the creation of entrepreneurial networks and clusters.
3. Following main groups of factors as structure of resident population, employment and economic structure

assure a successful development of entrepreneurial networks and clusters.

4. It is possible to identify following branches in which it would be possible to develop entrepreneurial networks between regions:

- Agriculture and food industry in Zemlgale and Latgale, in Kurzeme and Vidzeme, as well;
- Tourism in Zemgale and Latgale;
- Transport in Kurzeme.

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## EVALUATION OF BUSINESS ENVIRONMENT INFLUENCING THE DEVELOPMENT OF ENTREPRENEURIAL NETWORKS IN LATVIA

### Summary

The choice of the theme and the essence of the investigated problem, as well as the necessity of the research described in the article were designated by the fact that Latvia during its movement from the planned economy towards market economy developed very unevenly. There emerged uneven distribution of entrepreneurial activities in Latvia regions.

The objective of the research is to evaluate the business environment influencing the development of entrepreneurial networks in Latvia.

The research has developed the analyses of the accessible factors of the development of enterprises network: *composition of population; the potential of labour market; the position of higher education and research; economics composition.*

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# SOCIAL CLASS INFLUENCE ON CONSUMER BEHAVIOR: CONTEXT OF EURO-INTEGRATION

Aušra Skrudupaitė, Rita Kuvykaitė

## Abstract

Euro-integration related processes in Lithuania stimulate various changes of social, economic, technological, political and other environment thus raising new requirements to organizations. The knowing of consumer behavior and the factors stipulating it is becoming a very important task in order to improve competitiveness in local and global market. This article describes the conception of consumer behavior and its beginning, social class manifestation in the theory of consumer behavior; it presents the tendencies of variations related to social classes' influence on consumer behavior in the context of euro-integration.

## Keywords

Consumer behavior, social class, euro-integration.

## Introduction

New business opportunities unclosed when Lithuania's integration into the European Union is concerned. Membership in the EU stimulates a closer economic, political and cultural cooperation of the country with European as well as other countries of the world. The task of Lithuanian companies is to stand competition of global companies in the Lithuanian market and to re-orientate their activities to global markets.

Recognition of consumer behavior becomes a growing importance in the context of market globalization thus becoming a foundation-stone, when companies must stand competitive abilities in local markets and to strengthen their positions in foreign markets. Understanding consumer behavior is one of the most important tasks of modern organizations. Business representatives may predict future purchases of consumers as well as sales and profits of their companies only when they understand the reasons and motives of consumer behavior.

**Work object** – peculiarities of social class manifestation in consumer behavior.

**Work goal** – to highlight the importance of social class influence on consumer behavior in the context of euro-integration.

### Work tasks:

1. To exhibit the conception and the beginning of consumer behavior.
2. To research manifestation of social class in the theory of consumer behavior.
3. To exhibit the tendencies of social classes' changes in the EU.

**Work methodology** – a comparative analysis and summing-up of scientific literature.

## Conception and beginning of consumer behavior

Consumer behavior research allows company managers to understand consumer actions, to envisage their behavior in the future. In order to foresee which item consumer is going to accept and purchase, it is necessary to research consumer behavior in the market.

**Consumer behavior** – individual actions related to acquisition of items and their usage that cover his actions from the origin of the problem, which may be resolved by having purchased the item in question to the reaction to the item already purchased (Virvilaitė, 2000).

According to M. Solomon, G. Bamossy and S. Askegaard (1999), "the current conception of consumer behavior has expanded a lot". Meanwhile, during earlier researches of consumer behavior, a buyer's or purchasing related behavior was emphasized more frequently and particular weight was given to buyer's and producer's interaction at the moment of items purchasing. S. Dibb, L. Simkin, W. M. Pride and O. C. Ferrell (1997) research the behavior of final consumers in the purchasing process, when acquisition of articles for personal use or household articles is concerned. W. G. Zikmund and M. d'Amico (1992) analyze consumer behavior and define it as human activities consisting from selection of goods, acquisition of goods and their usage in order to satisfy human needs and desires.

Interest in consumer behavior was first shown in the 19th century. During two centuries there were several consumer behavior theories developed, their originators were economists. The development of consumer behavior research may be conditionally grouped into four stages, i.e.:

- predisciplinary stage (till 1960);
- evolutionary stage (1960-1974);
- cognitive stage (1975-1981);
- modern stage (since 1981 up till now).

Currently, marketing specialists acknowledge that **consumer behavior is a nonstop process** and this is not the moment when money in the hands of consumers is exchanged into goods or services (Solomon, 1999). *Having summarized different interpretations about consumer behavior, we may state that consumer behavior is a nonstop process that covers individual actions from the origination of the problem which may be resolved by purchasing item in question and end up with item already purchased.*

## Manifestation of social class in the theory of consumer behavior

According to D. Statt (2003), the definition of „class“ is derived from the Latin *classis* that was used to describe

economic groups of the society by ancient Romans. But grouping of the society to dependant groups is known by the *social stratification* and it all existed before the times of the Ancient Rome. Social stratification of the society exists in every state. Even in USA, where egalitarian ideology is propagated, there are distinct differences among social classes that may strengthen in the long run. There were officially no social classes in the Soviet Union as well as in other communist countries and, if to be precise, there was only one class – the working class, where we may precisely recognize the features common to social stratification.

An American sociologist A. Giddens (1998) points out 2 types of stratification systems: closed and open ones. Inside a closed system it is difficult to change one's social status, inside an open system – it is much easier to do so. Closed systems are as follows:

- slavery – society, where a part of individuals are the possession of other individuals (slaves);
- castes – phenomenon common to India, closely related to Hinduism religion;
- estates – stratification system of European feudalism.

A. Giddens (1998) indicates the 4 *class differences* from other stratification systems:

Classes are not based on legal or religious means; membership is not based upon inherited position, legally or manner-like defined. The system of classes is a lot more variable than other systems are and always there are no clear limits among classes.

1. Individual class status is partly obtained, not only acquired upon birth, like in other systems. Social mobility is a lot more simplified (in the system of castes – it is simply impossible).
2. Classes depend upon economic differences among groups – inequality when managing and controlling material resources. In other systems, non-economic factors (for example religion in the system of castes) are more important.
3. In other systems, inequality firstly manifests itself in the level of inter-personal relationship (slave-master). In the systems of classes, a wide scale of impersonal relationship is developed. The differences of classes arise due to inequality of work pay and working conditions.

V. Pruskus (2004) points out that „there is no unanimous opinion among modern representatives of social stratification regarding the criteria of social grouping. “. According to J. Vander Zanden (1990), „people are distinguished by *wealth, income, prestige and social power*“. Representatives of „Status achievement“ theoretical school (Blau, Duncan and other) regard *education, profession and income* as the main criteria of stratification. Basing on these criteria, they made up a so-called socio-economic index, which defines the social status of an individual more precisely than prestige does. The supporters of structural functionalism (Goldthorpe, Hope) think that the index mentioned is not enough, because social status is also influenced by other factors – *authority, way of living, social environment, etc.*. Representatives of conflicts theory (Wright) emphasize

economic criteria – *possession of material capital, power of decision-making and autonomy*. The French sociologist P. Bourdieu presented an associate model of social stratification criteria and suggested to analyze the criteria on the basis of social power and capital definitions. P. Bordieu highlighted the 4 main types of such resources (Pruskus, 2004, p. 93):

- economic capital;
- cultural capital (education, language usage);
- social capital (social relationship);
- symbolic capital (prestige, reputation, honor).

**Social classes** are relatively steady groups of social people, the members of which follow the same values, exercise the same hobbies and behavior standards (Kotler and other., 2003, p. 210).

R. Urbanskienė and other (2000) highlight several *traits common to social classes*:

1. People of every social class behave in a similar manner and act differently from people in different social classes.
2. People are recognized as belonging to a lower or a higher position according to their social class.
3. Several variables define personal social class – profession, income, wealth, education.
4. Individuals may move from one social class to another during their entire life – down or up. The level of this instability depends upon the severity of social levels in the society concerned.

According to V. Pruskus (2004), „modern western society is divided into 4 main classes: the upper class, middle class („white collar workers“); working class („blue color workers“); „peasantry“.

Author points out that there is also a narrower typology:

- The highborn rich;
- The lowborn rich;
- A higher layer of middle class (doctors, lawyers, managers);
- A lower layer of middle class (clerks, teachers, nurses);
- A higher level of working class (highly qualified workers);
- A lower level of working class (semi-qualified or unqualified workers).

All big countries have got the systems of their social classes. The most common classification is the one of USA, which was proposed in 1983 m. by an USA scientist R. P. Coleman (Kotler, Bliemel, 2001, p. 327):

1. *The higher class of the upper class* – social elite, which inherited wealth. They are famous families, the last names of which are well known. The representatives of this class donate enormous sums of money to charity, they have more than one residence, and they send their children to the best educational establishments. They make up market for jewelry, antiques, real property and vacations. This group is dressed up in a conservative manner and does not like to demonstrate itself. Despite the fact, that only a small number of people belong to this group, this group plays a leading role of influence on other social groups. The behavior of this group

and purchasing related decisions are observed and imitated by lower social groups.

2. *The higher class of lower class* – people with high income due to their exceptional profession or business skills. They usually appear from the middle class. They play an active role in social as well as civil matters, strive for high social status, and strive for such symbols of the status as an expensive house, a yacht, a swimming pool, a luxury car and better education. New „rich people“ fall into this class too, they are distinguished by their consumer related behavior, by striving to influence the representatives of lower social classes. They strive to get to the higher class of the upper class, but this status is very often reached by their children only.
3. *The upper class of the middleclass* – they have neither family status nor usual wealth. The most important thing in their life is „career“. They are specialists, independent business representatives and managers. They believe in education and they want that their children develop such administrative capabilities, so that they do not fall into a lower social class. They strive for a cozy and well-equipped house, where they may invite their friends and clients. This group makes up market for good houses, qualitative clothes, furniture and domestic appliances.
4. *Middle class* – Average salary, reside in the best area and try to behave properly. They often purchase products that are popular at a time, so that not to be left behind by others. A better life to them means a better house in a better residential area. This class spends a lot of money for its children's education. The aim of this class is – University education for its children.
5. *Working class* – workers with an average work pay and workers, the living manner of which is „working-class living“, their income, education or work is not important. This class depends a lot upon advice given by their relatives, related to purchasing and help in troubles.
6. *The upper class of the lower class* – people in this class are a little bit above the poverty level. They perform unqualified work, they get paid very little, but they strive to get to a higher class. People in this class are mostly poorly educated.
7. *The lower class* – people in this class live in poverty, they are very often unemployed or perform the smuttiest work. They rarely look for a job and they constantly depend upon social help or charity. Their home and clothed are poor.

A major part of people belongs to the middle or working class. According to R. P. Coleman (1983), „they make up for 70 percent of all people“. These people are also called „average“. A lot of manufacturers and service providers are orientated towards the wants and needs of these people. In marketing, it is important not only how much money consumers have got, but also how and on what they spend it. That is why it is important to know living conditions of every class, how people in every class

choose and use domestic appliances, how they spend their leisure time, how they regard cultural values, their relationship with children.

According to R. Urbanskienė and other (2000), „It is still complicated to divide Lithuanians into the classes described. In Lithuania, the upper class of the lower class – the working class – is very strong. An elite class was tried to identify, but due to historical conditions – soviet times – it is difficult to do so. A lower class of the upper class is becoming very strong – businessmen, bankers. In Lithuania, the lowest class of the lower class is very strong too – a part of people living in poverty“.

A size of classes relatively depends upon country's welfare. „Diamond“ classification (few people on the top and a lot of people in the middle) is common to rich countries, despite the fact that scales in Japan and Scandinavia are flatter. In less developed countries, such as Latin America and Africa, the structure of classes may remind us of a pyramid, the bottom of which is the largest concentration of poor people. With the strengthening of economy, the structure of classes in such countries reminds us of a diamond and there are signs that the abyss between the rich and the poor is increasing at the same time in English speaking countries. (Kotler and other., 2000, p. 210).

Some one-class systems play a bigger role on customer behavior if compared to other systems. In countries, where a system of castes attributes peculiar roles to people, consumer behavior is more related to dependence to a social class. The upper classes in a lot of societies are similar, if compared to the rest part of the society. Their choice of services and goods, including food, clothes, domestic appliances and personal care items is less dependent upon culture if compared to those of lower classes. Due to this reason „world-wide famous trademarks such as „Mercedes“, „Versace“, „Remy Martin“ and other prosper. Usually, lower social classes are better related to their culture, except young people, it does not matter to which social class they belong, they like world-wide famous trademarks of goods, such as „Nike“, „Coca-Cola“ and other. (Kotler and other., 2003, p. 211).

According to R. Virvilaitė and other (2000), „A social class factor limits consumer behavior a lot more than culture does. “. According to R. Urbanskienė and other (2000), „social classes reflect a rally (closer) point among people group and it also narrows consumer behavior limits set by culture. Every man takes up a position in the society, which depends upon his activities and income; he tries to act like other people with his education, profession and position do. Social classes are based upon distribution of people by economic criteria, such as income, material welfare, profession“. The definition of social classes shows that economic status in the society is the main criterion of social behavior analysis

*Social status and symbols.* According to R. Urbanskienė and other (2000), „social status is dimension of social stratification, marketing specialists show interest in it“. It is based upon relative respect or prestige, rendered by the members of the relative society to a social class. According to D. Statt (2003), „A different social status is attributed to the same groups in different societies. “. This is why writers have got a higher social status in France



than in Great Britain. In the course of time, the status of social groups may vary. For example, in the former Soviet Union, poets, scientists, sportsmen had a very high social status. Nowadays, the labor market need in Russia has drastically declined as well as the social status of the representatives of the above mentioned professions too. In practice, the words „class“ and „status“ are used as synonyms. Usually we are attracted by symbols that express personal dependency to a social class or show social status. Consumers purchase goods not only due to their practical characteristics, but also due to their symbolic meaning. The usage of symbols is means; it helps to inform others about personal social status. This type of consumers is also called a demonstrative or demonstrative consumer and it is common to people that strive to achieve a higher social class. The symbols of this status are similar in different countries. Usually they are the trademarks of famous international companies, for example, „Rolex“ watches, „Rolls-Royce“ cars, „Cristian Dior“ cosmetics, „Escada“ clothes. The fascination of the status symbols consists from their oneness and limited access to members of other social classes. Not necessarily such a symbol is a personally most wanted purchase. When purchasing an item, a person tries to emphasize his dependency to a higher social class and to be a more well-thought-of. The symbol may be donation of a large sum of money to charity.

The effectiveness of goods or services that represent a personal social status depends upon 5 factors (Statt, 2003, p. 234):

- oneness – only few people may purchase such goods;
- a comparatively high price;
- high quality of goods;
- quantity;
- usage of goods among well-thought-of people.

Some symbols remain relevant for a long time; some in the long run lose their relevance. For example, at the beginning, not every person could allow himself to purchase domestic appliances, so that is why they were regarded as the symbols of the status. When electronics became a part of daily life for the majority of people, it lost the status of its symbol.

*Social class and living occasions.* According to D. Satt (2003), „only a newly born baby is automatically attributed to the same social class, where his parents belong. When he becomes an adult, he may change his social class by entering a lower as well as a higher social class. “. By having analyzed family's influence on consumer behavior, we have already emphasized that family bears a particular psychological meaning when baby's formation is concerned. In other words, families that belong to different layers of social hierarchy may provide different life occasions to their children that may doom their future status in the society. All these life occasions are closely related to psychological development and emotional intercourse within a family. For example, one boy misbehaved, left school, his parents were alcohol addicts. Another boy was raised in a luxury home, he was a son of a famous lord and politician, and he studied at a prestigious school in England. Who of them has a

better life occasion? It is obvious that the second boy has got better chances in life than the first one. According to D. Statt (2003), „a future personal social-economic status is mostly determined by social conditions, where a person was born and grew up “. Of course, there are a lot of exceptions, but they may only confirm the rule that exists in any country of the world. Personal education level, the nature of professional activities and the size of income mostly depends upon the social status of the family, where a person was born. Life occasions provided by a family leave a deep impact when the living standard of an individual is formed. Marketing specialists very often underestimate the importance of this factor.

The dependency to a class is not internal. Individual as well as group related movement from one layer to another within the system of stratification is described by the term of *social mobility*. It may be twofold: *vertical social mobility*, when social status is changed to a higher status (or lower), and *horizontal social mobility*, when social status is changed to a similar one (neither higher nor lower status). The main factors of social mobility are *family, wealth and education*.

The 3 methods are applied when determining class dependency:

1. *Objective method.* This means that class dependency is determined by objective criteria – income size, profession and education.
2. *Subjective method.* Respondents attribute themselves to one class or another, so that is why the results may not correspond to the data received by applying an objective method.
3. *Reputation method.* Respondents are asked to attribute to one class or another people they know quite well. This is why it is better to apply this method in smaller communities, the members of which constantly interact and may have an opinion about their community members.

*Social class and way of living.* According to V. Pruskus (2004), „classes lead a different life, behave differently in families, spend leisure and look for entertainment“. The way of living may be described by the following factors:

1. *Life expectancy.* Difference among classes, when life expectancy is concerned, decreases, but remains: people that belong to a higher class live longer.
2. *Behavior in a family.* It was noticed that men from the middle class tend to help their wives at house work more. A worker's family pays less attention to mutual understanding than representatives of a middle class do; there are more divorces among workers too. Families that belong to lower classes tend to interact with relatives, families from higher classes – with friends, colleagues, especially with those related to their career.
3. *Leisure.* Representatives from higher classes go to concerts, performances, read impressive literature, and go in for sports. Representatives

from lower classes tend to be spectators at matches, watch TV programmes.

*By having summarized the analysis of scientific literature, we may state that it is very important to a company to know, what articles are bought by people from every social class. Social class is described by profession, income, education and wealth. R. P. Coleman divided society into 7 social classes: Upper of the upper, lower of the upper, upper of the middle, middle, working, upper of the lower and the lowest. A major part of people consists from representatives of middle and working classes. There are 2 types of social classes' distribution: a „pyramid“ and a „diamond“. In case of a pyramid, the largest part of people are hardly working and living below the poverty line. In case of a diamond – a major part of people is made up from middle class.*

*People try to emphasize their belonging to a higher social class by using symbols. These are prestigious goods, not everyone can afford them. Representatives of the highest social class (upper of the upper), demonstrate their conservatism and modesty, but they purchase only best quality goods. Representatives from lower social classes very often try to imitate them.*

*Life opportunities to a child and his life style as well as his consumer behavior in future are mostly determined by family, where he was born and was raised.*

### **Tendencies of social classes' variations in the EU**

Sociology from the very beginning is trying to emphasize the laws of social changes and development. The pioneers of sociology O. Kont and H. Spencer used a lot of historical material in order to understand, why and how societies are changing. According to V. Pruskus (2004), „**the term of social change records the fact of social change in one or another area, its turn or alteration in a broad sense**“. Changes at people's actions, behavior and mind also fall into the sphere of social changes that are closely related to the social status of people. It is clear that the social status of people is determined by their education, activities and their nature, income and wealth. The content of culture changes least of all (for example, values, standards, habits) and national self-awareness. Changes take place a lot faster in the economic sphere. The term „social changes“ means various changes that take place in the course of time.

According to M. Solomon and others (1999), „a social class not only defines the sum of money a person spends, but also the way he spends it“. According to Ph. Kotler and other (2003), „currently the EU Commission supports a lot of projects that pursue improvement of the quality of socio-economic and other statistical indices in Europe. Lower classes in a lot of Western countries gain height – consumer behaviour is changing and it is becoming similar to the one common to higher classes. All this relates to the rise of educational and living standard“. For example, in 1950, a four-person family in the former GFR, would spend about 50 percent of all income on food. Basing on the data collected in 1998, this figure has decreased down to 16 percent. i.e. more than 3 times. This means that people nowadays may spend more money on goods or services.

Scientists of Western Europe actively research how the rise of living standard changes consumer behaviour. It is becoming more and more difficult to understand European consumer behaviour. According to J. M. Gillies (2003), „a weekend of a German couple may be like this: a 19 Euro flight to France with „German Wings“ on Saturday, a luxury dinner for 160 Euro at „L'Ape Piera“ restaurant, purchase of „Prada“ handbag for 590 Euro and a flight back for 19 Euro“. According to the author, „a frequent consumer applies a formula before purchasing goods: „Aldi“ and „Armani“, „Lidl“ and „Louis Vuitton“, „Plus“ and „Prada“. This example proves that a modern European consumer may be at the same time attributed to the high end as well as low end consumer segment. Here we may point out 2 noticeable tendencies. First, a middle social class or a high social class European tends to save when purchasing food and he usually shops at widespread shopping centres throughout all Europe. A typical European is in the constant hunt for daily cheaper goods. On the second hand, the same consumers, in order to become exceptional and to emphasize their social status in the society, seek after famous trademarks. In other words, they purchase clothes or other status symbols with „famous labels“; they budget for leisure, entertainment and pleasure.

Generally speaking, in the West a lot of attention is paid to material values: a house, a vehicle. A higher social human status is also characterized by a possibility to spend his vacation abroad once or 2 times a year. The symbols of social status are different in different countries of course.

*The improvement of socio-economic factors in many countries of the EU determined the rise of living standard that is related to transition of people to a higher social class and changes of consumer behaviour.*

### **Conclusions**

1. Basing on theoretical studies it has been determined that the beginning of consumer behaviour research started in the 19th century and its pioneers were economists. The development of consumer research may be grouped into four stages: predisciplinary (till 1960), evolutionary (1960-1974), cognitive (1975-1981) and modern (since 1981 m. up till now). Having summarized the presented explanations of consumer behaviour conception, we may state that consumer behaviour is a nonstop process, which covers individual actions from the origin of the problem, which may be resolved by having purchased the item in question to the reaction to the item already.
2. The analysis of scientific literature has shown that a social class of an individual is determined by some variables – profession, income, education, wealth, basing on which, modern western-like society distinguishes 4 main classes: highest class, middle class, working class and peasantry. It has been proved that a lot of sources of scientific literature list a more detailed typology of the society. Basing on theoretical studies, we may single out 2 types of

- social classes distribution: a „pyramid“, when a major part of people is made from hardly working and living below the poverty limit people and a „diamond“, when middle class makes the largest part of people.
3. Having summarized the common tendencies of social factors changes in the EU, we may state that the improvement of socio-economic factors in many countries of the EU determined the rise of living standard that is related to transition of people to a higher social class and changes of consumer behaviour. It has been established that Europeans of average and medium social classes are prone to the 2 extremes: 1) they look for various discounts and try to purchase cheaper goods in the segment of daily goods; 2) they pay a lot of attention to famous trademarks and try to demonstrate belonging or wish to belong to a higher social class in the segment of social status goods.
  4. In order to ground the importance of the research on social factors' manifestation in consumer behavior, we may state that changes stipulated by the world globalization influence the alternation of social factors and the retention of competitiveness acquires an increasingly growing importance. The forecasted increase of global companies' capital flow to Lithuania may weaken the positions of local business subjects. The recognition of consumers and their behavior acquires specific importance and determination of the tendencies related to the variations of social classes allows forecasting consumer behavior related changes in future.

