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PREFACE

Kaunas University of Technology Panevėžys Institute Faculty of Management and Administration has been organizing the international scientific conference „Changes in Social and Business Environment“ since 2006. The aim of the conference is to encourage the dissemination of the new scientific knowledge that reflects the transformations in social and business spheres both regionally and on global scale; to foster the exchange of best practice examples among the scholars and practitioners as well as the collective learning. The previous conferences of 2006, 2007 and 2009 invited the researchers from different countries to share the scientific and practical knowledge on innovations and their influence on human resource management, the issues of social development of an individual, family, organization and the society.

The fourth international conference „Changes in Social and Business Environment“ CISABE'11 in the Faculty of Management and Administration aims to discuss the topics of knowledge management and commercialization, sustainable development and its challenges for the society, business, science; the cultural diversity and its management; the changes in business, finance, economics, marketing and other spheres.

Scholars from different countries presented their findings in the conference proceedings which are dedicated to the 50th anniversary of university studies in Panevėžys City. The conference proceedings embrace the research findings of scholars from different countries on the contemporary business, finance and economics, marketing, education and social life issues. The scholars have been analysing the changes of culture management in the modern stage of public governance, the education policy and its problems, the individual and collective learning, organizational culture and its stimulation to emotional commitment of employees, the influence of institutional environment factors on self-employment in transition economies, as well as the risk and investment in the housing market in the context of country with transition economy, factors influencing the growth of economics as well as their interrelationship under economic slowdown, the banking crisis management strategies, links between the corporate social responsibility and government, business and society, inter-organizational relationships and their impact on establishing and developing trust between a local government units and etc.

The fourth international conference „Changes in Social and Business Environment“ CISABE'11 in the Faculty of Management and Administration provides the multidisciplinary scientific forum for researchers and fosters the higher education academic values.

Conference Organizing Committee

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STUDY OF CONSUMER RETAIL PAYMENTS PRACTICE

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Abstract

The expansion of new technology in the financial services market is gradually replacing customers' payment practice. For make the right decisions in the settlement process and identify the individual needs of specific consumer segments evaluation models of consumer behaviour are developed. The target of this paper is the consumer retail payments practice. The aim of article is analysis of the consumer payments practice in Lituanian retail settlement market. Research objectives are to identify common factors that explain the adaptation of innovative solutions in the payments market. In the article the supplemented model of the consumer payment behavior is presented. By applying the supplemented model the consumer payment practice evaluation was studied.

Keywords: payments, consumers' behavior.

Introduction

The results of previous researches (Dalberg et al., 2007, Black, Lockett, Winklhofer, and McKechnie, 2002, Karjaluo, Koivumaki and Salo, 2003, Pikkarainen, Pikkarainen, Karjaluo, et al., 2004, Polatoglu and Ekin, 2001, Leinonen, 2008) show that consumers are slow to change their payment behaviours, in buying products, using services or paying bills. Consumers based on the well-established purchasing and payment habits, i.e., they constantly use, acceptable methods of payment. Consumer receptiveness to innovation has long been the research object, both as a general occurrence and as a focus on specific innovations such as new payment services.

For consumers, cash is still the main method of paying customers in the retail payment market (Leinonen, 2008). Nevertheless, over the past few years, retail has seen a slow but steady decline in cash payments. Development of new technology in the financial services market is gradually replacing customers' payment practice (Karjaluo, Mattila and Pento, 2002). The technology oriented to standards in physical and virtual payments compete with each other, but only the users themselves decide which of them successfully will be used. Entrepreneurs have to make the right decisions in the settlement process and identify the individual needs of specific consumer segments. For solving mentioned problems evaluation models of consumer behaviour are developed. Researches in this area are mainly developed in two separate directions: innovation diffusion and consumer behaviour theory. Payment behaviour change models can provide a more complete picture of factors affecting consumers' payment practice change (Mukherjee and Nath, 2003).

The target of this paper is the consumer retail payments practice.

The aim of article is analysis of the consumer payments practice in Lituanian retail settlement market.

Research objectives are to identify common factors that explain the adaptation of innovative solutions in the payments market.