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Aušra Skrudupaitė, Rita Kuvykaitė

#### EINFLUSS DER GESELLSCHAFTSKLASSE AUF KONSUMVERHALTEN: KONTEXT DER EUROINTEGRATION

##### Zusammenfassung

Prozesse der Euro-Integration in Litauen sind mit dem Wandel der sozialen, wirtschaftlichen, technologischen sowie politischen Umwelt verbunden und heben Forderungen an das Handlungsniveau der Organisationen. Ermittlung der Sozialfaktoren sowie Einflussbewertung des jeden einzelnen Faktors auf das Konsumverhalten erlaubt genauer Tendenzen des Konsumverhaltens in der Zukunft hervorsagen.

Artikelgegenstand – Äußerungseigenschaften der Gesellschaftsklassen im Konsumverhalten.

Artikelzielsetzung – Hervorhebung des Einflusses der Gesellschaftsklasse auf das Konsumverhalten im Kontext der Euro-Integration.

Dieser Artikel beschreibt die Definition sowie die Herkunft des Konsumverhaltens, stellt das konzeptuelle Wesen der Gesellschaftsklassen in der Theorie des Konsumverhaltens dar, hebt die Änderungstendenzen der Sozialschichten im Kontext der Euro-Integration hervor.

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# E-BANKING IN THE CONTEXT OF BANKING CHANGES

Ugnius Smalskys

## Abstract

Banking activities are always meeting new changes and facing challenges.

After the creation of the map of e-banking and understanding the phenomenon it is possible to try generally explain the impact of e-banking in meeting requirements of “new banking”.

## Keywords

E-business, e-commerce, e-banking, new banking.

## Introduction

The problem of the article – e-banking is under the big interest of many researchers, but there was no conceptual understanding of this phenomenon. Only after the creation of the map of e-banking it is possible to explain the impact of e-banking in meeting requirements of “new banking”.

The purpose of the article – to explain the map of e-banking and impact in meeting requirements of “new banking”.

Tasks:

- Brief description of the environment of banking services sector.
- Comparison of old and “new banking”.

- Explanation of the map of e-banking.
- E-banking impact in meeting requirements of “new banking”.

To reach the purpose and tasks below mentioned methodology was used:

- the systematization of various scientific literature;
- comparative analysis.

Article Type: Concept

The environment of banking services sector

In the literature we can find many different views, which describe that traditional banking activities are not „save“ in the context of continue changes.

The whole paradigm of a business that was once dominated by banks is now in the process of shifting (Wendel and Chinn, 2000).

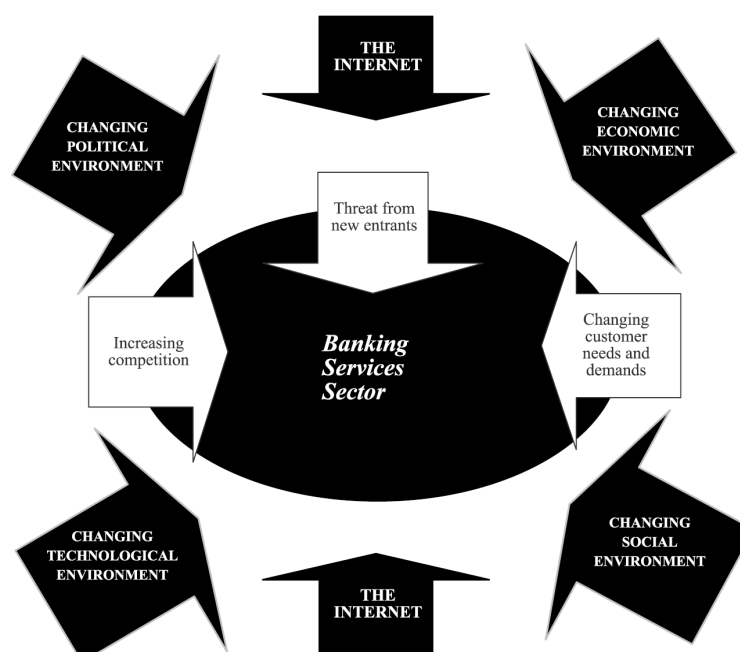


Figure 1. The banking services sector and interaction with forces

To get through banks has to focus on to these aspects:

- customer relationship management;
- creation and development of the brand;
- further innovations of products and services;

- modern e-business processes and systems development;
- multi-channel approach;
- integration of banking, marketing and technologies.

**Table 1**

Old world, new world

| <b>Old Banking</b>         | <b>New Banking</b>               |
|----------------------------|----------------------------------|
| Confined marketplace       | Unlimited market space           |
| Competition between banks  | Competition from brands          |
| Limited product line       | Extensive product breadth        |
| One-size fits all products | Customisation, innovation        |
| Branch focused e-Enabled   | Multi-channel bank               |
| Focus on cost              | Focus on cost and revenue growth |
| Revenues through margin    | Revenues generated through fees  |

Source: KPMG

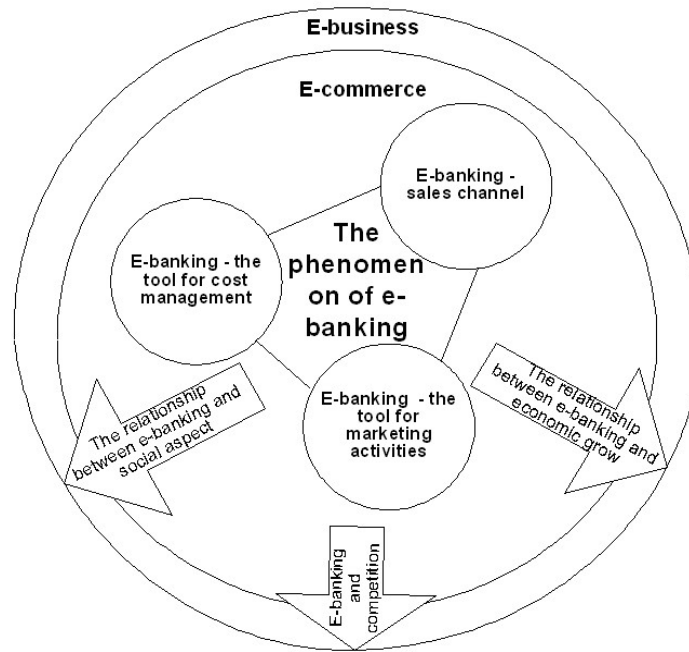
The object of the article is e-banking. The use of technologies can create advantages in many areas of bank activities in serving different segments of customers or in different bank process (creation of the product, sales, CRM, process and etc.) (Barnes and Hunt, 2001; Hagel and Singer, 1999). E-banking it is not a cheap sales channel, but it is opportunity for banks to focus on specific activities (Totonis and Foster, 1996; Mols, 1999). E-banking channels give more benefits compare with traditional branch focused (Holmsen, Palter, Simon and Weberg, 1998).

There are many different scientific and application research on e-banking, but to understand the importance of the phenomenon and impact into bank activities broad spectrum of researches regarding different aspects of e-banking was studied:

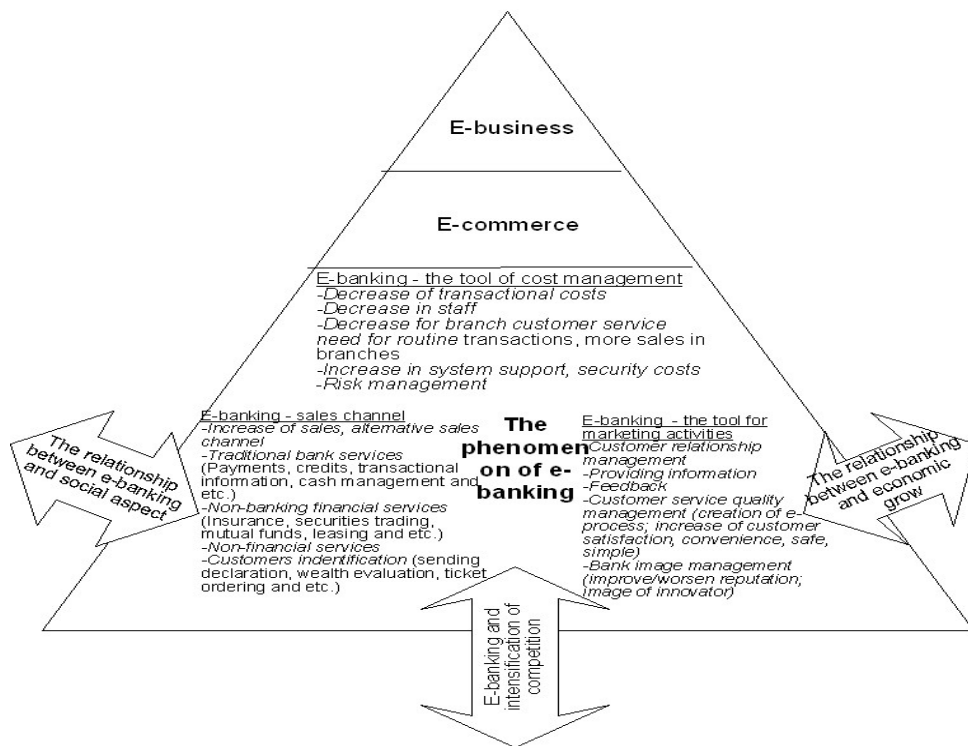
- e-business, e-commerce and e-banking (Rayport and Jaworski, 2001; Gatautis, 2002; Sodžiūtė and Sūdžius, 2003; Hoof and Stegwee, 2001; Poon and Joseph, 2001 and other authors);
- types of e-banking (PC, telephone, mobile, internet banking, e-broker, b2b and etc. Mentioned types come from superficial knowledge about e-banking);
- studies of quality in e-banking systems (Bauer, Hammerschmidt and Falk 2005; Gounaris and Dimitriadis 2003; Broderick and Vachirapornpuk 2002; Jun and Cai 2001; Jayawardhena, 2004; Gonzalez, 2003);

- e-banking impact into different areas of bank activities: process, sales, differentiation of services and etc.;
  - importance to financial services (Mols and Cronin, 1997);
  - adoption of e-banking for bank staff (Lymeropoulos and Chaniotakis, 2004);
  - impact to transactional costs (Clemons, Hitt and Kiang, 2000);
  - banks reputation (Daniel and Storey, 1997);
  - increase in risk (PriceWaterHouse Coopers, 2000);
  - differentiation of services (Birch and Young, 1997);
  - e-process and customer services (Akamavi, 2005; Mols, 2001; Kapoulas, 2002);
  - other authors;
  - studies of e-banking adoption in different countries (Eriksson, Kerem and Nilsson, 2005 (Estonia); Wan, Luk and Chow, 2005; Lforeta and Li, 2005; Pikkarainen, Karjaluoeto and Pahnla, 2004; and other authors);
  - studies regarding links of relationship marketing to e-banking (Levitt, 1986; Jackson, 1985; Gummesson, 1997; Webster, 1992; Zineldin, 2000; Rayport and Sviokla, 1995; Schwartz, 1997; Stroud, 1998);
  - IT impact into social life (Naisbitt, 1999).
- On the basis of mentioned studies it is possible to create the map of e-banking conceptions.

**Figure 2** The map of e-banking conceptions (summary)

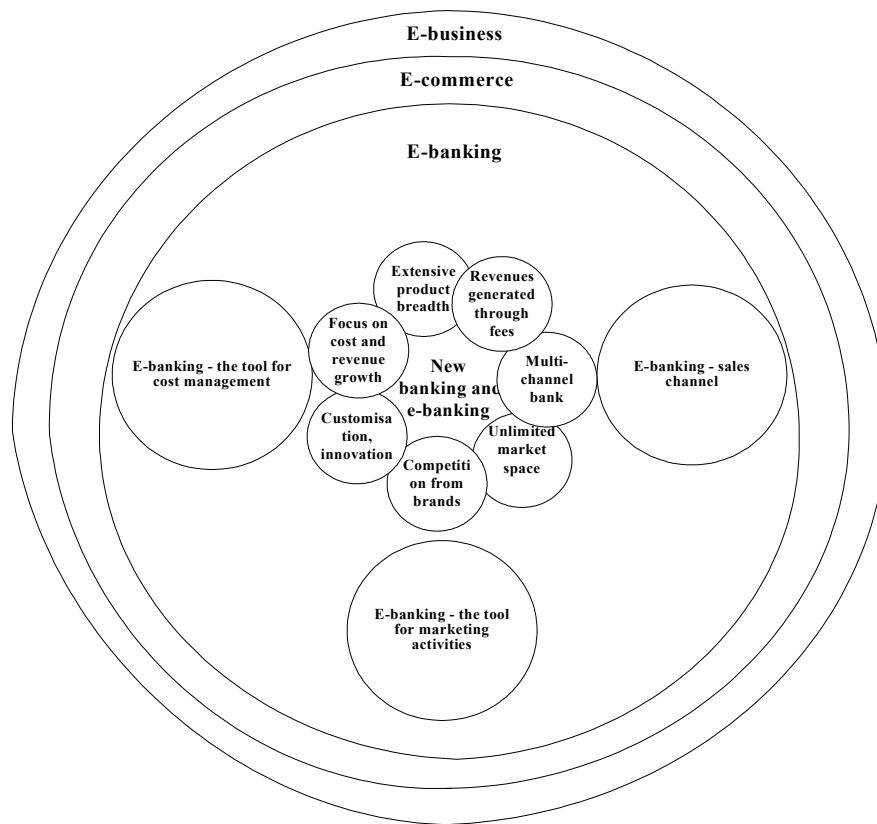


**Figure 3** The map of e-banking conceptions (detailed)



Finally it is possible to state, that e-banking map confirms importance of the phenomenon in achieving “new banking” requirements. E-banking impact in meeting requirements of “new banking” is described in figure 4.

**Figure 4** E-banking in the context of “new banking”



## Conclusions

The traditional banking activities are not „save“ in the context of continuing changes.

To get through banks has to focus on “new banking” aspects: unlimited market space, competition from brands, extensive product breadth, customisation,

innovation, multi-channel bank approach, focus on cost and revenue growth, revenues generated through fees and etc.

E-banking basic concepts: the tool for cost management, marketing activities and sales channel are factors, which impact on meeting requirements of “new banking”.

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## **E-BANKING IN THE CONTEXT OF BANKING CHANGES**

### **Summary**

Banking activities are always meeting new changes and facing challenges.

The problem of the article – e-banking is under the big interest of many researchers, but there was no conceptual understanding of this phenomenon. Only after the creation of the map of e-banking it is possible to explain the impact of e-banking in meeting requirements of “new banking”.

Tasks:

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The traditional banking activities are not „save“ in the context of continuing changes.

To get through banks has to focus on “new banking” aspects: unlimited market space, competition from brands, extensive product breadth, customisation, innovation, multi-channel bank approach, focus on cost and revenue growth, revenues generated through fees and etc.

E-banking basic concepts: the tool for cost management, marketing activities and sales channel are factors, which impact on meeting requirements of “new banking”. Fields of interest: transformation of organizations, transformation bank activities into virtual space, e-commerce, e-banking.



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# DEVELOPMENT OF TRANSPORT INFRASTRUCTURE: DIMENSIONAL ANALYSIS OF ECONOMIC EFFECTS

Asta Valackienė, Diana Micevičienė, Mona Sandbaek

## Abstract

This paper, based on recent exploration of the authors, examines the question whether and under what conditions developed transport infrastructure engender economic activity. The paper explains the nature of the problem and describes the foundations of the possible interrelation between the effects themselves and their classification. Seeking to analyze the effects in more compressive manner, the author of the article presents the initiative processes and a mechanism of their development in producing economic environment. The analysis goes through all economic dimensions.

## Keywords

Transport infrastructure, costs, traffic, economic effects

## Introduction

The linkage between transport and economy itself is a highly contentious issue which has generated considerable debate and an abundant in scientific literature. There is firmly-held belief among politicians that investment in transport infrastructure contributes to large economic effects, however this belief is not borne out by academic analysis which would seem to indicate that the impact of this type of investment remains limited. The channels and mechanisms by which improvements in transport network generates economic effects is still a “black box” despite the fact that experts on the initial impulse of the impacts causing impulse – change in costs of movement. So the *objective* of the article is to identify the main effects generated by developed transport networks appreciating qualitative as much as quantitative dimension. The *theoretical arguments* linking transportation infrastructure and economic development possesses both logical and intuitive appeal *based on systematic comparative and logical analysis*.

## 1. Issues on the Transport Infrastructure Development: Theory and Evidence

If there is one sector linked closely to regional development it is surely transport. Transport is one of the main driving forces of economic activity and cohesion, and thus a key element in the Lisbon strategy for growth and jobs. Without efficient transport networks there can be no competitiveness. Transport networks are vital for encouraging establishment of companies and development of centers of excellence and tourism. They are also a central factor in European territorial cohesion, constituting an essential link for communities and being a precondition for quality of life and employment in urban neighborhoods and in rural areas, as well as in sparsely populated mountain, island or other remote regions. Transport needs are set to increase greatly in the context of an EU that will soon include 27 Member States, and of the new EU neighborhood policy. However, there is more to transport infrastructure than simply adding kilometers of road and rail. Transport systems are at the crossroads of ‘sustainable development’ in economic, social and environmental terms. They must be part of a global

approach that takes into account the real impact of investment directed at creating and sustaining local activities and jobs, a balanced and polycentric development of the European area, and the reduction of damage to the natural and human environment. These are challenges that must be faced at regional, local and European level, in the framework of the common transport policy and the trans-European transport network (TEN-T).

In a market economy, economic growth is not based on technical progress and productivity gains alone. When economic policy was in its infancy, renewed economists such as Adam Smith and David Ricardo showed that the international division of labor also plays a major role. Even in a world without technical progress, closer ties between production zones with different production costs is in itself a factor for collective benefit. The intuition of these pioneers was later confirmed by the work of contemporary economists, leading to the famous ‘HOS’ (Heckscher, Ohlin, Samuelson) theory. This considers the free movement of goods and services to be a pertinent substitute for the unequal wealth of territories in terms of production factors. Transport infrastructure plays a key role in this. Transport infrastructure is one of the most visible examples of what can be achieved by aid from the European Regional Development Fund (ERDF) and the Social Fund. As one of the principal items of expenditure — around EUR 23 billion disbursed between 1994 and 1999 and almost EUR 35 billion allocated for the 2000–06 period — this aid has given a powerful boost to the economic launch or relaunch of many disadvantaged regions or regions undergoing restructuring.

## 2. The Nature of Economic Effects of Transport Infrastructure Development

Many economist agree (R. J. Coyle, 1994; SACTRA, 1999, M. Artis, F. Nixon, 2001; J. van Exel, 2002; A. Baublys, 2002, C. Raynaud, 2003; J. P. Rodrigue, 2004) that transport infrastructure can generate large developmental payoffs throughout society. However, as the authors of the paper noticed, *how* those effects come about is not readily understood. Variables such as the state of the transportation network, the region’s stage of economic development, the competitive structure of the

region's markets, and technological and institutional changes in transportation, communication, and production systems all affect improvements and the changes they generate, as well as how the overall economy responds. As these contexts vary, so do underlying forces of change, and the consequent social and economic effects, as it was noticed. Taking into account, that the criteria of possible classification of the effects in the academic press are still equivocal, that authors of the paper (after careful analytical work and efforts to systemize the mass of information) suggest to Accept the following presented in the Table 1. Analyzing the academic literature, the authors of the paper may conclude, that efforts to establish the

Sequence and the causing relationship between the transport infrastructure and economic performance must be impelled. For the sake of empirical adequacy of modeling the mechanism enabling understand the impact of the developed transport infrastructure on economic environment, author's present one more significant detail, often discussed in most of the studies examined. Seeking to determine the impact sprawl and present more defined manner, we do recommend separate the direct and indirect effects. As most of experts (G. Silvestini, 1996; M. Wegener, D. Böcker, 1998; I. Hussain, 2000; H. Baumir J. Kurte, 2000; R. Prud'homme, 2001; J. Exel, 2002; A. Tímár, 2003; M. Tieses, 2004; 2003; R. Pašaitis, 2003) conclude, *direct network effects* (reduced

**Table 1**

Classification Criteria of the Economic Effects of Transport Infrastructure Development

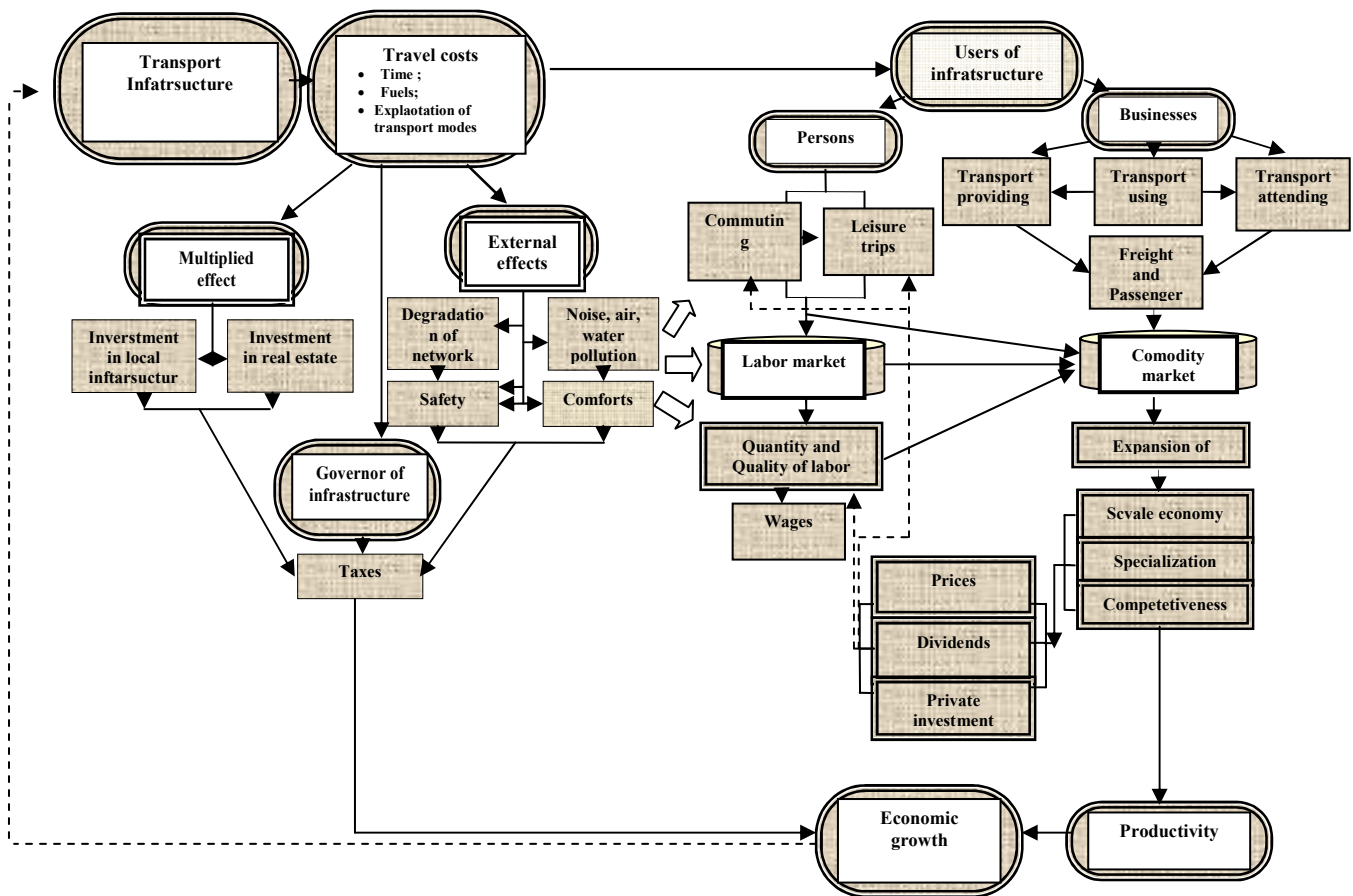
| Over time   |  |   |
|---|--|---|
| <i>Short term</i> →   | <i>Long Term</i> →   | <i>Very long term</i>   |
| Reduction of congestion<br>Rise in demand and firm's output<br>Logistical reorganization<br>Consumer Surplus<br>Gain in productivity<br>Opening greater markets | Local and regional growth<br>Export expansion<br>Entry and exit of firms<br>Regional/national integration<br>Structural effects          | Promotion of globalization processes<br>Global distribution and production<br>Global flows of goods, services, capital and knowledge  |
| 2. Geographic   |  |   |
| <i>Local</i> →  | <i>Regional</i> →  | <i>National/Supranational</i>   |
| Growing specialization of firms<br>Reducing the monopoly power<br>Changes in prices of products and production factors  | Expansion of markets<br>Growing competitiveness<br>Growing migration<br>Formation of clusters<br>Expansion of interregional relationship | Growing output<br>Growing employment rates<br>Expansion of import<br>Social and economic cohesion   |
| 3. Benefit getters  |  |   |
| <i>Infrastructure user</i> ↔  | <i>Third party involved</i> ↔  | <i>General public</i>   |
| Consumer surplus<br>Greater accessibility<br>Economies of scale<br>Places of work<br>Wide market with many niches<br>Income(from fares, user remuneration)      | Ground rent<br>Lower priced consumer goods<br>Greater supply of goods<br>Stimulation of consumption                                      | Network forming function<br>Creation ties between regions<br>Lower concentration in towns<br>Raising the rate of innovation<br>Fulfilling basic needs<br>Growing economic welfare |

Taking into account that the scope and the space of the paper prepared is limited, the authors of the article describe the findings in brief. The first criteria of classification has to do with the timing, for most authors conclude that most of the presented in the table No 1 may in the terms of duration may occur at different time. Anyway, the we do conclude, that the "margins" of the *classifications must be treated only as very conditional* and depending on the state of social, political and economic state of location analyzed. The same to be said about the appearing in geographic locations, but the ones enabling determine the beneficiaries of the improved transport networks must be considered to be absolutely and undoubtedly correct.

### 3. The Mechanism of the Impact Sprawl of the Developed Transport Infrastructure in Economic Environment

The fact that there is no

connectivity, increased activity of network users) relate to changes in demand over links and/or modes that arise on the network. Improved capacity or connectivity in a network, reduced travel times and perceived distance between locations, is likely to increase the activity span of new users of the improved network. *The indirect network effects* (sustainable transport, regional development) are connected to strategic policy objectives on regional development, land-use and sustainable transport are also referred to as spill over effects. The principal interaction between the two is presented in the Fig. 1, which is explained in detail in the next chapter of the paper. compromise on the economic benefits arising from well developed transport networks, because of the practical difficulty made by



**Figure 1.** Interrelationship between transport infrastructure development and economic performance

transport-using firms can generate economy-wide adjustments and redistributions over the long run. However, the authors conclude, that some idea is needed of the way the economy respond to such changes. The structure, integrating most assumptions, presented in former sections, and most other important details discovered by the authors, would undoubtedly ease the process of mathematical modeling practices. To this point we recommend to take into account the following relations between formally discussed variables. Typical transport infrastructure improvements reduce effective distances between origins and destinations by reducing congestion, thereby lowering travel times. Travelers gain directly from travel time savings and lowered vehicle-operating costs. Companies enjoy direct efficiency gains from cheaper and more reliable freight services and reduced assembly and delivery costs. Cheaper and better transportation services provide incentives for firms to reorganize and reduce their inventories, sometimes to just-in-time levels. The advantages of scale economies occur as firms consolidate production and distribution sites and increase outputs. Assessments of short-term effects from improved transportation typically focus on benefits to and adjustments in transport-providing firms, but the changes

made by transport-using firms can generate economy-wide adjustments and redistributions over the long run. Cheaper and better transportation promotes specialization and trade; in turn, gains from trade permeate into the far. As transport improvements lower costs and increase accessibility among various market actors (input suppliers, labor, and customers), market expansion and integration follow. The economy is constantly being restructured as firms enter and leave, making for leaner production processes, lower production costs, and higher productivity. Third, lowered transport costs and increased accessibility enlarge markets for labor and other inputs. Firms are able to draw labor from broader areas and with wider ranges of attributes, improving labor supply and lowering its costs. Similar effects occur when transport improvements open up new land for economic activities. Cumulating processes reinforce the clustering, and regional specialization develops. Sustained transportation improvements can also lead to major shifts in technology, new production structures, a dual structural shift: a new social and technical environment or a new set of economic opportunities emerges, and the pattern of relationships between the environment and social actors changes. Improvements in transport technology and infrastructure have promoted major structural changes in national economies. They continue

to facilitate globalization processes in contemporary times, much as they did in earlier eras.

Transport infrastructure improvements can also lead to major shifts in technology, new production structures, and a dual structural shift: a new social and technical environment or a new set of economic opportunities emerges, and the pattern of relationships between the environment and social actor's changes. Improvements in transport technology and infrastructure have promoted major structural changes in national economies.

#### 4. Conclusive remarks

This article advances several essential ideas. First, the economic effects of developed transport infrastructure improvements must be treated as significant benefits spreading in local, regional, national and supranational dimensions. Second, these economic outcomes vary according the state of the preexisting transport network, the state of economic and social development and finally, competition in regions. This suggest, that economic

assessments of transport infrastructure development must incorporate a broader range of interrelationships and analyzed in short, long and very long periods. Economic History teaches that sustained improvements in transportation, going hand in hand with parallel improvements in information and production technologies and institutional structures, cause structural and developmental transformations - suggesting that very long-term transport effects are *joint* consequences of the evolution of transport, information, production, and institutional structures. Third, determining the overall impact of infrastructure development in academic press remains fraught with uncertainty, so this paper has been focused on an analysis of some of the mechanism by which developed transport infrastructure we insisted, contribute as catalyst to economic performance. The mechanism relate to good market, the other - to labor market (the main "nodes" of impact analyzed are considered to be labor and commodity markets, the impact object – costs of the trip, the impact subjects – private persons and businesses).

Figure 1 summarizes the findings of the analysis.

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Asta Valackienė, Diana Micevičienė, Mona Sandbak

#### DEVELOPMENT OF TRANSPORT INFRASTRUCTURE: DIMENSIONAL ANALYSIS OF ECONOMIC EFFECTS

##### Summary

The linkage between transport and economy itself is a highly contentious issue which has generated considerable debate and an abundant in scientific literature. There is firmly-held belief among politicians that investment in transport infrastructure contributes to large economic effects ,however this belief is not borne out by academic analysis which wood seem to indicate that the impact of this type of investment remains limited Many experts agree that transport infrastructure can generate large developmental payoffs throughout economy. However, the authors conclude, that some idea is needed of the way the economy respond to such changes and present several classification criteria, sufficient establish primary effect sprawl and interrelationship between them. The structure, integrating most assumptions, presented in former sections, and most other important details discovered by the authors, would undoubtedly ease the understanding the topic discussed. To this point it is recommend to take into account the relations between formally discussed variables summarized in figure 1.

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# EVALUATION OF SOCIAL EXCLUSION AFTER PANEVEZYS BUSINESSMEN MODEL

Asta Valackienė, Regina Vasiliauskienė, Elvyra Zacharovienė, Lilia Raycheva

## Abstract

Social exclusion is formation of separate groups of people on the basis social, capital and political contacts. Social exclusion is a part of social stratification. In the broad sense of the word exclusion can be described as limitation of civil rights for certain groups of people. The causes for social exclusion can be personal as well as public. Social exclusion process and social layers of society over the last decade have been conditioned by three main groups of factors: legal-political, social-economical and cultural-psychological. During transition period in the country social exclusion is mainly connected with the standard of life, employment, living place, age and sex. Having in mind which social elements are affected there have been differentiated four kinds of social changes: structural, social, functional and motivational.

Research was carried out to research how managers value social exclusion and what they do to prevent social exclusion. The research data show the excluded group integration tendency into working environment. It has been determined that successful business administration conditions are considerably influenced by positive relations between organization and employee and identification of working values. The data points out that in order to reduce exclusion and poverty level it is necessary to invoke municipality, charitable and non-governmental organizations.

## Keywords

Social exclusion, social integration, factors influencing social exclusion.

Conception of human social development takes place in the society and principles of this conception are starting to realization in Lithuania. In separate countries as well as all over the world social inequality has been increasing. Unemployment, poverty and social exclusion challenge economic achievements. However, the essence of each state should be directed to the most important social agreement: human life quality development and full participation in both social economic lives. The term of "social exclusion" is used in all social layers more frequent. **The object** of the article is to evaluate social exclusion. **The aim** is to evaluate social exclusion using Panevezys businessmen as a model.

## The Research Methodology

The main aspects of research are formulated as follows: 1. How businessmen evaluate social exclusion. 2. Their person input to reduce of social exclusion.

The questionnaire consists of four blocks: 1. Identification of social status. 2. Individual value orientation and attitude to work. 3. Evaluation of social exclusion. 4. Social and demographic characteristics of respondents.

In research paper the questionnaire has been applied. It consists of 25 questions. Hundred questionnaires have been distributed at Panevezys Chamber of Commerce, Industry and Crafts (PCCIC) to businessmen groups during different seminars. These businessmen group have been chosen for their various social status and age aiming the exhaustive opinion.

## The Analysis and Interpretation of Research Results

The questionnaire was made in January 2005, its purpose – to establish how businessmen evaluate social exclusion and how they personally contribute to reduce of social exclusion. Hundred respondents filled the questionnaire.

Respondents social and demographic characteristics. Own opinion expressed Panevezys businessmen (100 percent): among them: woman-42 percent and men 58 percent. Social status as follows: managers of enterprises – 40 percent, own business holders – 35 percent, and professional workers – 5 percent. Respondent's intelligence: high education – 74 percent, not yet finished high education – 23 percent and higher education – 3 percent. The age of respondents: age group of 25-34 years – 20 percent, age group of 35-44 years – 42 percent, age group of 45-54 years – 31 percent, age group of 55 years and more – 7 percent.

**The first questionnaire aspect of analysis is identification of social status. First questionnaire block is appointed to ground out this aspect.**

During the analysis of research results was observed that the majority of respondents (69 percent) identify themselves with eight step of the social status, 28 percent identify themselves with seventh step of the social status, and only 3 percent of respondents identify themselves with sixth step of the social status.

Monthly incomes of respondents: 49 percent get payment 1000 Lt and more, 44 percent – 3000 Lt and more, and only 5 percent get payment 500 Lt and more. However, the less payment get respondents who have the less education and have the less responsibilities at work.

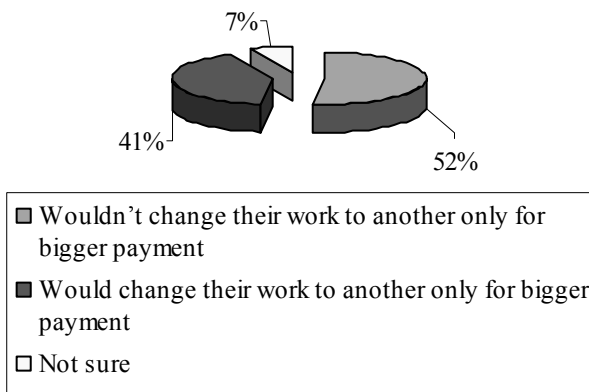
Total work record: 15 years – 27 percent, 10 years – 21 percent, 5 years – 38 percent, less than 5 years – 9 percent, more than 15 years – 5 percent.

Marital status: 53 percent - married, 37 percent - separated, and 10 percent – single.

*To generalize the results of the first questionnaire block, it may be stated that the majority of respondents have high education, identify themselves with the eight step of the social status, their income – 100 Lt and more, their total work record more than 5 years, and they are married.*

The second questionnaire block is person's value orientation and attitude to work. This block is appointed to found out what personal value orientations and attitude to work settle successful business administration conditions.

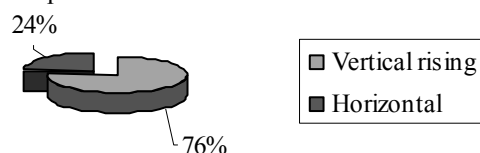
During the analysis the close relation between worker and organization was observed: 52 percent of respondent wouldn't change their work to another only for bigger payment, 41 percent would change, and 7 percent are not sure.



Picture 1. Tendencies of work changing

The relation tightness between the organization and the worker not necessary settled by payment quantity. It was observed during the analysis: 44 percent affirm that payment quantity is important, 51 percent – not very important, 3 percent – very important, and 2 percent – not important.

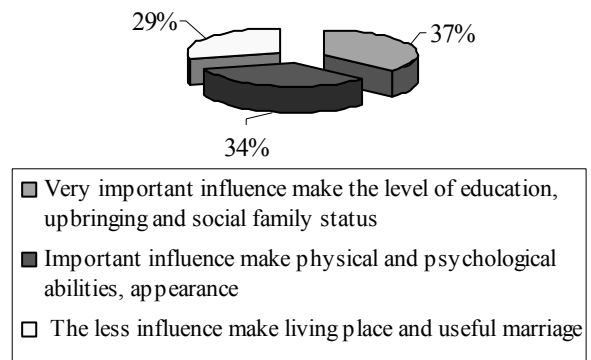
The evaluation of social mobility status confirmed that the relation between the worker and the organization directly proportional to vertical raising social mobility status: 76 percent of social mobility status – vertical rising, and 24 percent – horizontal.



Picture 2. Status of social mobility

To indicate the factors conditioning individual mobility, the question "What influence make factors as follows: social family status, education level, nationality, physical and psychological abilities, appearance, upbringing, living place, useful marriage" was presented.

37 percent of respondents think that very important influence make the level of education, upbringing and social family status, 34 percent think that physical and psychological abilities, appearance make important influence, and 29 percent of respondents think that nationality, living place and useful marriage make the less influence.



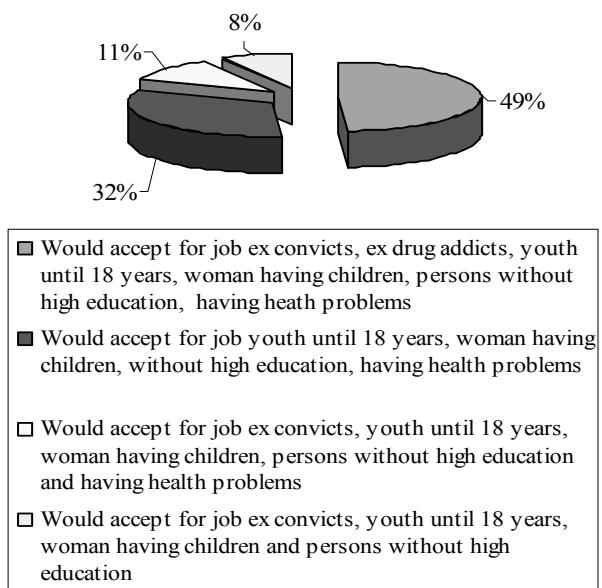
Picture 3. Influence of the factors conditioning individual mobility

It should be noted that the most disturbing social groups are: social supported persons, ex convicts, families, aged people, disabled, ex drug addicts.

Lithuania Department of social protection prepared program for social exclusion and poverty level reducing strategy.

Seeking to found out, how respondents personally take part in social exclusion reducing process. The question "Would you accept for job ex convicts, ex drug addicts, youth until 18 years, woman having children, persons without high education, dismissed for truancy, having health problems" was presented.

49 percent affirm that they would accept for job all these afore-mentioned persons except dismissed for truancy, 32 percent would accept for job youth until 18 years, woman having children, without high education, having health problems, 11 percent affirm that they would accept for job ex convicts, youth until 18 years, woman having children, persons without high education and having health problems, 8 percent – ex convicts, youth until 18 years, woman having children and persons without high education.

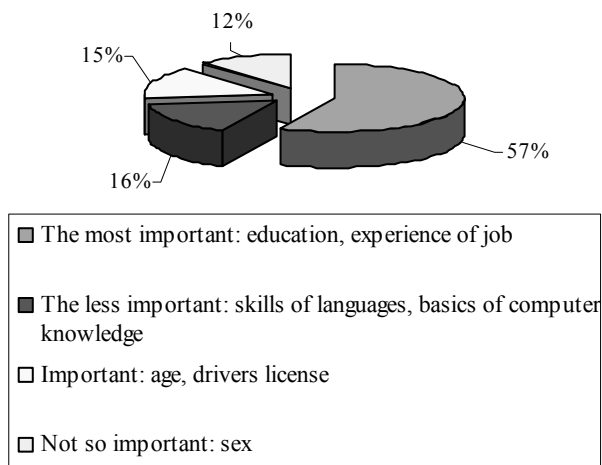


Picture 4. Acceptation for job person's from social groups

Analysis of results confirmed that 35 percent of respondents during 5 years period accepted for job 3 persons from social exclusion group, 28 percent – 2

persons, 23 percent – 1 person, and 14 percent no one, because they haven't no responsibilities to accept for job. During analysis of results was observed, that respondents mark out working values as very important: persons self-education, training of professional skills, self-realization, creative work, possibility of carrier; as important working values: good work results, work one is fond of, possibility of communication with people, good payment, work useful for society, respect of people; as not so important working values: free time planning, high position in society, quiet, lasting life.

As respondents affirm, the main criteria of accepting for job: the most important (57 percent) – education, experience of job, less important (16 percent) – skills of languages, basics of computer knowledge, important (15 percent) – age, drivers license, not so important (12 percent) – sex.



Picture 5. The main criteria of accepting for job

74 percent of respondents affirm that they always were seeking for job carrier, 26 percent affirm that they are satisfied of their carrier.

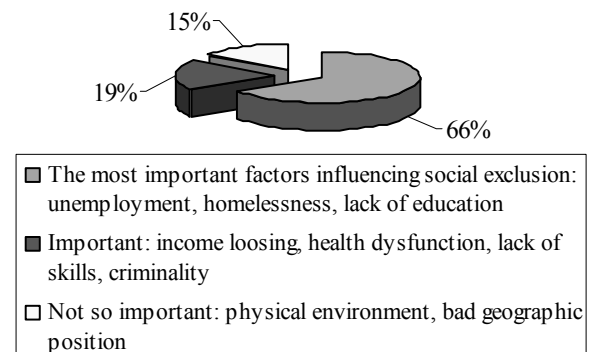
*To generalize the results of the second questionnaire bloc, it may be stated that the majority of respondents wouldn't change job for bigger payment, and the payment is not so important, that social mobility is vertical rising, and the most important factors influencing social mobility are the level of education, upbringing and social family status. The main working values generalizing profession are person's self-education, training of professional skills, self-realization, possibility of carrier and creative work. The essential criteria of accepting for job: education and experience of job. The majority of respondents were always seeking for job carrier.*

*Evaluation of results established that tendency of social exclusion group integration to work environment is: in 5 year period respondents accept for job persons from social exclusion groups.*

**The third questionnaire bloc is evaluation of social exclusion. This block is appointed to found out how respondents evaluate social exclusion as social occurrence.**

During the analysis was established that the most important factors (66 percent) influencing social exclusion: unemployment, homelessness, lack of education; important (19 percent) – income losing,

health dysfunction, lack of skills, criminality; not so important (15 percent) – physical environment, bad geographic position.



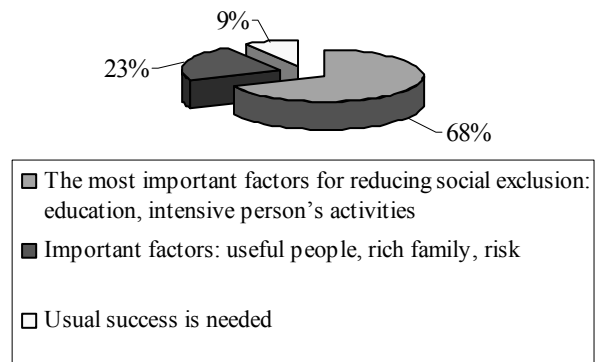
Picture 6. The importance of factors influencing social exclusion

The factors stopping society inclusion are the prejudice for ex convicts, disabled, AIDS infected, attitude to whores and etc.

The majority (92 percent) of respondents confirm that cultural and psychological factors can make trouble for all round integration.

The analysis confirmed that 98 percent of respondents think that law and political reasons of social exclusion are related with political and law barriers and 2 percent of respondents doubt about it.

Evaluation of results established that the most important factors (68 percent) for reducing social exclusion: education, intensive person's activities, important factors (23 percent): useful people, rich family, risk, and 9 percent of respondents think that usual success is needed.



Picture 7. The importance of factors for reducing social exclusion

Describing differences between people we use conception of social differentiation. Social differentiation includes differences between micro and macro groups. Inequality means that people live in different conditions, which give unequal possibilities to use material and emotional supplies.

The analysis confirms that social differentiation makes riches, power and status inequality. The majority (95 percent) of respondents think so.

During the analysis of inequality components were observed such essential components of inequality (97 percent): power, property and social prestige.

In Lithuania poverty reducing strategy and government politic means program aiming at social exclusion and



people experiencing poverty has been prepared. Municipalities, charitable and non-governmental organizations are invoked to solve these problems. The majority of respondents (97 percent) agree that businessmen have possibilities to participate in social exclusion reducing programs and only 3 percent affirm that they don't want to participate reducing social exclusion.

During analysis was observed that social economic reasons can prevent social groups to participate in social expansion programs.

*To generalize the results of the third block, it may be stated that the essential factors influencing social exclusion are unemployment, homelessness and lack of education. Also respondents agree that cultural and psychological factors prevent all round integration and the most important factors to reduce social exclusion are education and intensive person's activities. Municipalities, charitable and non-governmental organizations might be invoked in order to reduce social exclusion and poverty level.*

## Conclusions

The analysis has come up with the following conclusions:

1. Elimination of social exclusion reasons makes possible successful conditions for business administration. Otherwise, successful conditions are settled by the relation tightness between the organization and the worker.
2. Seeking for social exclusion evaluation, during the analysis of economic and social situation and examples, businessmen confirmed that the integration of social exclusion persons to work environment was observed.
3. It was established that the most important factors influencing social exclusion reduce are person's education and person's intensive activities.
4. Businessmen noticed that it's necessary to invoke municipalities, charitable and non-governmental organizations for solving social exclusion and poverty reducing problems.
5. To accomplish EU structural funds investment directions and means, employers are stimulated to organize practical teaching and acceptance for job for social exclusion groups.

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## Santrauka

Socialinė atskirtis – tai atskirų žmonių grupių susiformavimas visuomeniniiais, kapitalo ir politiniais ryšiais. Socialinė atskirtis yra socialinės stratifikacijos sudėtinė dalis. Plačiaja prasme socialinę atskirtį galima apibūdinti kaip visuomenėje egzistuojantį pilietinių teisių apribojimą tam tikroms žmonių grupėms. Socialinės atskirties priežastys gali būti asmeninio ir visuomeninio pobūdžio. Socialinės atskirties procesą sąlygojo trys veiksmų grupės: teisiniai politiniai, socialiniai ekonominiai ir kultūriniai psichologiniai veiksniai. Pereinamuoju laikotarpiu socialinė atskirtis Lietuvoje didžia dalimi siejasi su gyvenimo lygiu, užimtumu, gyvenamąja vieta, lytimi bei amžiumi. Priklausomai nuo to, kurie socialiniai elementai veikiami, skiriamos keturios socialinių pokyčių rūšys: struktūriniai pokyčiai, procesiniai socialiniai pokyčiai, funkciniai socialiniai pokyčiai, motyvaciniai socialiniai pokyčiai.

Tyrimas atliktas siekiant išsiaiškinti, kaip verslininkai vertina socialinę atskirtį ir, koks jų asmeninis indėlis dėl socialinės atskirties mažinimo. Išanalizavus tyrimo duomenis pastebėta socialinės atskirties grupės integracijos į darbo aplinką tendencija. Nustatyta, kad sėkmingo verslo administravimo sąlygas lemia stiprus organizacijos ir darbuotojo ryšys, svarbių darbo vertybių identifikavimas. Nustatyta, kad socialinę atskirtį lemiantys svarbiausi veiksniai yra bedarbiystė, benamystė, išsilavinimo trūkumas ir, kad įveikti socialinę atskirtį svarbiausi veiksniai yra išsimokslinimas ir intensyvi asmens veikla. Nustatyta, kad socialinės atskirties ir skurdo mažinimo problemoms spręsti būtina pasitelkti savivaldybes, labdaros ir paramos bei kitas nevyriausybinės organizacijas.

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# LIVING STANDARDS IN LITHUANIA: CHANGES AND TERRITORIAL DIFFERENCES

Daiva Verkulevičiūtė

## Abstract

Unequal geographic conditions and social, economic and technological factors form not only different people's needs, but also satisfaction of such needs in different parts of the country. In Lithuania it is also possible to notice a clear territorial differentiation of living standards. The average of wage among municipalities in 2000 – 2003 differed 2, 3 times. There still remain negative tendencies in changes of unemployment rate in agricultural regions where there are no big industrial and service centers. In 2000 – 2004 welfare size grew in municipalities with prevailing agricultural sector and high unemployment rate where need for this type of social payments is high and welfare size per person is relatively big.

## Keywords

Living standard, unemployment rate, territorial differences, welfare.

## Conclusions

In the Preamble of the Human Rights Declaration it is stated that, each person has a right for a sufficient living standard that would ensure his family's health and well-being (Visuotinė žmogaus teisų..., 1999, p.9). Yet, according to the results of the poll carried out in Lithuania in 2001, 79% of respondents describe protection of right for a decent living standard as bad. The poll's results reflect people's generalized opinion about enforcing of this human right. Although living standard is a result of a number of various processes going on in the society expressed in most scientific studies by concrete criteria (individual or aggregate). Unequal geographic conditions and social, economic and technological factors form not only different people's needs, but also satisfaction of such needs in different parts of the country. In Lithuania it is also possible to notice a clear territorial differentiation of living standards. Social and economic changes are accompanied by significant demographic processes which are an indirect indicator of the living standard.

After restoring of independence there were several ups and downs in growth of Lithuanian economy that had influenced changes in the living standard. Two major periods (1996 – 1999 and 2000 – 2003) may be singled out when social and economic processes were changing very intensively.

Territorial analysis of living standard and its changes allows us to determine not only geographical differences of municipalities. Knowing how social, economic and demographical phenomena changed at those times we may determine future tendencies and set out priorities of each municipality's activity in order to improve living standard. A complex geographic study of living standard criteria and especially of their changes in Lithuania conditions novelty and actuality of the topic. In order to comprehensively analyze changes of living standard in Lithuanian administrative units (municipalities) we have formulated the goal and tasks of the study and have determined its object.

*The goal of the study* is to determine differences in living standard criteria and their changes in Lithuanian municipalities.

## *Tasks of the study:*

1. To analyze distribution of average gross salary among the municipalities.
2. To determine basic differences of level of unemployment in Lithuania.
3. To analyze changes of welfare recipients ratio and welfare size among municipalities.

*The object of the study* is Lithuanian municipalities.

To analyze social, economic and demographic data we have used data base presented by Lithuanian Department of statistics, and the main method used in this work is statistic analysis (the rising and growth rates, correlation are calculated). In order to divide municipalities in groups according to similar features we have used the grouping method. A comparative analysis is used to compare social and economic phenomena. The theoretical part is based on analysis of literature and documents. The period of 2000 – 2003 (2004) is analyzed in the work.

For the visual presentation of data we have used graphic and cartographic analysis.

## 1. Literature survey

Living standard is a complex, differently understood social-economic phenomenon demanding explanation and specification of the concept. The narrowest concept explains living standard through a material aspect, as a level of provision of material conveniences for a person or a society. Anyway, living standard depends not only on material components – this is a category describing people's material well-being, provision of material and cultural values, level of satisfaction of material and spiritual needs. Most of living standard studies point out people's needs and satisfaction of such needs.

From the most general point of view living standard is the whole of economic, social, political relations and geographic background. Therefore social-economic systems situated in space create conditions for satisfaction of people's personal needs, and the level of development of system components determine the quality of satisfaction of such needs.

A sufficiently detailed study reflecting comprehensive information about living standard in the region was performed during preparation of the general plan of the

territory of the Republic of Lithuania. Analysis of life quality parameters in Lithuanian districts, cities and regions and complex assessment of life quality were performed, and received results were used to create the country's general plan, one of the main goals of which is to improve people's life quality and to smooth differences of regions (Lietuvos Respublikos teritorijos..., 1997, p.11).

In 2000 a Poverty reduction strategy and the Plan of actions directed to struggle with poverty and social separation in the Republic of Lithuania in 2004 – 2006 describing the basic short-term and long-term risk factors and specifying social groups which are in danger of poverty and social separation were confirmed in Lithuania. The basic tasks showing further ways of the problem solution are set in accordance with separate aspects (Lietuvos Respublikos 2004 - 2006 metų..., 2004).

Living standard is defined by a number of criteria, although the basis of satisfaction of all the needs is the personal income. There have been done many scientific works analyzing changes of personal income, its size, distribution among different groups of population, although there are not many studies of territorial aspects, especially in the works of Lithuanian scientists. Salary differences among municipalities were analyzed by A. Kabaila (1999), who, differentiating municipalities in accordance with the salary size, offers to consider urbanization level and a municipalities' geographic position and economic potential (regions of big enterprises). A study done by specialists of the Lithuanian Institute of Philosophy and Sociology is meant to find out different assessments of status, especially demographic one, and behavior of a family. A families' social, economic status from the point of view of income, spare time and living standard perspective is analyzed on the basis of these assessments (Mitrikas, 1997, p.80).

Personal income is ensured by employment. The opposite phenomenon is an unemployment level, distribution of which on the territory of the country has a geographic character. The territorial distribution of employment and level of unemployment in the country is analyzed in detail by S. Vaitekūnas (2006). The author differentiates municipalities in accordance with people's activity and unemployment level, analyzes changes and reasons of this social phenomenon. The author points out that not only the whole country's economic development, but also each person's living standard depends on the number of working people, their employment level and structure (Vaitekūnas, 2006, p. 206).

D. Andriušaitienė and A. Šileika (2003), having performed factorial analysis of unemployment level and other economic, social and some demographic criteria in districts and municipalities, emphasize that unemployment is the essential feature of depressive regions; therefore the priority goal in reduction of social and economic differentiation should be increase of employment in the depressive regions of the country.

## **2. Results of the study**

### **2.1. Wage differences and its changes.**

Studies of wage in the regions of the European Union allow comparing the size and structure of wage in Lithuania with corresponding EU indications of NUTS 2 level. Among the EU countries in respect of the wage size, which is about five times smaller than average wage in Luxemburg, Lithuania is at the bottom of the list, running ahead only of Latvia (Employment in Europe..., 2005, p.167 - 168). Thus, comparing by the aspect of wage – the basic source of subsistence – we should acknowledge that living standard in Lithuania is low.

Unequal development of different economic sectors in Lithuania, differences of people's qualification and education, peculiarities of the economy's historical development determine the fact that at present distribution of personal income in Lithuania has acquired a specific geographical differentiation and average of wage among municipalities in 2000 – 2003 differed 2, 3 times.

Municipalities with especially low wage (up to 75% of the country's average wage) geographically form a single area in the Northern – Middle Lithuania. Here also belongs the city of Palanga with its economical activity connected with seasonal services in the sphere of vacation, recreation, trade and food. Most of the municipalities with low wage level are characterized by a relatively higher than in other municipalities employment in the agriculture (12,29%), where wage are among the lowest as compared with other sectors of economy. There are no big industrial companies in this group of municipalities, the ratio of people employed in the industrial sector reaches only 12,83%. In the group of municipalities with a low level of wage unemployment problem is more important (unemployment rate by 3,9 per cent point exceeds the country's average figure). Employment in the sphere of services does not reach the country's average performance, either. Almost all the municipalities (except for Palanga) may be called rural (average urbanization level reaches only 37%).

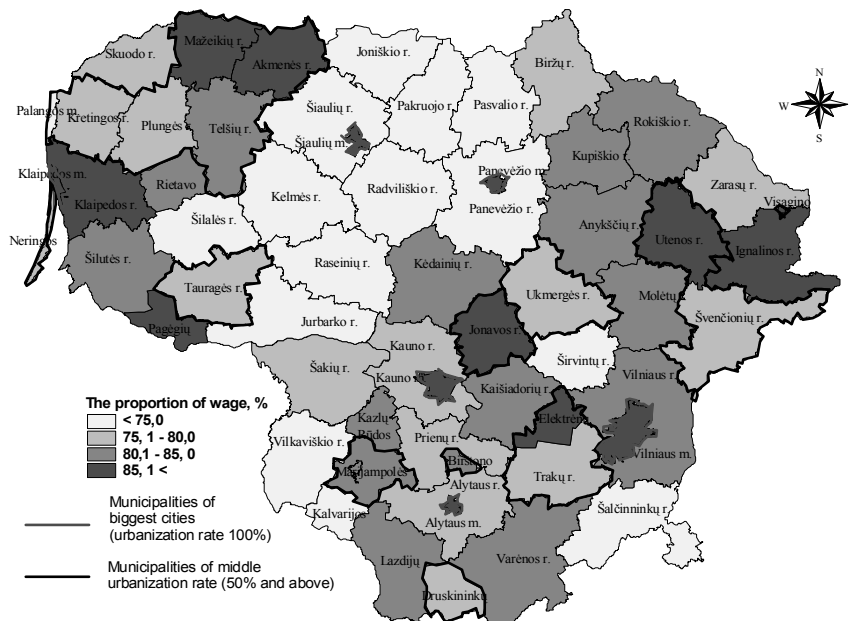
The intermediate position in respect of the wage size is occupied by municipalities situated in the Middle and East Lithuania, where there still exists higher employment in the agriculture than in the industrial sector.

At the same time high wage (85,1% and more) are determined by industrial activity as well as variety and development of services. High wage are typical for all the bigger cities that are characterized by a more developed variety of services. In all the five big cities and in Alytus average of wage exceeds 87% of the country's average of wage. It was relatively lower in the cities of Šiauliai, Alytus and Kaunas where it has not reached the country's average performance, while in the cities of Klaipėda and Vilnius average of wage was, correspondingly, 108% and 122% of the Republic's average performance.

The highest wage in 2003 were received by residents of Visaginas municipality (1634 LTL), which was 1,5 bigger than the country's average wage. About 30% of all employed residents of Visaginas work in the sphere of energetic. The level of wage in Akmenė Region, Utena

Region, Jonava Region and Mažeikiai Region municipalities was also relatively high, there are big industrial centers there that ensure high incomes for their employees, therefore the wage sizes determine a relatively bigger average of wage in the region.

This territorial differentiation of wage has not formed within just one year. Economical changes and different rates of growth of various economic sectors have determined unequal changes of wage on the territory of the country. Since 1996 average gross wage in Lithuania has grown 85,92%.



**Figure 1.** The wage in municipalities in proportion to the country's average in 2000 – 2003, %

Source: Lietuvos statistikos departamentas. Regional database. 2000 – 2003.

No correlation between the wage size and its changes has been determined. The fact that average of wage has rapidly grown in the Kalvarija municipality may be considered to be a positive phenomenon in this rural area, where income is the lowest in the country. There also was a rapid growth of wage in the Pagėgiai, Elektrėnai, Kazlų Rūda municipalities. All these municipalities were created in 2000, therefore we may state that the status of a municipality has accelerated economic development of the mentioned administrative units and has had a positive effect on the living standard. In the Rietavas municipality that received self-governing rights in 2000 the wage have also raised significantly (13,7%). At the same time Kupiškis Region, Neringa, Jurbarkas Region, Tauragė Region may be called municipalities with the slowest rate of wage growth. The wage size there in 2000 – 2003 did not grow more than 3%.

Thus, the rates of wage and, at the same time, living standard growth depends only very insignificantly on the economic development in municipalities. On the contrary – wage have grown more rapidly in the economically weakest municipalities. Yet, income is only one of the factors determining living standard. Even if wage in a municipality are high, when the number of the unemployed is high, one may not speak about high level of people's needs satisfaction or high living standard.

## 2.2. Territorial distribution and changes of unemployment rate

Economic recession, restructuring of economy, privatization process have lead to appearance of unemployment. Before 1994 the reason of increase of unemployment rate was restructuring of economy. After 1995 economic rise has begun, although it could not compensate for loss of jobs due to restructuring of economy (Valentinavičius, 2001, p.156). It is only for the last few years, as economy has been growing, that the unemployment rate has gradually decreased. Such decrease has also been influenced by emigration.

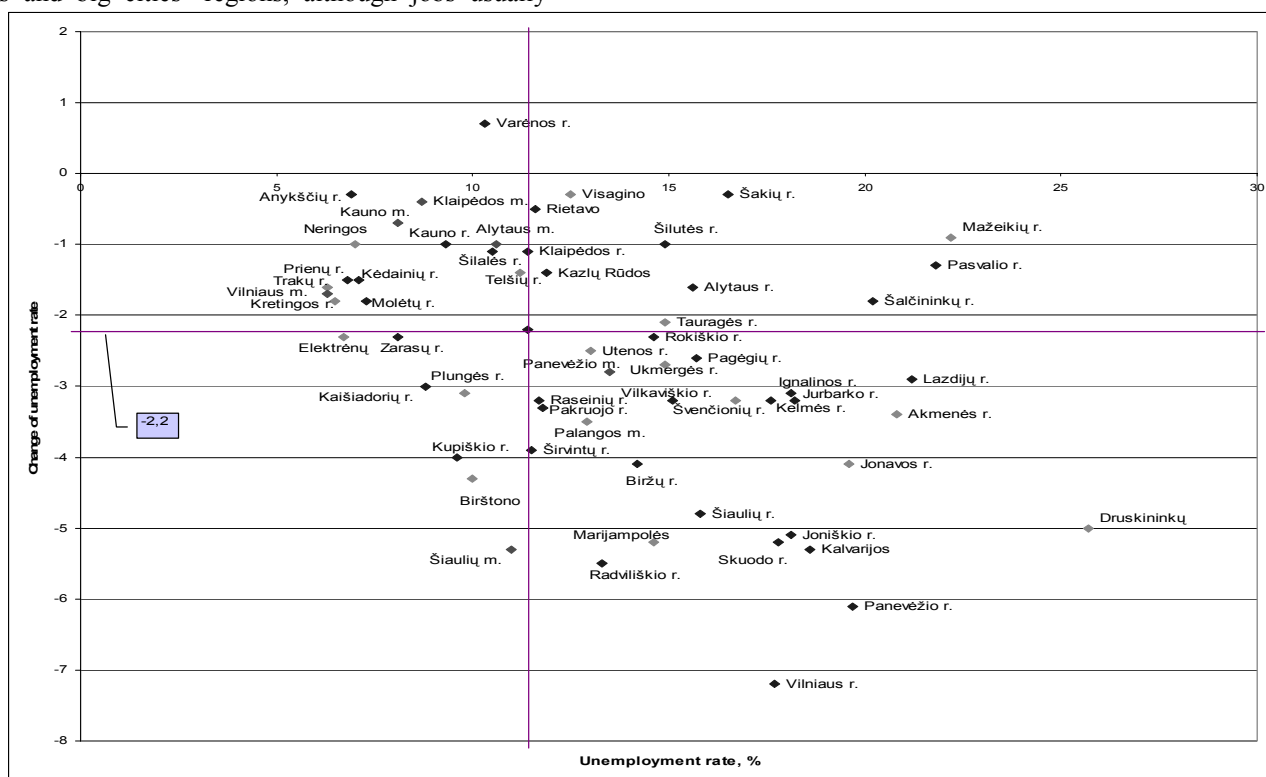
Changes of unemployment level in Lithuania reflect processes of economic development. Although from the rate and scope of changes of unemployment rate one may indirectly make conclusions about living standard tendencies, because salaries remain the main source of income, and people who have lost their jobs do not only lose the source of income, but also consumption is decreased, there appear poverty, social separation, the need for welfare grows.

Economical, social and demographic processes characterized by different rates on the territory of the country are determined not only by different sizes and types of personal income, but also by the character of unemployment. Certain geographic patterns are typical for distribution of unemployment rate in the country.

The group of municipalities with low level of unemployment (up to 10%) forms a territory between the

cities of Vilnius and Kaunas and the zone stretched to the Republic's North and South. Attraction of these two cities and their influence on the neighboring regions has different types of effect: concentrates economic units, attracts investments and thus stimulates manpower migration. In the recent years people have moved to the suburbs and big cities' regions, although jobs usually

remain in the cities. Highly qualified resources concentrate in the Vilnius – Kaunas zone where significant industrial and intellectual potential has been built. All this ensures big salaries and relatively higher living standards.



**Figure 2.** The unemployment rate (%) and change of unemployment rate (by percent units) in municipalities in 2001 – 2003  
Source: Lietuvos statistikos departamentas. Regional database. 2000 – 2003.

Another area with a low unemployment level includes municipalities in Western Lithuania concentrated around the city of Klaipėda and influenced by it, and unemployment level in Kretinga Region, Plungė Region, Neringa and Klaipėda municipalities is the lowest in Western Lithuania.

Municipalities with high and very high unemployment rate are mostly situated along the border. Remoteness from big industrial and service centers, low urbanization level, insufficiently developed industrial and social infrastructure, high level of employment in agriculture and rapid aging of population, especially in Eastern Lithuania, make the whole complex of reasons determining high unemployment rate in this group of municipalities. Therefore economic possibilities to receive salaries are smaller, and this is one of the reasons determining lower living standard. One of the most important places in the structure of economic activity in these municipalities is occupied by agriculture, although in Jonava Region, Mažeikiai Region and Akmenė Region there are big industrial centers and the ratio of people employed in the industrial sector exceeds 20%. Yet, these centers are in the cities of the region, while in villages agriculture prevails. In municipalities of Druskininkai, Lazdijai, Jonava Regions, Šalčininkai Region high unemployment rate has remained since the middle of the

nineties, in other municipalities unemployment rate has especially grown in 1999 – 2000.

Although correlation between unemployment rate and its changes is slightly negative ( $r = -0,44$ ), in some municipalities with especially high unemployment rate this factor has been intensively decreasing. Decrease of unemployment rate in 2001 – 2003 in Druskininkai (5,0 per cent point), Jonava Region (4,1 per cent point), Panevėžys Region (6,1 per cent point), Vilnius Region (7,2 per cent point), Kalvarija (5,3 per cent point) municipalities should be viewed as a very favorable phenomenon showing that situation is getting better not only on the job market, but living standard has been changing to the better as well. Yet, there still remain municipalities where high unemployment rate decreases very slowly: Mažeikiai Region (0,9%), Pasvalys Region (1,3%), Šalčininkai Region (1,8%), Lazdijai Region (2,9%), Akmenė Region (3,4%). In all these municipalities in 2001 – 2003 average unemployment rate exceeded 20%. Especially favorable tendencies on the job market have developed in Elektrėnai, Zarasai Regions, Plungė Region, Kaišiadorys Region, Kupiškis Region and Birštonas municipalities where unemployment rate in 2001 – 2003 was below average and decreased more rapidly than average. Still, a very negative tendency exists in Varėna Region – this is the only municipality where unemployment rate has increased (0,7 per cent units).

Urbanization rate has not played an important role in the changes of unemployment rate. This is confirmed by rate of decrease of unemployment rate has not reached the country's average performance, although it should be born in mind that in these cities unemployment rate was and remains one of the lowest. Unemployment rate has especially rapidly decreased in the city of Šiauliai (5,3 per cent point), therefore we may suggest that for the last few years living standard in this city has tended to grow. In Panevėžys, where unemployment rate is the highest among big cities, unemployment decreases more slowly than in Šiauliai (2,8 per cent point).

Very favorable tendencies on the job market exist in municipalities of Panevėžys Region, Kalvarija, Skuodas Regions, Joniškis Region, Šiauliai Region, Radviliškis Region, where more than one fifth of the population are occupied in agriculture. Yet, negative tendencies in changes of unemployment remain in agricultural regions where there are no big industrial and service centers – Šakiai Region, Pasvalys Region, Rietavas, Anykščiai Region. These municipalities may be called territories not only with slowly rising economy, but with unfavorable conditions for improvement of living standard.

### 2.3. Territorial differences of welfare size and its changes

Families and single people with income per person not bigger than the level of income of people supported by the state set forth by the Government equal 90% of difference between the income of those supported by the state and income of the family (single person) per month have a right to receive welfare (Socialinis pranešimas, 2005, p.103). Thus, welfare is an important source of income for poorly living families and an index of living standard. In the poverty reduction strategy it is noted that about 16% of population in Lithuania live below the poverty limit, although only about 3% of populations receive welfare (Socialinės apsaugos plėtros..., 2002, p.22).

In Lithuania 2,4% of the whole population receive welfare. In all the cities of the country, except for Panevėžys, the ratio of welfare recipients is smaller than in most municipalities. This is determined both by higher personal income and by higher employment level. In the big cities' regions (Kaunas Region, Klaipėda Region) and in neighboring municipalities (Elektrėnai, Kaišiadorys Region, Kretinga Region) the ratio of welfare recipients is also relatively low. In Kazlų Rūda and Marijampolė municipalities the per cent of welfare recipients is also relatively small, although in the latter unemployment level in 2001 – 2003 reached 15,1%.

Municipalities where ratio of welfare recipients reaches 4% – 5% and more form one big area in Western Lithuania, with municipalities along the border dominating. Yet, not in all the municipalities where the ratio of welfare recipients is 4% - 5% unemployment level is high. In Telšiai, Šilalė, Rokiškis Regions ratio of welfare recipients is relatively high, while unemployment level is close to average of the country. In the rest of municipalities unemployment level is high or very high.

Changing unemployment level determines changes of welfare size – in municipalities with high

statistic data: in the three biggest cities of the country the

level of unemployment there is the biggest part of welfare per person. This is also confirmed by correlation between unemployment level and welfare size ( $r = 0,6357$ ). This pattern is not applicable only for Varėna, Telšiai and Šilalė Regions where higher need for welfare is connected with relatively bigger part of children and teenagers, and in Varėna Region a more rapidly growing unemployment rate than elsewhere may also have had some influence. In the group of municipalities with low unemployment rate (up to 10,1%) welfare size is not high (up to 20 LTL /1 person).

Welfare size in Lithuania per person began to grow in 1998 – 1999 and reached its highest value in most municipalities in 2003. For the last few years there has been observed a tendency of decrease of welfare size and the number of its receivers.

In order to compare municipalities in accordance with welfare changes, they are divided into two big groups depending on whether the welfare size in 2000 – 2004 rose or dropped.

1. *Welfare size has grown in 23 municipalities (0,24 – 21,95 LTL/1 person).* Welfares have especially grown in those municipalities where need for this type of social payments is high and welfare size per person is relatively big. These are economically weak municipalities with a low urbanization level. There also was a high need for welfare in the industrial municipalities with medium level of urbanization: Mažeikiai Region, Jonava Region, Akmenė Region and resort Druskininkai municipality. So, industrial activity ensures employment for only a small part of a region's population. At the same time in villages where employment level is low there is a high need for welfare. Nevertheless, welfare size also grows in municipalities where people received relatively smaller welfare. Welfare size has grown in municipalities of Palanga city, Utena Region, Visaginas.

2. *Welfare size in 2000 – 2004 decreased (0,16 – 34,86 LTL/1 person).* The fact that welfare size decreases may be assessed in two ways: this shows that need for welfare decreases. Yet, welfare size depends also on municipalities' financial possibilities to pay welfare. It should also be born in mind that for the last years population in municipalities has been decreasing; changes of welfare size and the number of recipients also has influence.

Welfare size has especially decreased in Šiauliai (34,86 LTL/person). Other social and economic criteria in this city has also been changing positively, so there is a reason to think that living standard in the city of Šiauliai has been improving very rapidly. Welfare size has decreased rather significantly in municipalities with low salaries: in Kalvarija, Radviliškis Regions, Šiauliai Region, and this shows that in this respect living standard in these municipalities has been improving. Decrease of welfare size is typical for big cities and most of municipalities with medium level of urbanization, big cities' regions and neighboring municipalities.

In general we may state that changes of social and economic factors show growing living standard in Lithuania. Yet, there still remain very big differences

among the country's administration units, as well as between the cities and villages.

## Conclusions

1. Differences in personal income are determined by a variety of economic activity and its unequal development. High wage are typical for all the big cities and municipalities with well developed industrial and service sectors. In municipalities with low urbanization level where the biggest part of population is occupied in the agriculture, wage remains low (up to 75 % of the country's average of wage). The most rapid growth of wage in 2000 – 2003 registered in municipalities created in 2000, shows that economic activity was actively developed there, which created conditions for rise of living standard.
2. In the municipalities with especially high unemployment rate there was observed a positive

tendency – unemployment is intensively decreasing, although this phenomenon is not typical for all the municipalities. Urbanization level has not had any significant influence on changes of unemployment rate – rate of decrease of unemployment level in the big cities of the country in 2001 – 2003 did not reach the country's average performance. There still remain negative tendencies in changes of unemployment rate in agricultural regions where there are no big industrial and service centers.

3. Welfare is an important source of income for families living in poverty and a living standard index. In 2000 – 2004 welfare size grew in municipalities with prevailing agricultural sector and high unemployment rate where need for this type of social payments is high and welfare size per person is relatively big. Decrease of welfare size is typical for big cities and most municipalities with medium level of urbanization, big cities' regions and neighboring municipalities

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Daiva Verkulevičiūtė

## GYVENIMO LYGIS LIETUVOJE: KAITA IR TERITORINIAI SKIRTUMAI

Santrauka

Nevienodos geografinės sąlygos bei socialiniai ekonominiai ir technologiniai veiksniai formuoja ne tik skirtingus gyventojų poreikius, bet ir jų tenkinimą įvairiose šalies vietovėse. Lietuvoje taip pat galima pastebėti ryškią teritorinę gyvenimo lygio diferenciaciją. Socialinę ekonominę kaitą lydi ir reikšmingi demografiniai procesai, kurie yra netiesioginis gyvenimo lygio rodiklis.

Šiuo metu Lietuvoje gyventojų darbo pajamų pasiskirstymas įgavo specifinę geografinę diferenciaciją, o vidutinis darbo užmokestis tarp savivaldybių 2000 – 2003 m. skyrėsi 2,3 karto. Teigiamos tendencijos stebimos aukšto nedarbo lygio savivaldybėse – jose nedarbas mažėja sparčiausiai. Labai aukštas nedarbo lygis išlieka žemės ūkio rajonuose, kuriuose nėra stambių pramonės ir paslaugų centrų. Socialinės pašalpos yra svarbus skurdžiai gyvenančių šeimų pajamų šaltinis, todėl aukšto nedarbo lygio savivaldybėse išlieka didžiausias socialinių pašalpų poreikis.

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# CHANGES BASED ON INFORMATION COMMUNICATION TECHNOLOGY

Anna Vintere, Evija Kopeika, Valdis Bogdanovs

## Abstract

Modern life is outlined by changes. These changes are global and affect practically all spheres and activities of humans' life. Revolutionary transformations in field of information and technologies are important facilitators of changes and innovations. It not only the change the daily routine but also enforce a new way of thinking, change the world vision. A new form of society existence is being built – information society. The globalisation processes are intensified due to the rapid development of information communication technologies (ICT). Globalisation is connected with the emersion of new kinds of risks, which notably affect people's security. Knowledge is an instrument which facilitates both development of the country in general and development of particular individual's legal capacity, consequently – security.

## Keywords

Change, the globalization processes, information communication technologies, risks, people's security.

## Introduction

Modern life is outlined by changes, which could be characterized by: continuity and consistency, fastness and tendency of acceleration. The changes are global and affect practically all activities and fields of humans' life. As the result of changes new needs and new tendencies are created. The development process takes place alongside with an ongoing introduction of innovations in all spheres of life. Revolutionary changes in field of information and technologies are essential facilitators of changes. They not only change the daily routine but also introduce the new way of thinking, notable changes not only in society and politics but also in the world vision (Drucker, 2003). This time can be called a revolution which will change root and branch of society, economics, manufacturing branches, the work of firms and people's personal life. It is comprehensive. And it is happening now (Rideshtrol, Nurdstrem, 2002).

The issue about introduction of information communication technologies (hereinafter ICT) and application of them in all spheres of life has become the topic of the day. The global novelty of the process derives from the White Book of Europe Council, where it is marked that internationalisation of trade, the global character of technology and moreover development of information has provided humans with greater opportunities to receive information and knowledge. However considerable and necessary transformations have been created simultaneously in the demand of working skills and working models. The individual dimension is set by the White Book that defines that mobility, life long learning, the use of new technological instruments and flexible approach to mastering of skills motivates the searching for new methods which could help to approve professional skills irrespective to obtaining them or not alongside with theoretical qualification.

The globalisation processes tend to deepen as the result of the rapid ICT development. Due to this fact reciprocal dependence of countries becomes stronger with intensification of goods and capital trade, as well as international mobility of the labour force. The countries

can successfully develop with their incorporation in the commercial movement and system of international integration.

In spite of that, globalisation is connected with the emerging of new kinds of risks. The global risks caused by ICT affect or can affect each person. On the one hand, ICT enhances the legal capacity of the individual but on the other hand the caused global risks in total diminish the security of any individual. The purpose of this paper is to study possibilities of Latvia for ICT development and diminishing of its caused risks, which will be performed in the process of assessment of consequences caused by ICT development and deepening of globalisation process.

## The Characteristic of Information Society

The society has experienced different forms of organization during the process of the humanity development, which could be characterized by various features and dominants of values. The four most important models of society development could be pointed in chronological order:

- Primary society – the main value – job;
- Agrarian society – the main resource – arable land;
- Industrial society – the basic value – capital;
- Information society – the main activating force – knowledge.

At the end of the 20th century and in the beginning of the 21st century industrial society has been overtaken by a new form of society existence – information society. Knowledge becomes the driving force of this society in all spheres of activities. They incorporate in the scale of economic values alongside with capital, technologies and labour widely substituting materials, energy resources and brawn. Human, as a carrier and preserver of information and knowledge, becomes the main factor for the creation of economic growth and value.

Information society (new, digital economics) can be characterized by new environment of peoples' intercommunication, business activities and other relations. The importance of geographic location of stake holders who are involved in business or other projects



tends to diminish. This happens because availability of high quality modern communication technologies becomes more important, which provides global society in real time.

One of the first persons who described the concept of information society (society based on knowledge) was economist Fritz Machlup, who from 30-ies till 60-ies of the 20th century was engaged in analysis of the knowledge society, wherewith his book „Placement of Production and Knowledge in the United States of America” was published. Information society called as a model of society gives possibilities for peoples’ interconnection in the new environment, where availability of high quality modern technologies giving real co-operation in real time, is more important.

Jeremey Rifkin, the prezident of the Foundation on Economic Trends, the USA, Calls this age as a transition from market to network, form the ownership to Access. The significance of the property diminishes bit the value of the intellectual property increases. The knowledge obtained in the process of experience becomes an ideal product. He calls this age as the beginning of „The age of Access”. Rifkin specifies the fact that the impulse and capital of the new age is intellectual capital but human’s creative skills are the measure of wealth. In the age of Access and network, where the commerce is based on ideas, the unwordly purpose is to be omniscient, as the one who knows how to use one’s intellectual faculties will be the one who holds the power. The changes mean the transformation to the knowledge society where knowledge becomes the driving force o fall spheres of human activities. They incorporate in the scale of economic values alongside with the capital and other factors of manufacturing.

The economist P.Pommer characterizes accumulation of knowledge as the main factor influencing the manufacturing. He marks the fact that the company benefits not only from knowledge which it create but also from the total volume of knowledge in economics. The volume of knowledge increases in the course of time as enterprises invest in the process of knowledge accumulation. This means that the differences existing in nowadays life levels of different countries start to depend already on the knowledge accumulation and the development of human capital.

As we see, the new economics relates to the sphere where the use of computer becomes a routine, information is transmitted practically immediately; and hardly anything remains constant in the process and result of continuous technical transformations (Baumol, Blinder, 2004).

The conclusion is that qualitative changes in technology nowadays have caused essential transformation in society. The transition form the industrial society to the knowledge society takes place, where the work of a human both physical and intellectual more and more is being performed by the „smart” machines crated by humans. Consequently the development of society is not possible without ICT any more. However, it is necessary to obtain appropriate knowledge and master adequate skills to use them. It means that the increasing application of ICT and development of human capital becomes the main driving force of the development (Bikse, 2005).

## **Globalisation and its caused risks**

The concept of globalisation is modern and yet insufficiently defined concept which helps different authors to label rather diverse things. In spite of variety in its interpretation, globalization is a consequence of modernization and it relates to real changes which affect various areas of human activities – information and communication technologies, situation in international goods, services and other areas, situation with flow of capital, human resources and ides, condition of global environment etc. Globalisation is a consequence of modernization but not on the contrary, and it has diminished the size of the world. Consequently contacts among different cultures, which till nowadays were not real at all, now have become possible.

These changes in every area find expressions differently, however they have common basic elements. Firstly the process of globalisation means increase in economic, social, political and ecologic phenomenon scale, which is connected with the second basic feature – increase of number and intensity of reciprocal relations dependence. If two or more countries develop their reciprocal economic, political and culture connections, then the two or more parties involved gradually get used to and adapt to free access of different resources provided by their partners of co-operation; and due to specialization result stops living according to principles of self-subsistence economy (Ozoliņa, Dukāts, 2003).

Therefore countries and other subjects of international relations, their economical, and political and social security becomes dependent on international co-operation partners and conditions of their co-operation. This process could be characterized as narrowing of the global world both in time and in space dimensions and slowly changing into “global village”. The globalisation process could be described as essential changes in the management of previously mentioned areas. With the diminishing of the significance of national state broader in the process flowing of goods and services, capital, human resources as well as flows of ideas, the power and ability of the state to control or even only have a minor influence is really reduced.

In the model of global world the rules of the game are not any more dictated by the decisions of particular countries’ political leaders but by international economics itself, the market of global capital, goods and services with all its subsequent activities incorporated.

Globalisation is connected with the emergence of new kinds of risks. The first variety global risk is caused by the rapid increase of the world’s population, which takes place simultaneously with more and more intensive use of natural resources. As the result, individual activities, which in itself do not cause direct threats to their performers, if being summed up in the world’s scale, can cause hardly anticipated consequences, which can remarkably influence the security of population, and even their chances of survival. This variety of risks includes most of the global and ecological risks.

The second variety of global risks is caused by the incorporation of different countries and regions of the world in one information space, as the result negative phenomenon, e.g. financial crisis, in one country or

region can in a very short period of time take over other countries and regions, cause mass panics and at least for short-term become practically unpredictable and unruly. Many global risks of economic kind have such origin; however similar risk situations can be caused by radical socially political or nationally political ideas with rapid and massive possibilities of spreading. The basis of the third variety is the global distribution of new technologies. New technologies provide possibilities both to the development and destruction of humans' security and welfare – everything depends on the application of these technologies and purposes of their users (according to prof. A. Broka). Under conditions of globalisation it becomes more difficult to control the distribution and application of these technologies.

All varieties of risks become especially topical due to the minimal experience humans have in solving problems that are caused by interaction between the two previously mentioned elements of globalisation process – increase of intensity of reciprocal international dependence and diminishing of state's powers. The actualisation and searching for solutions is hindered by the fact that distribution of both global risks and their negative consequences are distributed very irregularly over the world; besides this irregularity is observed both comparing different regions, and as well different layers of society within one country.

### **The Management of the global risks**

In order to prevent, diminish and limit global risks, which often forward also the formation, aggravation and spreading of local risks, people must understand the connection between their individual safety and such kind of risks. Only such understanding can make people accept the decisions of their government to assign funding for solution of such problems, which do not directly affect the safety of its residents. The efficiency of the management of global risks is largely dependent on reciprocal solidarity of the parties involved in it, which must overgrow the border of national countries.

In the process of limiting global risks not only solidarity in its geographical context like solidarity with neighbours and other countries of the world is important, but also solidarity in dimension of time – ability to think not only about own individual welfare and security, but also about the rights of the next generations to safe existence.

Numerous international organizations take part in the exploration and diminishing of these global risks. For instance, United Nations Organization (UNA), while preparing for activities in the 21<sup>st</sup> century, has defined the goals at the turn of the millennium. They reflect the willingness of UNO to sort out those issues which could enhance the safety and security; elimination of poverty and famine; provision of primary education; gender equality promotion; reduce the child mortality; improve mother health; contain HIV/AIDS and other illnesses; provide sustainability of environment; develop global partnership for global development. Within these eight directions only one of them has a comprehensive character without notable influence on preventing of individual's jeopardy. Consequently it can be assumed that the strength of UNO conceals in itself the ability to

identify universal problems concerning security of people, which helps individuals to be conscious of threatening jeopardy and find their place in the international lines, balance their needs of security with the global ones. However this advantage conceals itself with some weakness. Its available fund provided for diminishing of global threats and risks, which has to be used on the national level and aiming to a particular person, are limited. Is it really possible to find a common denominator to sort out some problem, if UNO consists of 191 country with various national interests and foreign security policies, different levels of intensity relating the same problem (poverty and famine problem in Asia countries is more urgent than, for example, in Baltic States)? Even more grounded could be the question if UNO can offer some funds enhancing person's security and safety in frames of UNO global structure.

Many problems connected with person's security and safety are being popularized in Latvia with UNO intercession and support – violence against women and children in the family, human-trade, gender equality and security in society, health issues, combat drug addiction and rendering assistance to people with addictions, complying with human rights. The support provided for nongovernmental organization sector has facilitated its consolidation and rendering assistance to increase people's security and safety, as well as its engagement in the UNO network. The organizations connected with UNO help both as policy development advisors and providers of aid for solving particular problems.

Due to the development of Latvia as a democratic and economically stable country and with its partnership in UNO it becomes possible for Latvia to take an active part in the process of determining the funds for diminishing processes of global threats and practical solutions of these problems. This means that Latvia can change from the UNO aid beneficiary into the one that enhances security alongside with the developed countries of the world. If Latvia residents start to become conscious of their participation in the global processes, then their legal capacity will increase not only regarding themselves but also regarding regional and international level. International organizations offer possibilities to come out of one's shell. Since the major part of UNO defined goals concern developing undeveloped countries, the participation in this organization enables Latvian person to become a part of global partnership and an active co-partner in the process of enhancing person's global security. The priority place in the hierarchy of threats Latvia residents see threats that result of the low level of economic development, which directly affects people's security and safety, as well as their ability to forecast their future and provide necessary level of life quality. In the process of the development of the country and its society after regaining of independence important input was given by international finance organizations such as International Monetary Fund and World Bank, which work in close co-operation with UNO.

### **Education – factor of security**

Individuals are never directly contiguous with global risk because, although frequently it is a real phenomenon,

most often is described as a theoretical argument for explaining of particular regional or local problems. Global economical, social, political and ecological risks influence the security of an individual implicitly, i.e. through local risks. Consequently it is not surprising that people are most of all upset with different actual local and individual problems. They are direct and demonstrative while global problems seem to be distant and abstract. However frequently objective reasons of these local and individual problems are problems of global scale, which can be inefficient if solved on the level of separate individuals or separate countries (Ozoliņa, Dukāts, 2003).

Knowledge is also an instrument which gives possibility to think about activities possible to implement in order to activate own feelings and opinions, as well as moral position. People are often classified according to one dimension, concentrating attention on particular issues and excluding the rest. The low level of education means also low level of information.

The information literacy is a rather new concept in Latvia. This concept in „The Survey of the National Development 2004/2005” is defined as the ability and skill to find, select, assess, manage and use information; skills to assess the obtained information and its sources critically, connect the selected information with the existing knowledge; skill to use the obtained information efficiently also for solution of other problems.

The thoughts of society and realization of knowledge change under the influence of processes, currently taking place in the world, as well as change the needs of people regarding the education. All circumstances mentioned before influence the education and determine the reaction of educational establishments. Therefore all over the world the problems of improvement of education system and quality are the topics of the day.

In the meeting of Lisbon Euro Session in 2000 the task was set – till 2010 European Union has to become the most competitive economy in the world, which is based on knowledge. However, the achieving of this aim is hindered by relatively low productivity and level of employment: inefficient use of knowledge, innovations and human resources. Therefore, According to Lisbon education strategy goals for improvement of education and training system in Europe till the year 2010 there was concluded agreement on five points of reference in the development of education systems of member countries:

1. Until 2010 provide that in Europe there are not more than 10% of pupils fall off school before their time.

2. Until 2010 increase the number of mathematics, natural sciences and technologies students in European Union to 15% (providing also balance between sexes).

3. Until 2010 provide at least 85% of youth in age group till 22 have acquired secondary education (ISCED3)

4. Until 2010 in EU reduce for 20% the number of those pupils who indicate poor achievements in literacy according to international research works on education achievements.

5. Until 2010 increase at least to 12, 5% the number of those employed persons who participate in

lifelong education activities (in age group 25-64) in Europe.

These points of reference are not compulsory tasks which have to be gained till year 2010. The Council has defined them as “the level of reference for the average achievements in Europe”. National governments are invited to consider these points of reference, how and on what level they can contribute, so that in 2010 Europe achieves the goals set in Lisbon strategy. Also Latvia successfully takes part in solution of these tasks.

The development takes place alongside with continuous introductions of innovations in all spheres of human activities. The dynamic processes of development notably influences the professional qualification and competence necessary for the new specialist emphasizing the need of continuous education, professional perfection and social mobility. The rapid development of technologies defines the necessity for reclassifying in different age groups. The professional qualification and demanded competence change. Due to the rapid changes cause the situation that not any member of society is sufficiently educated. In this situation it is important to learn how to obtain new knowledge constantly. Currently students have to learn independently how to find out information, process, analyze and apply it, accept responsibility, take decisions, organize and manage its execution, have a self-assessment about the acquired results. Therefore ICT express as a resource of development in the process of education, where the establishment of human's self-confidence and employment potential is the final aim.

On the other hand, after assessing the previously described influence of global and local risks caused by ICT and globalization processes, on the individual's security, it has to be marked that employment and unemployment are the most essential factors. Almost every individual directly faces this risk.

One of the most essential preconditions for the improvement of residents' level of employment is preparing of qualified and educated specialists. The low level of education, professional qualification, that is outdated for nowadays demands, insufficient skills and knowledge to perform qualified job are the main factors that foster enduring unemployment. Moreover – insufficient knowledge of official language, disablement, reaching of pre-retirement age and the line of other factors increase the risk of unemployment. This is why it is essential to improve the quality of education, availability and compliance with the demands of labour market in all stages and kinds of education.

The level of employed residents in Latvia is comparatively high. For instance, in 2003 - 20% of employed persons was with higher education (in EU – 24%) but 66, 4% with secondary and vocational education (in EU accordingly 46%). However the research gives evidence that ICT skills are the limiting factor for 35% of all searchers for employment. Therefore currently changes in education, which are based on information communication technologies, are of special attention. The process of education should be directed towards future needs – creation of a person who is mobile, capable of continuous changes. This process is divided in two aspects:

1. Development of global information society – guide of changes;
2. Information communication technology – instrument for facilitating of changes, as in this area individual's personal interest coincides with the needs of society.

### ICT development in Latvia

As it was previously mentioned, the development of ICT infrastructure and effective use of opportunities provided by ICT provide the socially economical growth of the country, competitiveness of the regions and increase of the residents' level of life. That is why in the last years the specific weight of telecommunication branch has rapidly increased, as well as unclassified telecommunication services tend to expand both qualitatively and quantitatively. In spite of this, it is still unavailable for many residents of Latvia, especially those who live in the rural areas, to find out and apply the possibilities modern technologies provide. This causes a big difference access between urban and rural areas. The conclusion is that the development of ICT infrastructure in Latvia is not regular; and big investments are necessary to diminish the differences (Kopeika, 2004). The government's support for the creation of appropriate infrastructure is determinant on the level of activities for the residents' education in ICT area. The authors have performed SWOT analysis for ICT implementation and application in Latvia.

#### Strengths

- The conception of network framework, which allows easily to integrate in it other networks.
- Convenient use of services choice available on the network.
- Broad, easily accessed and cheap information store.
- Availability of global Internet.
- Cheap instrument for alternative communication.
- Possibilities provided by the process of e-mail information and communication exchange, possibilities of its quality and speed.
- Constantly increasing necessity to use the Internet possibilities for professional responsibilities.
- The work educational establishments do to teach pupils and students to use computer skills, use of licensed educational software for providing the acquisition of informatics as a study subject.
- Possibilities for free access of Internet in public places.
- Possibilities simultaneously obtain qualitative Internet connection service and also qualitative telephone communications.
- High level of Internet services concerning servicing possibilities and aid possibilities, which is ensured by Internet Provider Company

– responsibility of quality for the offered service.

- Possibilities for development of new services using Internet connection.
- The perspectives of telecommuting (stationary and mobile) for the further development of the branch.
- Visible possibilities for elaboration and development of new products and services – possibilities for the growth and promotion of enterprises, even in ways and areas untraditional till now.
- Etc.

#### Weaknesses

- Doubtfulness and authenticity of information found on Internet.
- The topicality, credibility and reality of information provided on websites. Websites creators' responsibility for provided information.
- Increasing of specific weight of Internet costs in the structure of household budget costs.
- The rise in prices of Internet costs in comparison with other EU member states.
- Time consuming search of information, if particular location of information is unknown.
- Frequently negative influence of Internet on daily routine of individuals.
- Formation of possible Internet addiction.
- Unequal situation in the regions of Latvia on the computer and Internet application level.
- Comparatively high costs for providing of necessary licensed computer software.
- Comparatively small specific weight of employees whose work places are fitted with computer and Internet connection.
- Low quality and insufficient quantity of information dissemination about Internet and telecommuting possibilities.

#### Opportunities

- Increasing number of users (enterprises, individuals).
- In Latvia there are most of all potentially possible Internet users in comparison with other EU member states.
- GDP tendencies of price reduction.
- Different kinds of Internet connection offering different costs.
- No special computer skills are necessary to master opportunities Internet can provide.
- Adoption of EU funding for providing of broader and higher quality Internet Access.
- EU funding for providing of computer and Internet skills mastering.
- Due to the further development of ICT branch there are wide possibilities for increase of the Internet application hours per week.
- Take over Estonian experience with activating reciprocal co-operation.

- Big specific weigh of irregular Internet users, therefore in the course of time they can become regular users of possibilities Internet provides.
- Possibilities to use Internet for personal interests and needs (employer does not control this, besides it is difficult to control and state).

### Threats

- The passive and conservative attitude (this is not for me), which is difficult to change mechanically.
- The first obtained impression and idea that Internet does not provide any useful information.
- Not everywhere (place) and not always (time) there are limitation factors for Internet use.
- The application of global Internet is impossible without good language skills.
- Typically low specific weigh of home Internet users in comparison with other EU member states.
- Low income and life level prevents households to buy computer and provide regular Internet connection.
- Problems with installing of Internet cables, as well as providing of alternative Internet connection in some regions of Latvia.
- Critical situation in one of Latvia regions – Latgale, which consequently affects also all other economic indicators of Latvia.

Ect.

Due to the development of information society possibilities for improvement of production quality for new products and services appear. Active incorporation of knowledge in the economic model, as the result of which material product widely is transferred into intellectual model, changes succession of economic basic postulates. No doubt most obvious it is observed in connection with products which are knowledge capacious; however this tendency is observed with other products with sufficient knowledge component as well. For instance, while manufacturing material products, in principle, the costs increase with every next

manufactured unit (every next mined iron ton or oil barrel is more expensive as it takes more effort to obtain it, the product has to be delivered etc.), this is also the background of inflation. Whereas with creation and accumulation of knowledge, the result is converse – the more an individual (or society in total) knows, the easier, faster, with better results and consequently cheaper it is to create and accumulate new knowledge.

In order to have a better explanation of the necessity to develop society which is based on knowledge in Latvia, it could be useful to see the experience of other countries. Ireland, which joined EU in 1973, is a very often used example. After long search it found its strong side, though. It was exactly education and knowledge, manufacturing and high technologies.

1987:

GNP per 1 resident => 60% of average

EU level

Unemployment => 17%

Government liabilities => 114% of GDP

Budget deficit => 8% of GDP

2004:

GNP per 1 resident => 115%

GDP per 1 resident => 140%

Unemployment => <5%

Government liabilities => 40% of GDP

Budget deficit => low or even surplus

Greece is a converse example, as it

invested the biggest part of EU money in the creation of infrastructure and restoration of ancient monuments but not in education, as the Irish did. Also Latvia has a real possibility to achieve high and sustainable rate of growth basing only on our knowledge and on our main wealth – our human resources. We have highly qualified labour force in traditional and knowledge capacious branches. However it is sad to say that the governing institutions have decided to go the same way Greece did, namely about 60% of structural fund resources are provided for infrastructure projects. Of course it is not bad since everybody knows that the condition of Latvia motor roads is awful, however in my opinion priorities of another kind had to be chosen.

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## **CHANGES BASED ON INFORMATION COMMUNICATION TECHNOLOGY**

### **Summary**

The development of any country nowadays is determined by ICT progress and deepening of globalization. Constantly increasing development and distribution of ICT in the world set new tasks. Therefore the problem of introduction and application of information technologies in all spheres of life has become the topic of the day. It can successfully develop alongside with the creation of the appropriate infrastructure and performing of activities for educating of the residents in the area of ICT application.

The consequences of ICT development – globalization causes new kinds of various risks, which influence safety and security of every individual. New technologies give possibilities both to improve and destroy humans' safety and welfare. Unemployment is one of the most essential factors that influence individuals' security (the objective reasons of the local and individual problems are the problems of global scale).

Knowledge is the crucial factor to diminish the influence of global and local risks on the safety of individuals. Information literacy (ability to use social activities and possibilities provided by society) is one of the most significant conditions. Information literacy is clearly connected with information communication technologies. Peoples' skills of knowledgeable and safe computer and Internet application are a significant aid in the process of the world's exploration and in the use of possibilities of social activities provided by society. Therefore ICT is expressed as a resource of development in the process of education where establishment of human's self-confidence and employment potential are the final aims.

Currently changes in education, which are based on information communication technologies, are of great importance. The process of education should be directed towards future needs – creation of a person who is mobile and capable of continuous changes.

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# MARKETING RESEARCH OF UKRAINIAN CONSUMER MOTIVATION ON HIGH-TECH MARKET

Viktoriia Zhurylo

## Abstract

As a result of the dynamic market conditions a lot of high-tech companies rely on a product focus and technology innovations ignoring customer needs. The market success directly depends on understanding the logic of consumer choice. With the purpose of defining key motivational elements and specific feature of Ukrainian consumer behavior on high-tech markets the author carries out marketing research using the methods of focus - group interviewing and sampling. Without the ability to position their products in the mind of consumers, producers will be limiting the effectiveness of advertising and promotional strategies.

## Keywords

High-tech market, high-tech products, consumer behavior, motivation, needs, marketing research.

Nowadays the development of high technology markets is an inalienable phenomenon of modern economically developed countries. Consequently, each country striving for an economic progress makes a substantial part of investment into the grouping and development of high-tech industries and markets. Lately different markets are being grouped also in Ukraine as a result of a rapid growth of demand for high technology products. Despite the elementary level of grouping the majority of markets are characterized by a highly intensive competition of established world technologic products producers. Companies struggling for the Ukrainian consumer make use of practically the whole array of marketing methods seeking consumers' brand loyalty.

The modern concept of marketing is based on the principle, according to which success and a stable market position are achieved only by the producers, whose products are oriented more or less to the key needs and expectations of consumers. It is quite evident, that while programming of marketing high-tech companies have to take into consideration the national specifics of the psychological perception of communication programs, specific feature of consumer behavior, key motivation elements along with economic, cultural and social factors as well as to study the factors, impacting consumer behavior. The aim of the article is to research the motives and needs of buyers on high-tech market in Ukraine, investigate the factors influencing the actualization of needs with the help of the marketing research.

The study of a consumer's behavior and market motivation is a relatively new trend in marketing, which is based on the knowledge, obtained in psychology, management, marketing and economics. In the last decades there has been published a great number of scientific and practical works in this field. Of particular interest are the publications of such authors as James F. Engel, Roger D. Blackwell, Paul W. Miniard, Gordon Foxall, Ronald Goldsmith, Stephen Brown. Researchers uncover the mechanisms of taking purchase decisions by consumers, specify the factors, influencing the alternation of requirements, preferences and market behavior of consumers in general, as well as explore the system of methods studying the current and forecasting of future needs in their works. The study of theoretical and practical problems of high-tech market functioning is one

of the scientists' concerns such authors as William L. Shanklin, John K. Ryans, Henry E. Riggs, R. Moriarty, T. Kosnik. The majority of researchers however emphasize the analysis of tendencies at high technology markets, general reasons of market success and failure of high-tech products, study the life cycle of technologies, account for application of certain marketing procedures and mechanisms. There was no literature studying the specifics of behavior and motivation of consumers at high-tech market published in Ukraine. Therefore we will deal with available methods and scientific theories in our research, adapting them to high-tech market specifics.

All experts studying a consumer behavior point out, that the difficulty in the consumer's motivation research consists in the circumstance, that their market behavior is mostly determined by a complex of needs rather than a single requirement. So it is hard to specify what requirement underlies the act of purchase of a certain good. Besides, taking a decision to buy something a buyer is always influenced by numerous factors that impact his behavior. There are two kinds of motivation: an extrinsic motivation – the one determined by external conditions and circumstances and an intrinsic motivation – the inner one, conditioned by individual interests, desires and intentions. Inner motivation takes place in the majority of cases, though it is dependent on the external influence. One singles out two principal groups from the whole variety of motives: rational motives and the emotional ones. Consumers mostly account for their buying decisions by rational motives, the profound analysis of their conduct however testifies to more irrational actions. The buyer virtually acts emotionally, reacting to images and impulses, connected with the product in his sub consciousness.

Traditionally marketing research of consumer behavior is provided by quantitative or qualitative methods. Quantitative method is based on interviewing of both experts and customers, qualitative one is carried out by depth or focus - group interviewing. We think that one separate method will not enable to receive the objective information concerning a question researched. Taking into account technological complexity of hi-tech products, high level of consumer risk and high degree of target segments' innovative, we recommend to use quantitative and qualitative methods together. Complexity forecasting of reaction and consumer

behavior on high technology market causes huge risks of receiving incorrect marketing hypotheses. As a result researcher will receive doubtful sampling results and develop inefficient marketing strategy. That is why the researcher has to use qualitative methods before carrying out sampling research.

During marketing research the results received at focus - group interviewing have to be compared with expert's estimations. Results of such comparison become the basis for the further actions of the researcher. If opinions of experts and focus - groups differ significantly, we suggest to acquaint experts with results of consumer interview. It will give them an opportunity to receive an additional information about researched object, expand their vision of problem, reconsider the previous estimations. Then, based on existing distinctions in results, new questionnaires are developed so that expert has to explain his answer and has to prove the indicated information. In fact, we deal with a little bit changed "Delfi" method which is one of the expert methods carried out in some stages and constructed on a principle of a feedback. The main difference is that experts are taking into account the results of consumer focus - group. After this procedure the received data is accepted as initial for updating research tasks and quantitative marketing research.

The following main results were obtained from the research of consumer behavior on high-tech market in Ukraine.

#### 1. The reasons for purchase of products and basic motives of consumers.

Basic reasons for target consumers to purchase technology products of latest models:

- ✓ purchase, made out of the necessity of solving a number of problems, that cannot be solved by other goods;
- ✓ purchase, made with the aim to get pleasure from using the product;
- ✓ purchase, made out of wish to keep up with fashion and modern trends;
- ✓ purchase, made out of psychological dissatisfaction with use of outdated technology;
- ✓ purchase, made for the reason of broad possibilities of a multifunctional product;
- ✓ purchase, made for the reason of its use by friends.

The obtained results testify to emotional, rational and social aspects, underlying the purchase of a good by the respondents. Regardless of the fact that a great part of products was purchased out of rational considerations, each purchase had the emotional component in it, its significance however compared to the rational benefit is substantially lower. In consumers' opinion the social benefit from the purchase of a good consists in the possibility to draw attention to oneself and get an individuality. The purchase of a good for the reason of its use by friends and acquaintances testifies to other people's influence on buying decisions and indicates his inclination to imitation. A considerable number of the customers stated, that on purchasing a product regardless of its purpose and circumstance they get satisfaction from

the notion of possessing the latest technology new product and use of numerous functions.

The key motives of a consumer obtained from the research results:

- ✓ time- and energy-saving;
- ✓ comfort and life easiness;
- ✓ convenience in wants satisfaction;
- ✓ self-realization;
- ✓ pleasure and getting of new experiences;
- ✓ attention and approval of other people.

#### 2. Basic incentives actualizing consumers' needs.

For most respondents the external incentive is the principal one and actualizes the want of a new product or model. About 70% of the respondents use outdated technologies, disregarding certain inconveniences. After a new technology have appeared in the market, they take interest in the new product, estimate its advantages. However, before making a purchase they anticipate market acceptance and "acknowledgement" of the new good. The customers became aware of the disadvantages of the outdated technology when receiving the information about a novelty. The general scheme of consumers' behavior is as follows:

*Came to know about the product ⇒ Got interested ⇒ Prepurchase search ⇒ Anticipated first comments of the consumers ⇒ Got persuasion about new product ⇒ Purchased.*

So a new product with new functions and capacities is the basic external incentive of needs actualization.

The rest of respondents single out the inner want of something new and claim that it is dissatisfaction with use of the existing product that induces them to the continuous search for new goods and models. This is the reason why consumers keep buying specialized technologic publications, visiting exhibitions, enquiring through the Internet, tracing new technologies and developments of technology leaders of certain categories of goods. The general scheme of their market behavior is as follows (figure 1):

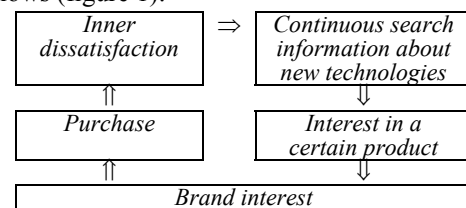
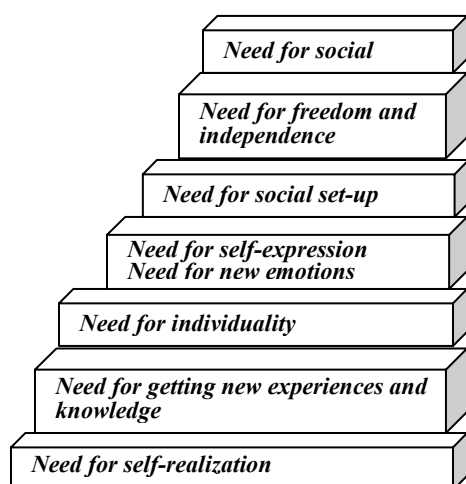


Figure 1. The general scheme of consumer behavior.

#### 3. The main consumers' needs and requirements.

At the stage of want formation the consumer becomes aware of the arisen problem and wishes to solve it. We have mentioned above, that a person's conduct is determined by a complex of wants rather than a single one. Therefore our task is to specify the needs which the consumer seeks to satisfy by high-tech products. Based on the obtained data regarding each requirement, the general hierarchy of consumers' needs is made up with the conversion of data in the general complex (figure 2).





**Figure 2.** The general hierarchy of consumers' needs

- ❑ 39 to 52 % of consumers satisfy their need for self-expression;
- ❑ 76 to 89 % of consumers realize the need for growth of capacities and self-realization;
- ❑ 18 to 29% of consumers satisfy the need for respect and acknowledgment by means of the given products;
- ❑ 48 to 62 % of consumers are satisfied with themselves and realize their need for individuality;
- ❑ 32 to 45 % of consumers satisfy the need for freedom and independence;
- ❑ 37 to 51 % of consumers satisfy the need for involvement and social set-up;
- ❑ 38 to 52 % of consumers realize the need for pleasures and new emotions;
- ❑ 77 to 87 % of consumers realize the need for getting new experiences and knowledge.

#### 4. Key motivation elements.

From our point of view curious enough is the result of the research, according to which consumers normally do not specify requirements to the principal functional area of a

product when purchasing it out of conviction that the given function is performed by practically all producers. It refers to the goods, whose life cycle is at the stage of maturity. When consumers buy a mobile phone, they do not consider the main function of the phone – connection supply as one of the basic characteristic while choosing a model. The most important parameters are: additional functions, convenience of use, reliability of the product, design. In respondents' opinion, a high price for new models of product is adequate, therefore, when the good arrives at the market, they are ready to pay a high price for it, motivating by its exclusiveness and technologic advantages. The brand loyalty at the market is directly linked with the producer's technologic leadership. In customers' opinion the name of producer is an unimportant factor when taking a purchase decision if various brands differ insignificantly in quality, price and functionality. The hierarchy of key motivation elements (with factor's significance reducing): quality, reliability, design, ergonometics, the number of functions, price, brand image, additional expenditures or the price for tying goods.

In conclusion, when analyzing the process of consumers' purchase of high-tech products in the Ukrainian market one can state, that consumer behavior is characterized by a high degree of rationality. However, important enough is the social factor, influencing the formation of the "social image" of a person using technology products as well as the personal factor, forming a consumer's individuality. The emotional component of the buying process is of particular importance when the consumer wants to satisfy the needs in self-expression, the getting of new emotions and pleasures. The motivational research allows to understand the logic of consumer choice, to make the most accurate forecast and model consumer behavior on new markets, to choose effective communication tools in promotion strategies and carry out effective marketing actions for new product successful.

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# SYSTEM OF LOGISTICS AS A PRECONDITION OF COMPANY'S COMPETITIVE ADVANTAGE

Daiva Žostautienė, Angelė Marcinkevičienė, Birutė Clotey

## Abstract

Entrepreneurs striving to make their activity efficient encounter a number of problems and in order to solve them they need to know the market better, to be able to manage the processes in it and to correctly direct efforts of their employees by aiming to meet the customer needs to the best of their ability. One of the activity spheres that ensure successful existence of a company is its system of logistics. Companies applying the newest systems of logistics in their activity can expect to optimize flows of product movement, to reduce inexpediently frozen financial resources and to give an exceptional value to the product thanks to expedition.

## Keywords

Logistics, system of logistics, competitive advantage.

## Introduction

Shorter product life cycles, stronger competition and larger customer needs make companies create such systems of logistics that would allow them to manage the whole chain of supply effectively and respond to customer needs within a minimum period of time. Not all companies, however, suitably evaluate the importance of the system of logistics and the reason for failure to conform to customer needs in the company is often the incorrectly formed system of logistics that does not guarantee supply of the right product to the market in the right time and in the right place to the respective customer with minimal costs.

**Object of the paper** is the system of logistics.

**Goal of the work** is to disclose the conceptual fundamentals of formation of the system of logistics.

**Methods of the work** are analysis and generalization of scientific literature.

## Concept of Logistics

Logistics is a rather new branch of management science in comparison to the traditional branches of finances, marketing and production organization.

The word logistics derives from the Greek word *Logistike* meaning calculation, accounting. In its general meaning **logistics** is the movement of products or raw materials from the initial point of extraction/production to the point of their consumption (Čaplikas, 1997, p. 10).

A. Garalis (1997), I. Bučiūnienė (1999) wrote in their scientific works that logistics is a sphere of practical and scientific activity comprising various issues of material flows, movement of consumption goods, organizational processes of trade activity.

According to R. Minialga (2002) **logistics** is the means of planning and execution related to objectives of the company in order to guarantee an optimal flow of materials, finances and information in production of goods which starts with collection, processing, transfer of production elements and information, and ends with distribution of the goods produced (Minialga, 2002, p. 45).

Logistics is related to the operations of customer service – acceptance and handling of orders, delivery of goods,

and includes relations with suppliers, carriers, as well as warehousing.

Inside a company logistics interacts with almost every subdivision: with finances – by planning investment and use of capital, with accounting – by evaluating distribution costs, with marketing – by securing high level customer service, with production – by supply of raw materials, material handling, storage of goods, introduction of a new product into production (Engels, 1998).

Logistics does not create new functions of a company but, considering the principle of general costs, traditional functions such as transportation, storage, and inventory management are linked in such a way that no unrelated spheres are left due to integrated management.

The necessity of logistics as a specific economic activity emerges because of the gap, discrepancy between production of goods and the **place, time, quantity and quality** (range) of consumption. A company producing goods is always more or less remote from the customer. Therefore it is necessary to eliminate this discrepancy and to make the product closer to its buyer, the customer.

## System of Logistics

The whole chain of logistics with its flows of materials and goods comprises the road from the supplier to the customer (see picture 1) and is called the **system of logistics**.

V. Čaplikas (1997) proposed that business companies convey their goods and services to customers with the help of the system of logistics. The modern system of logistics is composed of three main elements:

- logistics of procurement or purchasing;
- logistics of production;
- logistics of sales.

A product travels along this chain of the system from the material purchased to the ready product that goes to the customer. The type of product and the time when it gets to the customer depends on the way each of these components of the system of logistics is managed.

The following main elements are distinguished in the system of logistics through which flows of goods and information go:

- delivery of raw materials and semi manufactures;

- storage of goods;
- production;
- introduction to the market;
- consumption of goods (Maslen and others, 2003).

The main functions of logistics are purchasing, transportation, and warehousing.

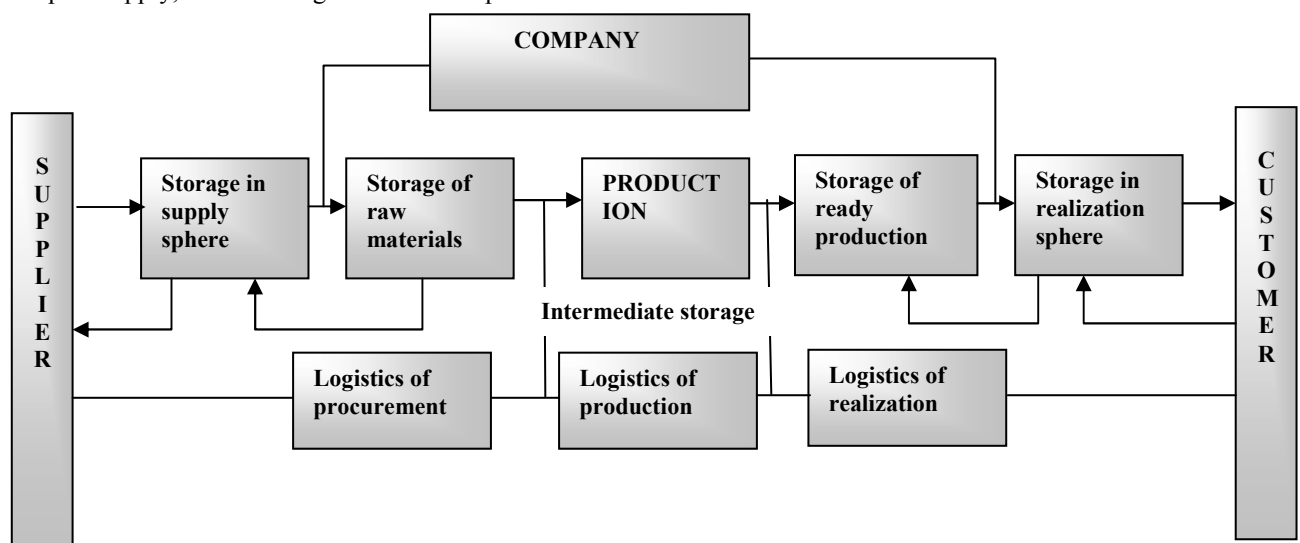
The flow of goods of the logistics chain starts from the supplier. Establishment of relationship with the supplier has impact on the whole process of logistics. During negotiations with suppliers it is very important to set suitable terms of goods delivery, to foresee the size of order of goods and the frequency of their delivery. Advantages of small and frequent as well as of large and infrequent orders are presented in Table 1.

When buying goods a company seeks to satisfy needs both of its own and of customers, to maintain uninterrupted supply, to maintain good relationship with

- management, and
- control of budget.

All channels of logistics by the use of which the manufacturer seeks to provide a certain product to the customer make up *the system of logistics* of this product. A company producing different products may have more than one system of logist suppliers, to obtain the best product for the best price according to reliability and quality.

When selecting a carrier it is important to evaluate not only transportation costs but also reliability of the carrier, compliance with terms, safety, etc.



**Picture 1.** System of logistics within a company (Židonis, 2002, p. 109)

Storage (warehousing) is one of the links of the logistics process. Raw materials delivered by suppliers, materials, goods, etc. are warehoused.

Storage is preservation of goods before consuming which allows to shorten the time of delivery of goods to customer and to deliver them to the place of their demand.

**Table 1**

Advantages of order sizes and frequency (Jewell, 2002, p. 249)

| ADVANTAGES OF A SMALL AND FREQUENT ORDER  | ADVANTAGES OF A LARGE AND INFREQUENT ORDER  |
|---|---|
| <ul style="list-style-type: none"> <li>• smaller risk of obsolescence and faults,</li> <li>• economy of insurance costs,</li> <li>• smaller demand for capital,</li> <li>• economy of space.</li> </ul> | <ul style="list-style-type: none"> <li>• economy of purchasing and delivery,</li> <li>• profit in case inventory price increases,</li> <li>• safer supply.</li> </ul> |

According to M. Bruhn (1999) systematic planning of logistics is necessary for implementation of the right policy of logistics. According to M. Bruhn this planning comprises:

- analysis of situation,
- establishment of goals,
- selection of strategy,
- formation,

After a channel of logistics is selected and formed the task to assure its efficiency arises. Problems emerge because in fact the manufacturer can control its channel of logistics without making special efforts only up to the first buyer. In order to further control physical movement of the product, it has to form a system of logistics where actions of separate participants of the channel are coordinated.

## System of Logistics as a Precondition of Company's Competitive Advantage

In pursuance of successful activity in any business it is necessary to know the system of logistics of goods, to substantially understand logistic processes taking place both inside the company and in surrounding companies, especially in those engaged in similar activity. In order to form a positive image of the company physical distribution of goods has to conform to the highest standards. Thus it is necessary to strive to know controllable elements of these processes and to aim for an increase in the efficiency of activity through their management.

D. Lambert, a researcher of logistics, stated that logistics is one of the few means for increasing efficiency of the company's activity which is still not used (Lambert, 2000).

After competition among production and trade companies increased, logistics of marketing became an important marketing problem for many manufacturers. Concentration and cooperation of trade companies has changed the ratio of forces in the sphere of logistics. The power of large trade companies and their mergers allows them to make quite a significant impact on the marketing of manufacturers. In order to maintain economic independence and to implement marketing policy of their own manufacturers have to improve systems of logistics. Ž.Židonis (2002) proposed that the importance of logistics as a means of cost reduction has increased in the seventies due to increased prices of fuel and interest rates. In order to successfully compete in the international market companies started using logistics to increase oneness of their goods. International companies need to control the supply chain effectively when materials are purchased in one part of the world, then processed in another and the customer is in the third part of the world. Most companies acknowledge that cost control and reduction is now the most important method to enlarge profitability.

Fast delivery of goods may be fatal to their sales. In many cases terms of order fulfilment are even more important than quality and price of the goods. Thus the main task of marketing logistics is to see that goods in the market are offered of high quality, in the right time and the right place and that costs arising from this are as low as possible.

Expenses of logistic operations make up about one fourth of all trade costs thus more and more attention is given to them as separate companies and reserves of profitable activity, success of competitive activity act there.

Traditional system of logistics is based on the principle of inventory warehousing. In pursue of uninterrupted production/trade a certain amount of inventory is necessary. But if the stock is too large then the financial burden is too heavy. Purchasing of inventory freezes financial resources of the company.

Company's investment into inventory often constitutes the major part of the capital being invested. Needs and requirements of customers are increasing thus companies are forced to keep much higher inventories. Concepts of delivery in due time and shortening of order cycle allow reducing quantities of stock and at the same time

maintaining quite a high standard of service. A company invests a certain amount of its funds into inventory thus when making decisions it is necessary to evaluate structure of the system of logistics, standards of customer service, location of distribution centres, inventory levels, methods of inventory storage and transportation.

The competition fight may be won by developing new products (projects) and by a radically different, non-traditional approach to logistics. Most often a rather specific list of customer requirements, expectations and sometimes even the needs not forecasted by customers themselves exist in logistic projects. For example, it is desired that goods from the warehouse reach their receiver in the shortest possible time thus goods are taken from the warehouse even four times a day. Such system of logistics is not oriented towards economy of logistics costs. However, logistics allows the customer to gain an important competitive advantage in the marketplace and thus the customer „cuts“ a larger piece of the market (Tilvytytė, 2005).

System of logistics means integral thinking and integral behaviour, thus it is necessary to:

- manage logistics starting from the highest level of management;
- project goals and strategy of logistics;
- engage well prepared employees for solution of logistic problems;
- establish impact of logistic measures on results of the company's performance;
- optimally cooperate with suppliers;
- eliminate information gaps in the company (Bučiūnienė, 1999).

Interaction of marketing and logistics is necessary in order to increase efficiency of the company's activity and this can be guaranteed only by creating a joint, united system of marketing logistics (Dargevičienė, Oržekauskas, Chreptavičienė, 2004). When forming the system of logistics it is important that the company orients not only towards cost reduction but also towards the whole of qualitative and quantitative characteristics of the logistics system that enable to successfully compete in the market by giving the customer surplus value of the goods when the customer is ready to pay more, not only to get standard benefit for the same price. Therefore a company willing to gain and maintain competitive advantage must form a system of integrated logistics, i.e. to integrate sales teams, production, physical distribution of goods, information systems, marketing personnel into the system of logistics.

## Conclusions

After reviewing scientific literature and defining the concept of logistics and the essence of the system of logistics as well as showing the system of logistics as a precondition of company's competitive advantage we may state that:

1. Exchange of goods and services is the basis of modern economics. Logistics is understood as management and control of material and information flows in order to overcome differences in requirements with regard to time,

- place, range, quantity and facilitate the exchange.
2. The whole logistic chain - the system of logistics where material flows move – comprises the road from the supplier to the customer.
  3. Companies can gain competitive advantages by rationalizing the system of logistics and in this way increase efficiency of their activity by

coordinating material, financial and information flows and by combining them into one whole in pursue to avoid freezing reserves of the company's assets - both financial means and material values – and by evaluating qualitative aspect of the logistics system and delivery of goods to customers according to their specific wishes and expectations.

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## SYSTEM OF LOGISTICS AS A PRECONDITION OF COMPANY'S COMPETITIVE ADVANTAGE

### Summary

The object of the paper is the system of logistics. The main goal of the work - to present the system of logistics as precondition of company's competitive advantage. The goal is detailed by the tasks, that determine the structure of the paper: to define the concept of logistics, to present the system of logistics and to show the system of logistics as a precondition of company's competitive advantage. Logistics is a rather new science and it is a sphere for practical and scientific activity. The analysis of literature shows that companies seek for the competitive advantages and of the possibility to have a competitive advantage is to improve the logistics systems and offer for the customer the right product at a right time in the right place at a the right price for customer as well as for company by working more efficiently and not freezing the means: financial and material products - stock.

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# BUDGET DEFICIT PROBLEMS IN LATVIA

Ērika Žubule

## Abstract

One of the requirements for the formation of budget is equilibration between revenue and expenditure. However, nowadays financial theoreticians and specialists do not speak about the well-balanced budget. During the last decade there are discussed about the acceptable limits of the budget deficit. For the EU countries such limit comprises 3% of GDP.

The government budget in Latvia has a deficit already for many years. Despite the fact that it is not too big – practically it does not exceed 2%, however, according to the opinion, it is possible to form and implement the budget in the way of well-balanced revenue and expenditure. Especially it is important under high inflation conditions that are observed in Latvia. In the scientific paper there are researched causes that initiate the budget deficit, overviewed socially economical consequences of the deficit and proposed possible solutions within the government fiscal policy.

## Keywords

Budget, state revenue, expenditures, fiscal policy, fiscal deficit, state loans.

Scientific research's goal is to investigate a concept of the budget deficit, its formation's causes and establish this effect in economy. Budget deficit problems are activated in Latvia too. The author indicates possible effects of the budget deficit and gives proposals for trends of the more efficient fiscal policy in Latvia.

Qualitative and Quantitative methods are employed to achieve the goal of the research.

Each activity of a state is related with finance. For the implementation of its tasks the government needs financial resources, which traditionally are ensured by taxes and duties set by the law. In such a way financial resources, which are necessary for the state, have been accumulated in centralised state revenue foundation and has been spent for the goals that are putted forward in the government activities. These state financial resources has been planned and approved in supreme legislation institution as the state financial plan. It should be noted that since the end of 17<sup>th</sup> century such document is calling as a budget. Also nowadays all the state financial resources traditionally are reflected in the state budget. The budget mainly is defined as drafted and approved list of the state revenue and expenditure for the certain period. However, as economic category, the state budget reflects economic relations between the state and natural and legal persons during the redistribution process of gross national product, when exploitation of reproduction process participants' incomes is taking place within the process of formation, redistribution and spending of the state centralized money foundation.

Importance of the state budget is approved by the fact that with the budget related activities have been implemented within the fiscal policy, which is aimed at ensuring of macroeconomic preconditions for the state economic development. Successful fiscal policy is related with maintenance of business activities, economic stability and effective exploitation of the state financial resources. It could be achieved exploiting the budget expenditure and taxes opportunities. Therefore, it could be concluded, that fiscal policy is the government activities on exploitation of the state revenue and

expenditure with the aim to impact the state total demand for goods and services, in such way impacting economic activities level in the country [4]

Within the fiscal policy the changes in the state budget could take place, which, according to the experience of developed countries, are related with the bigger increase of the state expenditure over the state revenue – thus leading to **the budget deficit**.

As the theoretic founder of the budget deficit is considered English economist J.M.Keins, who in 1930's has proclaimed an idea that, taking into consideration cyclic development of economy, during the economic decrease the government has lack of financial resources due to the increase of the government expenditure for the maintenance of total demand. Such the expenditure he has called as deficit expenditure, which the government should ensure with the help of the state loans. During the economic boom, when the automatic stabilisers take their action, the government should ensure financial surplus and pay back debts [5]

During the second part of the 20<sup>th</sup> century necessity of the balanced budget is not stressed any more in the developed countries, but discussions take place on such budget deficit level that favourably impacts economic processes in the country. So far as reflection of the budget deficit in absolute figures does not give comprehension of situation – either big or small is the budget deficit, such indicator as density of the budget deficit in GDP is exploited. The indicator shows the budget deficit level. According to the economic theory, acceptable budget deficit level is 2%, but for the EU countries as mandatory are so called Maastricht convergence criterion, which were set in 1999 by the EU Treaty. According to the criterion the budget deficit in the EU countries should not exceed 3% of the state GDP [4,11] As it is noted, the countries came to the agreement in the result of long discussions on possible impact of cyclical fluctuations of economic activities on the state budget. It is considered that such budget deficit level, taking into consideration activities of automatic stabilisers, gives opportunity to ensure balanced budget positions during the economic cycle. It should be noted

that according to the specialists' calculations duration of the economic cycle in Europe is about eight years.

Requirements of the Stability and Growth Pact also refer to the EU countries. The government should implement such fiscal policy, which in middle term ensures balanced budget or fiscal surplus. Correspondence to these requirements is evaluated according to the cyclic adjusted budget, taking into consideration special conditions in the economy. Therefore the government have manoeuvrability opportunities, i.e., if the economic decrease is observed in the country, then the budget revenue decreases, social payments increase, thus, the increase of budget deficit is acceptable, but its level should not exceed 3%. During the economic boom, the governments should implement strong fiscal policy, ensuring financial resources for further unfavourable economic situations.

The economists (Samuelson P.A., Bailey S.J.) suppose that it is important to evaluate causes, which lead to the bigger expenditure than possible revenue allows. Therefore the budget deficit is cyclic or structural one. *Cyclic budget deficit* is related with the economic decrease, when business activities are going down in the country, tax revenue is decreasing, but the state expenditure should be ensured. Such budget deficit was supported by J.M.Keins. *Structural budget deficit* is taking place in the result of the government's voluntary actions, when expenditure is increasing or taxes are decreasing.[1,3] In this case it should be taken into consideration that in short-term the desirable effect could be ensured, but in long-term the problems, while solving socially economic issues, could take place in the country. There should be mentioned current account deficit increase, which unfavourably impacts the state payments balance, and state debts increase, which in its turn increase annual expenditure for serving of the state debts in the state budget. This expenditure could not be appropriated for another goals, because the state has long-term debts obligations. It should be taken into consideration that investments exaction effect could be observed in a case if the government takes loans in the finance market, when development loans for the local businessmen become more expensive.

Despite the fact that the budget deficit on the acceptable level is not considered today as the government's poor actions and does not give any evidences that extraordinary situation takes place in the state economy, however limitation of the state budget fiscal deficit in middle term and formation of balanced budget in long term is an important task for every government.

The budget deficit problem in Latvia is urgent since 1993, when for the first time in the country the government expenditure inconsiderable exceeded revenue, while economic transformations to the market economy took place. First state bonds were emitted in the autumn of 1993. They were short-term with the debts payments after 28 days. Planning budget with the deficit, according to the ICF requirements, 2% of GDP, i.e., 40 millions lats, were formed budgets in 1994 and 1995. 1995 was financially difficult for Latvian government – banks crisis, problems while ensuring the state budget performance, as result the fiscal deficit was 3,1% (91 millions lats). Decreasing the government expenditure and paying bigger attention to the taxes collection, budget deficit was decreased until 1,3% in 1996 (23 millions lats). The government approved budget without deficit in 1997, but in fact there was observed fiscal surplus 1,1% in the budget (40,4 millions lats). The budget deficit in 1998 comprised just 0,8% (32,2 millions lats), but in 1999, due to the impact of crisis in Russia to the Latvia's economy and political careerism of new government, the budget deficit exceeded critical level and comprised about 4% of GDP or 164,3 millions lats. Changing governments in 2000, it was achieved decrease of the budget deficit until 2,6% and in the next years its level comprised averagely 2%.[10] It should be concluded that the state budget is not only indicator of economic processes in the country, but also important tool in the politicians' hands in order to implement aims of governing political parties. Often governments' changes in Latvia impacted also budget policy in the country, not ensuring long-term strategy for it. Thus it should be concluded that short-term fiscal policy has been implemented in the country.

**Table 1**

Latvia's State Consolidated Total Budget, Millions Lats [7,8,10]

| Year  | Revenue | Expenditure | Fiscal Balance | Fiscal Balance, % of GDP |
|-------|---------|-------------|----------------|--------------------------|
| 1996  | 1 072,3 | 1 112,2     | -39,0          | -1,3                     |
| 1997  | 1 307,2 | 1 266,8     | 40,4           | 1,1                      |
| 1998  | 1 540,0 | 1 572,3     | -32,2          | -0,8                     |
| 1999  | 1 580,9 | 1 745,1     | -164,3         | -3,9                     |
| 2000  | 1 623,0 | 1 743,1     | -120,1         | -2,6                     |
| 2001  | 1 696,9 | 1 798,4     | -101,5         | -2,0                     |
| 2002  | 1 874,0 | 2 004,5     | -130,5         | -2,3                     |
| 2003  | 2 107,4 | 2 209,8     | -102,4         | -1,6                     |
| 2004  | 2 530,1 | 2 609,1     | -79,0          | -1,1                     |
| 2005  | 3 066,2 | 3 200,7     | -134,5         | -1,7                     |
| 2006* | 3826,5  | 3980,8      | -145,2         | -1,5                     |

\* - plan

Nowadays budget deficit problems for Latvia are especially urgent. Despite the fact that the budget deficit level in the country is not high and in 2006 the state budget is approved with fiscal deficit 1,5%, however already for many years disagreement between Bank of Latvia and the government on possible decrease of the budget deficit level, limiting the government's expenditure in the taxes decrease conditions, is taking place. It should be noted that 1% of the budget deficit in absolute figures in Latvia comprises around 60 millions lats. According to the calculations of Bank of Latvia, cyclic component in Latvia's budget is 0,3-0,5% of GDP.[6] Thus, we can argue that structural budget deficit is taking place in Latvia.

Despite the fact that comparing with many EU countries, Latvia's state budget deficit is small, however, it should be stressed that since 2002 and especially in 2004 and 2005 there was rapid GDP growth in the country, i.e., averagely 8%.[10] This approves the fact that boom stage of the business cycle is taking place now in Latvian economy. The government, increasing its expenditure, actively stimulates demand and this leads to the current account deficit and especially to the urgent problem in Latvia – inflation increase. Namely due to this criteria it is problematically for Latvia to introduce the EU common currency, because inflation level in the country could not exceeds 2.5 % [11] This indicator in Latvia during the last years fluctuates from 6 until 8 % [10]

Thus, structurally balanced budget policy is not implemented in Latvia, because the state expenditure is still increasing, tax burden is decreasing, and it is not ensured situation for the support of economy in periods, when economic activities are decreasing. Priorities are not clearly defined in the budget policy, planning for them necessary financing and decreasing other expenditure. During the last years all incomes, which are ensured by the economic development, are spent. In fact in 2005, when GDP grew up by 10,2%, by amendments in the law "On The State Budget in 2005" the state budget revenue was increased by 118 millions lats, but expenditure – by 122 millions lats, thus the planned fiscal deficit also was increased from 134 millions lats until 143 millions lats [9]

Why does Latvia's government should stress its attention on the budget deficit? Both representatives of the Bank of Latvia and leading economists in the country argue that Latvia is a small country and it is much more impacted by the external shocks. Renewed Latvia has experienced economic decrease in 1995 and 1998. Thus, in current economic situation, when cyclic boom is taking place in the country, the government should implement more careful fiscal policy, because the increase of crediting values supports development of private sector and the government has not necessity to stimulate more rapid development.

Negatively should be evaluated the fact that high current account deficit still remains in Latvia – 12,45% of GDP [10] One of its supporting factors is the government's increased expenditure that leads to the import's growth. So far as Latvia fulfils fixed currency rate policy, Bank of Latvia has not many opportunities within the monetary

policy in order to limit internal demand. Thus Latvian government should start strong fiscal policy's activities, limiting the budget expenditure. It could ensure decrease of the current account deficit and allow regulating growth tempus in order to avoid economy's overheating in the country.

So far as Latvia became the EU member state, it should be taken into consideration that fiscal discipline is especially necessary in single currency zone, because in such way is ensured stable long-term economic development. In a case, when countries had their own currencies, the situation in the budget was reflected in the price of each country's currency. Increasing the budget deficit, it was necessary to take loans, and it in its turn impacted interests rates and also currency rate. It should be stressed that in the single currency zone these consequences are not in force, but taking external loan, when situation in the budget of any country is becoming worse, could be negatively impacted financial situation in the other countries.

The budget deficit is closely related with the state debt, because the state loans are the main sources to cover the budget deficit. Analysis of the state debt value gives opportunity to identify either or not the budget deficit value is dangerous for the country, and oppositely, in order to evaluate the state debt value, it is necessary to research the budget deficit increase [2] In Maastricht Treaty there is included convergence criteria for the state debt value, i.e., the total state debt could not exceed 60% of GDP [11] Comparing with this requirement, Latvia's state debt are relatively small, in 2005 it comprised 12 %, and according to the forecasts until 2010 it will not exceed 20% [9,10] Increase of the state debt definitely creates extra expenditure in the budget, because the government's loans lead to the debt serving costs. It means that correspondingly to the debt increase dynamics of the serving costs also are increasing. Until 1999 the state debt serving costs in the state budget were on the same level, i.e., averagely 20-25 millions lats, but already in 2000 they comprised 39,1 millions lats, because two emissions of eurobonds were made, and already in the next year's budget this state loan determined bigger the state debt's serving costs, which now comprised about 45 millions lats, but until 2010 they will comprise 77,8 millions lats [11] This statistics rise some questions – despite the fact that the government has declared to decrease the budget deficit in middle term and to create the budget without deficit in long-term, however planned indicators of the state finance do not give any evidences on such decision, because it is planned to increase the state debt's maximal value up to 1,9 milliards lats until 2010 and this fact points on the state plans to take new loans [11]

Thus the author supposes that the main task for Latvia's government in current economic situation is to evaluate real situation and to make possible corrections in the state economic development, decreasing internal demand and do not increasing the budget expenditure, to create fiscal balance or surplus in the state finance area, thus ensuring the country against fiscal shocks in the future. However, it



should be noted that effective corrections in the economic development should be implemented only together with coordinated monetary and fiscal policy in the country.

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## BIUŽETO DEFICITO PROBLEMAS LATVIJOJE

Santrauka

XX a. antroje pusėje išsivysčiusių šalių finansinėje praktikoje nepabrėžtas pusiausvyros biudžeto reikalingumas, o vyksta diskusijos apie tokį biudžetinio deficito lygį, kuris palankiai paveikia ekonominius procesus valstybėje.

Ekonomikos teorijoje laikoma, kad leistinas biudžetinio deficito lygis yra 2%, bet į valstybes Europos Sąjungos dalyves santykinai vadinamieji Maastrichto konvergencijos kriterijus, kurie nustato, kad biudžetinis deficitas negali viršyti 3% šalies nacionalinio bendrojo produkto (NBP). Laikoma, kad toks biudžetinio deficito lygis, atsižvelgiant į automatinį stabilizatorių veiksmą, suteikia galimybę ekonominio ciklo metu užtikrinti pusiausvyros biudžeto pozicijas.

Todėl, nors biudžetinio deficito sudarymas leidžiamajame lygyje šiandien nelaikomas blogu vyriausybės poelgiu ir neliudija, kad šalies ekonomikoje susidariusi ir pastovi nepaprastoji padėtis, tačiau valsybinio biudžeto fiskalinio deficito apribojimas vidutiniu laiku ir pusiausvyros biudžeto sudarymas ilgesniu laikotarpiu yra bet kurios vyriausybės svarbi užduotis.

Nors kelių ES šalių fone Latvijos valstybės biudžetinis deficitas nėra didelis, t.y., pastaruoju metu neviršija 2 %, tačiau reikia atsižvelgti, kad biudžetinis deficitas leistinas ekonomikai palankiose sąlygose ir sudaro kelias problemas. Nuo 2002 m. ir ypač 2004 ir 2005 m. šalyje stebimas labai greitas BVP padidėjimas, t.y., vidutiniškai 8-10 %. Tai liudija, kad Latvijos ekonomika dabar atsiranda verslinio ciklo pakilimo periodu. Vyrausybė, padidinant savo išlaidas, vis daugiau skatina vidutinį paklausą, ir tai savo ruožtu sukelia einamosios sąskaitos deficitą ir ypač Latvijai dabar aktualią problemą – infliacijos padidėjimą. Reikia pridurti, kad stačiai dėl šio kriterijaus Latvijoje problemiškas ES suvienodintos valiutos įdiegimas, nes valstybėje infliacijos lygis negali viršyti 2.5 %. Latvijoje šis rodiklis pastaruoju metu svyruoja nuo 6-8 %.

Biudžetinis deficitas glaudžiai susijęs ir su valstybine skola. Latvijos valstybinė skola yra reliatyviai nedidelė, 2005 m. tai buvo 12 %, ir prognozuojama, iki 2010 m. ji neviršys 20 %. Tačiau valstybinės skolas padidėjimas neišvengiamai sudaro papildomas išlaidas biudžete, nes imant paskolą vyriausybei atsiranda ir skolos aptarnavimo išlaidos. Tai reiškia, kad atitinkamai skolos padidėjimo dinamikai pasididina ir jos aptarnavimo mokesčiai, kurių neįmanoma nukreipti kitiems tikslams, nes valstybė prisiėmusi ilgalaikius skolų įsipareigojimus.

Autorė mano, kad svarbiausia Latvijos vyriausybės užduotis konkrečioje ekonominėje situacijoje – apsvarstyti realinę situaciją ir įvykdyti galimas korekcijas valstybės ekonominiame išsivystime, sumažinant vidaus paklausą, ir, nepadidinant biudžeto išlaidų, sudaryti šalies finansų srityje arba finansinę pusiausvyrą, arba atlieką, tokiu būdu užtikrinant valstybę nuo įmanomo fiskalinio šoko ateityje. Bet, reikia pažymėti, kad efektyvios korekcijos liaudies ūkio išsivystymui įvykdomos tik su koordinuota monetarine ir fiskaline politika valstybėje.

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# DIFFERENCES OF BUSINESS-TO-BUSINESS AND BUSINESS-TO-CONSUMER MARKETS IN THE CONTEXT OF RELATIONSHIP MARKETING

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## Abstract

Relationship marketing is interpreted by the scientists as one of the most successful ideas on the business-to-business market, however, when the company seeks to adapt the relationship marketing concept, there is a lack of specific guidelines as to how this should be done and what actual impact it has on the company's relationships with consumers and other business partners. Although some of the authors note the universality and suitability of the relationship marketing concept in business-to-business as well as business-to-consumer markets, however, in the context of relationship marketing these markets, subject to the consumer, seller, commodity and exchange characteristics, are characterized by certain distinctions. These distinctions affect the type of relationships that determine the cooperation between the company and the consumers in business-to-business markets, thanks to which the long-term value of continued relationships is created, based on commitment and trust.

## Keywords

Relationship marketing, business-to-business market, business-to-consumer market.

Liberalization of trading relationships and investing conditions, globalization processes and technological innovations expanded the consumers' choice possibilities and activated the competition. Companies are simultaneously forced to reduce the costs, improve the efficiency, improve the quality and implement innovations. Maintaining long-term relationships with consumers and other market participants and developing consumer loyalty become one of the key competitive advantages of the company and the guarantee of the financial success. Regardless of the field of business – telecommunications, provision of consulting services, transportation – represented by the company, it must create, maintain and expand the relationships with consumers as well as manage other relationships that affect this process – to follow the relationship marketing policy. Authors describe the relationship marketing concept as “the new marketing”, “business philosophy”, “management philosophy”. However, inconsistency in applying this concept complicates its implementation in companies characterized by different specifics of activities.

**Objective of the article** – to reveal the differences of business-to-business and business-to-consumer markets in the context of relationship marketing.

**Object of research** – differences of business-to-business and business-to-consumer markets in the context of relationship marketing.

**Tasks.** To reach the objective, the following partial tasks have been set:

- to reveal the essence of the relationship marketing, by highlighting the conception and beginning of the relationship marketing;
- to emphasize the differences of business-to-business and business-to-consumer markets in the context of relationship marketing.

**The method of the research** is the analysis and synthesis of the science literature.

Although more than two decades passed since L.Berry (1983) introduced the term “relationship marketing” into the marketing literature and disclosed its importance to

attracting and retraining of customers, discussions on this subject do not subside. According to L.Berry (1995), relationship marketing implies attracting and retaining of customers as well as strengthening of relationships with them. I.Chaston and S.Baker (1998) refer to relationship marketing as “the new marketing”. Followers of “the new marketing” argue, that in order to survive in highly competitive and rapidly changing markets, companies must relinquish sales management and instead commit to developing long-term relationships with consumers.

As a marketing concept, relationship marketing still is in the inception stage, although it is already established as a foundation paradigm of modern industrial and service marketing. However, its importance gains increasingly broader momentum. P.Kotler (1992) admits, that companies have to switch from short-term exchange-oriented objectives to long-term relationship development-oriented objectives. The scientist states, that the paradigm shift occurs when practitioners of certain area become dissatisfied with the explanatory variables of that area or breadth covered. According to P.Kotler, switch from focus on exchange – in the narrow sense of exchange – to focus on the development of valuable relationships and marketing networks is occurring. When shaping their strategies to retain current customers, companies channel their efforts away from the marketing mix to relationship marketing.

Individual scientists analyze the relationship marketing in the context of the development of different marketing theories, as in different countries different traditions of scientific research evolved. Seeking to classify different directions of scientific research, L.Coote (1994) singled out three approaches to relationship marketing:

⇒ English – Australian approach, which is based upon scientific research of A.Payne and D.Ballantyne (1991) and emphasizes the significance of quality management, services marketing, marketing theories and the economy of relationships with consumers in relationship marketing;

⇒ Nordic School approach (E.Gummesson, C.Gronroos, 1997), which is associated with the

interactive network theory of the industrial marketing, service marketing concept and the economy of relationships with consumers;

⇒ North American approach (L.Berry et al., 1983), which focuses on relationships between the company and the consumer.

It is not surprising, that as a corollary of contributions of different countries and different research traditions, different approaches started evolving, that became known under the relationship marketing term. However, while acknowledging the benefit provided by the relationship marketing which manifests as a possibility to retain the consumer, which, in turn, is less expensive than attracting new customers, reduced sensitivity of consumers to prices, economy due to lower marketing costs and increased profitability, the scientists disagree about the contents of this conception and implementation possibilities.

Different authors comprehend relationship marketing differently. As already mentioned, L.Berry (1983) was the first to introduce the relationship marketing idea. The author examines relationship marketing as a means to attract and retain the consumers of service companies. Representative of the North American School, B.Jackson (1985) already speaks about consumers of goods and services and puts more emphasis on *business-to-business* sector relationships. R.Morgan, S.Hunt (1994) and D.Ballantyne (1994) provide broader definitions. These authors in relationship marketing emphasize building and maintaining relationships as well as reciprocal interaction and keeping of promises.

Regardless of whether it is profit-seeking or not, every company has one key function – to satisfy its consumers. Moreover, the company's success on the market depends on success in meeting the consumer needs as well as the ability to maintain long-term relationships. M.Christopher et al. (1991) defined the relationship marketing as integration of customer service, quality and marketing.

J.Sheth's (1994) interpretation of relationship marketing is similar to L.Berry's (1983), and is rather limited, as stipulates only supplier and consumer relationships. According to E.Gummeson (1996) who represents the Nordic Business School, relationship marketing means marketing seen as relationships, networks and interaction. Relationships are contacts between two or more people, which also exist between people and objects, symbols and companies. Networks are sets of interactions, whereas interaction implies activities taking place within relationships and networks. Thus, this definition is based on three key variables: relationships, networks and interaction. Variables, determined during research, are common for goods and services. This is the only definition, including the notions of networks and interaction and based upon relationship perspective in business-to-business market. In A.Eggert and G.Fasson's (2001) definition of relationship marketing the key role is assigned to Internet. The scientists emphasize deliberate selection and orientation to individual consumers, since this way data is obtained and accumulated. The majority of ideas and concepts discussed above are encountered in C.Gronroos's (2000) definition of relationship marketing, where he presented such objectives of relationship

marketing: to identify and build, maintain, strengthen and, when necessary, terminate the relationships with consumers and other concerned parties, while seeking for profits and striving to achieve the aims of all the parties concerned, which is carried out by mutually giving and keeping promises. The scientist states, that relationship marketing is more suitable as the general theory of marketing than the conventional marketing.

In summary it might be stated that advancement of science and technique, growth of service sector, increasing competition as well as the variety of consumer needs and steady changes in them determined the necessity for a new approach to the development of activities. It is evident, that in the context of the development of different marketing theories, authors define the relationship marketing from varying positions: some examine it as a means to attract and retain the consumers, others – emphasize building and maintaining relationships as well as reciprocal interaction and keeping of promises, yet others – specify only supplier and consumer relationships. However, all of them recognize that maintaining and strengthening of company's relationships with other market players, which are built on trust, commitment and other features, comprise the bottom line of the relationship marketing.

Although some of the note the universality and suitability of the relationship marketing concept in business-to-business as well as business-to-consumer markets, in the latter context this concept is discerned by certain peculiarities.

In scientific literature, business-to-business market is interpreted as individuals or companies that need goods and services for production, sales, lease or distribution of other goods or services (W.G.Nickels, J.M.McHugh, S.M.McHugh, 2002). Contrary to the business-to-consumer market, this market is characterized by geographically concentrated large consumers, complex process of procurement and procurement center that makes the decisions, professional motives and skills of the consumer, relatively small number of intermediaries and technological relationship (S.Hollensen, 1998). On top of that, companies that sell in business-to-business market, foster closer relationships with consumers (see Table 1). Requirements for lower prices of goods and higher profits, shorter life cycles of commodities and global competition – these are the key factors that determine stronger relationships between the company and the consumer in this market (M.Holmlund and S.Kock, 1995).

Let us analyze the differences between the business-to-business and business-to-consumer markets in the context of relationship marketing basing on the example of cargo vehicles industry. Three major manufacturers comprise the market for the production of cargo vehicles, by significance and size - Daimler Chrysler, which makes Mercedes trucks, Volvo Renault conglomerate and Scania. Iveco, MAN, DAF, Nissan are the smaller players in the business-to-business market (R.Wendelin, 2004).

**Table 1**  
Differences between the Business-to-Business market  
and Business-to-Consumer market (source: J.Workman,  
K.Webb, 1999)

| MARKET CHARACTERISTICS                   | Business-to-consumer market | Business-to-business market |
|--|-----------------------------|-----------------------------|
| <b>Buyer characteristics</b>             |                             |                             |
| Buyer geographic concentration           | Low                         | High                        |
| Buyer knowledge level                    | Low                         | High                        |
| Buyer loyalty                            | Low                         | High                        |
| Buyer purchase involvement               | Low                         | High                        |
| Buyer purchase motives and skills        | Emotional/self-gratifying   | Rational/professional       |
| Buyer size                               | Small                       | Large                       |
| Buying center complexity                 | Low                         | High                        |
| Buying center size                       | Individual                  | Group                       |
| Number of buyers                         | High                        | Low                         |
| <b>Seller characteristics</b>            |                             |                             |
| Key account management                   | Not important               | Important                   |
| Number of sellers                        | High                        | Low                         |
| Seller knowledge level                   | Low                         | High                        |
| <b>Product characteristics</b>           |                             |                             |
| Product specification                    | Standardized                | Customized                  |
| Purchase process                         | Simple                      | Complex                     |
| Purchase risk                            | Low                         | High                        |
| Service requirement                      | Low                         | High                        |
| Systems selling                          | Less frequent               | More frequent               |
| Technical complexity                     | Low                         | High                        |
| <b>Exchange characteristics</b>          |                             |                             |
| Average sales size                       | Small                       | Large                       |
| Buyer dependence on the seller           | Low                         | Varying                     |
| Buyer power                              | Low                         | High                        |
| Buyer size in relation to seller size    | Small                       | Varying                     |
| Buyer/seller exchange                    | Transactional               | Relational                  |
| Buyer/seller reciprocity                 | Low                         | High                        |
| Ease of buyer switching from seller      | Easy                        | Difficult                   |
| Idiosyncratic investments                | Low, tactical               | High, strategic             |
| Level of contractual agreements          | Low                         | High                        |
| Negotiation level                        | Low                         | High                        |
| Party steering buyer-seller relationship | Seller                      | Varying                     |
| Purchase frequency                       | High                        | Low                         |
| Seller dependence on the buyer           | Low                         | Varying                     |

The link between the sales and service is the fundamental precondition of the operation of cargo vehicle industry. Its visible manifestation to the consumer is a cargo vehicle sales company, which sells the vehicles as well as provides the service after sales, i.e., technical

maintenance, repairs, supply and sales of spare parts. It is noteworthy, that service, operating in business-to-business market, in comparison to services to the final consumer in business-to-consumer markets, is characterized by closer relationships with consumers and higher requirements for quality. When providing the maintenance services, the process involves many employees and departments, on whose behavior and competence depends the assessment of service by the company, receiving that service.

Subject to the consumer characteristics, cargo vehicle sales company is characterized by large, geographically concentrated consumers, which demonstrate high level of knowledge and involvement in the purchasing process. Consumers of the cargo vehicle sales company include transportation companies and companies operating in other branches of business, which perform the transporting function themselves. The consumers are characterized by high level of knowledge, and their number, in contrary to the business-to-business markets, is smaller.

Subject to the characteristics of goods, vehicles intended for the business-to-business market are related with high purchasing risks, technical complexity, high requirements to servicing and rather complicated process of purchasing. Speaking about the characteristics of exchanges, the price of vehicles is high; after acquiring the vehicle, the consumer becomes linked with the vehicle service by technical maintenance bonds, which makes it complicated to change the seller.

Differences of business-to-business market and business-to-consumer market, naturally, influence the type of relationships. Exchanges between the cargo vehicle sales company and their consumers, contrarily than in business-to consumer market, occur on the basis of repetitive relationships, due to which long-term relationships are being developed, which determine the consumer loyalty. Scientific works of the representatives of the International Marketing and Purchasing Group (IMP), which analyze cooperation in business-to-business markets, lists the following types of relationships: technical, economic, time, cognitive, legal and social. Later on, several more types of relationships were acknowledged in service marketing. Technical, economic, time, cognitive, legal and social relationships are supplemented by cultural, ideological, geographical and psychological (V.Liljander and T.Strandvik, 1995). In the recent years, after having come to an agreement on relationships proposed by the International Marketing and Purchasing Group (IMP) and the representatives of service marketing, R.Wendelin's (2000a) opinion was accepted, that geographical, cultural, ideological and psychological relationships are also important in business-to-business markets.

In cargo vehicle sales companies, technical relationships (K.Erbismann, S.Kock and T.Strandvik (1998)) start building in the early stages of cooperation – prior to building the relationships in entirety. As relationships between the vehicle sales company and the consumer evolve, the company offers technically more advanced goods/services in comparison to competitors, which makes a positive impact on the strength of these relationships. In cargo vehicle industry, these are ones of

the most important relationships, as there many suppliers, offering identical services/ parts (only 20-25% of spare parts are being supplied by vehicle manufacturers, whereas 75-80% of parts are purchased from suppliers), and should the technical relationships become weak or break, this threatens other relationships (R.Wendelin, 1998). This shows, that these relationships are particularly relevant to the relationships of cargo vehicle sales companies with consumers – buying vehicles and maintenance services – as well as with suppliers – manufacturers of cargo vehicles and suppliers of spare parts. Thus, the cargo vehicle sales companies must provide as top-rate maintenance services as possible, seeing that the outcome of that – consumer satisfaction – determines the strength and expansion of these relationships.

*Time relationships* are also important to business-to-business market in the context of relationship marketing (M.Holmlund and S.Kock, 1995; R.Wendelin, 1998). In the beginning of cooperation, these relationships are practically nonexistent. In the beginning of relationships, electronic data interchange (EDI) does not exist between the cooperating companies, however is usually rapidly implemented. Time relationships become stronger, when the supplier and the consumer start exchanging information on a daily basis, and the EDI systems are similar (R.Wendelin, 1998). J.Sheth and A.Sharma (1997) noted, that electronic exchange of data, like, for instance, EDI, reduces the costs of the company and the consumer and has positive impact on economic relationships. When shortening the order processing time, the company is able to deliver the goods to the consumer faster, thus strengthening the time relationships. As the order processing time is prolonged, cooperation might become weaker, and as an outcome – time relationships weaken or come to an end altogether. In cargo vehicle industry, electronic data interchange between the vehicle sales company and the suppliers of vehicles and spare parts is a wide-spread thing.

*Cognitive relationships* in business-to-business market can be hidden (J.Proenca and L.Castro, 1997). This can be explained by the fact that these relationships might exist prior to contacting the supplier for cooperation. Suppliers which provide the cargo vehicle sales company with spare parts might state that they are familiar with the cargo vehicle industry and therefore they are superior to the potential suppliers. These relationships usually start evolving in the initial stages of relationships. Then, the company finds out the requirements of the supplier, and vice versa (R.Wendelin, 1998). Cognitive relationships most often strengthen with time, when the two cooperating parties find more about each other. As the relationships end, cognitive relationships eventually become weaker.

Prior to starting cooperation between the consumer and the cargo vehicle sales company, according to R.Jarvinen (1997), *social relationships* manifest as well as cognitive ones. In the beginning of cooperation, these relationships are usually very weak or nonexistent altogether. Eventually, social relationships grow stronger. People who interact among themselves, for instance, sales/purchasing staff and the logistics, product development and quality assurance personnel, tend to build the

strongest relationships (R.Wendelin, 1998). Together, they handle the business issues and during their leisure time learn to know each other. Social relationships grow weaker, when the company's employees move to another company, while sometimes taking the consumer with them. This might cause the end of all relationships with the consumer/ supplier. On the other hand, social relationships might survive, seeing that upon termination of relationships between the two companies, people keep communicating. Such a case is often between the sales and purchasing departments of companies. Owing to social relationships, the company and the consumer might continue their business relationships in the future, for example, after starting the sales of a new model vehicle. Business companies operate in a certain legal environment, which determines the "rules of the game". Consequently, the above-mentioned relationships as well as *legal relationships* are important to successful cooperation of the companies. According to R.Wendelin (2004), over the relationship life span, the stability of legal relationships fluctuates. These relationships are usually renewed on a yearly basis; however, in legal agreements there are clauses included which allow to revise the contract, for instance, when the price for the raw material changes in the global market, etc. If case there are any requirements posed to the quality standards, such as ISO 9000, which might be implemented by the company, legal relationships might grow stronger. However, these relationships become weaker and cannot protect from termination of relationships when, for example, technical quality of the goods is poor (R.Wendelin, 1998).

General economic state of the country and the level of development also have impact on the activities of all companies. This determines the purchasing power of consumers and their behavior. On the other hand, this shows that building, maintenance and development of relationships depends on *economic relationships* as well. In R.Wendelin's (2004) opinion, economic relationships are rather unstable of nature. To certain consumers, price is very important, and should there appear a company which is able to offer a similar product for a lower price, the relationships will come to an end (R.Wendelin, 1998). As the relationships between the parties evolve, these relationships might strengthen due to cooperation. This happens, when increasingly more vehicle sales companies seek to reduce the number of suppliers and start working with just several suppliers. Better terms of payment, like, for instance, 90 days instead of 30, also have a positive influence on economic relationships. Economic relationships might be easily severed, if the company raises their prices or when the consumers finds another supplier, offering the same goods/ services at a lower price.

As mentioned, geographic territory is one of the factors differentiating the business-to-business market from the consumer goods' market. This confirms the fact that cooperating companies are linked by *geographical relationships*. Subject to the industry, the company's location plays a variable role, which is determined by the value of the goods and their weight. In the beginning of relationships, the consumers value such aspects as order processing time, geographic distance, transportation

costs, etc. The development of relationships and strengthening of geographical relationships is related to improvement in order processing time or the way of transportation (R.Wendelin, 1998). In cargo vehicle industry, the strength of geographical relationships is determined by the wide-spread maintenance centers of the global network. For instance, "Volvo Trucks" network is comprised of more than 800 maintenance centers all over the Europe, which contributes to carrying out the technical maintenance according to the schedule, so that the technical relationships between the consumer and the supplier could be closer.

Contrary to economic relationships, *cultural relationships* usually remain stable (V.Liljander and T.Strandvik, 1995; R.Wendelin, 2000a). Language, religion and other cultural factors, such as the supplier's country, usually are not changeable. Cultural relationships are hidden, which means that they exist prior to the inception of relationships between the parties. As relationships evolve, the strength of cultural relationships might grow or decline, as the parties involved in the relationships learn other languages, biasness disappears, etc. On the other hand, the biasness usually strengthens when people encounter communication issues. Cultural relationships normally remain unchanged, as normally communication is not started with business representatives of cultures, with regard to which there is a biased attitude (R.Wendelin, 1998).

In the context of business-to-business market, *ideological relationships* are also important (V.Liljander and T.Strandvik, 1995; R.Wendelin, 2004). These relationships can be stable as well as dynamic. Ideological relationships, the strength of which does not change over the life cycle of relationships does not change, are perceived as stable. Such relationships include the wish to maintain business relationships with certain companies because of their nationality. For example, certain cargo vehicle sales companies might be willing to purchase spare parts from the suppliers of their country. Patriotism usually remains the same over the relationship life span. Dynamic ideological relationships usually evolve with time, when conformance to the environment protection requirements gains importance (R.Wendelin, 2004). For instance, ten years ago, vehicle industry did not demand water-based paint, low

emissions, environmental audits, such as ISO 14001, etc. At that time, ideological relationships did not exist in this aspect. Over the last years, the significance of environment protection has grown due to the passed legislation and consumer requirements. In vehicle industry, importance of environment protection issues keeps growing. Ideological relationships grow stronger in cases, when the supplier seeks to improve their compliance with environment protection requirements, for instance, by producing recyclable products, using nontoxic paint and seeking for ISO 14001 by such measures as limitation of waste, etc. As the relationship life cycle comes to an end, when the majority of relationships are severed, ideological relationships come to an end as well.

Whereas ideological relationships between the business partners may be either stable or dynamic, the *psychological relationships* remain the same over the entire relationship life cycle (R.Wendelin, 2000a). For example, the cause why the transportation company wishes to purchase pistons made in Germany and not in Japan lies in psychological relationships. These relationships are usually either very strong or very weak, and rarely – of medium state.

Thus, technical, economic, time, legal, cognitive, social, cultural, ideological, geographical and psychological relationships condition the cooperation between company and its consumers in business-to-business market, due to which long-term value of continued relationships is created, that is based upon commitment and trust.

In view of strengthening competition in business-to-business market and while seeking to fulfill the consumer needs in a better manner, technical, economic, time, legal, cognitive, social, cultural, ideological, geographical and psychological relationships become an important precondition for the competitive advantage of companies. However, it is noteworthy, that long-term relationships are not possible without cooperation, based on mutual commitment and trust of the parties – the essential features of the relationship marketing. This shows, that in business-to-business market relationships with consumers and other business partners must be managed by the means of the summation of relationship marketing features and human behavior norms.

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#### **VERSLAS- VERSLUI IR VERSLAS-VARTOTOJUI RINKŲ SKIRTUMAI SANTYKIŲ MARKETINGO KONTEKSTE**

Santrauka

Santykių marketingas mokslininkų traktuojamas kaip viena iš sėkmingiausių verslo plėtros idėjų verslas - verslui rinkoje, tačiau įmonei siekiant adaptuoti santykių marketingo koncepciją, pasigendama konkrečių gairių kaip tai padaryti, ir kokią realią įtaką ji daro įmonės santykiams su vartotojais ir kitais verslo partneriais. Nors dalis autorių pažymi santykių marketingo koncepcijos universalumą ir tinkamumą tiek verslas – vartotojui, tiek verslas – verslui rinkose, tačiau santykių marketingo kontekste šios rinkos pasižymi tam tikrais skirtumais. Straipsnio tikslas – atskleisti verslas - verslui ir verslas-vartotojui rinkų skirtumus santykių marketingo kontekste. Straipsnyje atskleista santykių marketingo esmė bei samprata, išryškinti verslas – vartotojui ir verslas – verslui rinkų priklausomai nuo vartotojo, pardavėjo, prekės, mainų charakteristikų pagrindiniai skirtumai santykių marketingo kontekste. Šie skirtumai įtakoja ir santykių tipą, kas sąlygoja bedradarbiavimą tarp įmonės ir vartotojų verslas-verslui rinkose, kurio dėka sukuriamą ilgalaikę tesiamų santykių vertę grįžta įsipreigojimu ir pasitikėjimu.

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