Introduction of new technologies in the payment market, and changes of consumer behaviour in this area make subject of investigation topical both in theory and practice.

The methods of article are systematic analysis of scientific literature, graphic and monographic analysis and empirical study.

The model of evaluation of consumers payments practice

According to H. Leinonen (2008), the payment services are continually evolving. The "paper-based" payment methods has some information, communication, technology (ICT) resources restrictions. The payment systems autoimmunisation almost completely eliminated these restrictions, and customers are increasingly interested in new mobile, digital, integrated means of payment. With the automation of payment systems, these restrictions almost completely disappeared, and customers are increasingly interested in new mobile, digital, integrated means of payment (Mols, 1998, Gerrard and Cunningham, 2003). Dewan and Chen (2005), and Chou, Lee and Chung (2004) noted that the logic of changes is that consumers increasingly used mobile devices (mobile phones, wireless personal digital assistants) as the platforms for personal finance management, for transactions of both the real and virtual environment by access to a multiform services.

According to Dahlberg (2007), the payment system will face major changes in the near future. The cause determines the standardization and integration of payment systems, the development of payment services,

the changes of payment cost, and new opportunities resulting from technological advances. The first decade of the twenty-first century was the development time for new payment instruments and services (Gerrard and Cunningham, 2003). For integration of these payment instruments there is a need to increase consumer trust in information and communication technologies (Salo and Karjaluoto, 2007). In order to understand the impact of high-paying opportunities for businesses, we need to investigate the changes of consumer needs, interests, and payment practice according to new payment systems integration into the national economy in perspective.

Banks and other payment service providers develop payment instruments and measure to reduce their costs, increase revenue from services and other revenues, intensify use of existing capital and / or improve their competitiveness in the payment services market (Dahlberg, 2007). Banks have an impact on their private clients when shaping the payment practice and choice of payment instruments. However, the payment service marketing generally focus on technical issues and ignore the opinion of consumer.

According to H. Leinonen (2008), manufacturers, service providers and traders in the development of means of payment have interest on the part of the same reasons as the banks, i.e. mainly in order to reduce payment costs, increase sales and / or improve the use of existing capital. Some service providers and vendors want to build new channels of digital products and services for sale and / or facilitate electronic and mobile commerce. The lack of qualified means of payment for the purchase is considered the biggest obstacle for electronic and mobile business.

The consumer payment practice researches are mainly based on two separate study areas: innovation spread theory and theories of human behaviour,

especially behaviour-based action and planning (Dahlberg et al., 2007, Black, Lockett, Winklhofer, and McKechnie, 2002, Karjaluoto, Koivumäki and Salo, 2003, Pikkarainen, Pikkarainen, Karjaluoto, et al., 2004, Polatoglu and Ekin, 2001, Leinonen, 2008). Innovation spread theory identifies five innovation characteristics that affect the adaptation of technology: relative advantage, complexity, compatibility, the ability to test and monitor system. In addition, the theory states that the technology's ease of use and perceived benefits, as well have an impact on technology adoption and use of information systems in organizations. Also, the theory is focused on the trust factor (Mukherjee and Nath, 2003, Tan and Teo, 2000, Mattila, Karjaluoto and Pentto, 2003, Howcroft, Hamilton and Hewer, 2002).

The theory of behaviour states that, human action is guided by three motives: behavioural beliefs, normative beliefs and control beliefs. Behavioural beliefs are beliefs about the potential behavioural consequences (e.g., mobile payment services) and evaluation of these consequences result. The theory assesses general beliefs of conduct, which reflects the favourable or unfavourable attitude towards the behaviour. Normative beliefs are beliefs about the normative expectations of others (e.g., consumers' perception of his / her bank offers about mobile access to payment services) and if the motivation for this expectation is met. Jointly, these beliefs create the perceived social pressure or subjective norms of behaviours. Control beliefs are beliefs about the factors that facilitate or hinder technology use (e.g., poor skills in the use of the mobile device). Generally the control beliefs as behavioural control are perceived.

On a basis of mentioned theories Dahlberg and Öörni (2006) propose of the model for change of consumer payment practice was created (Figure 1).

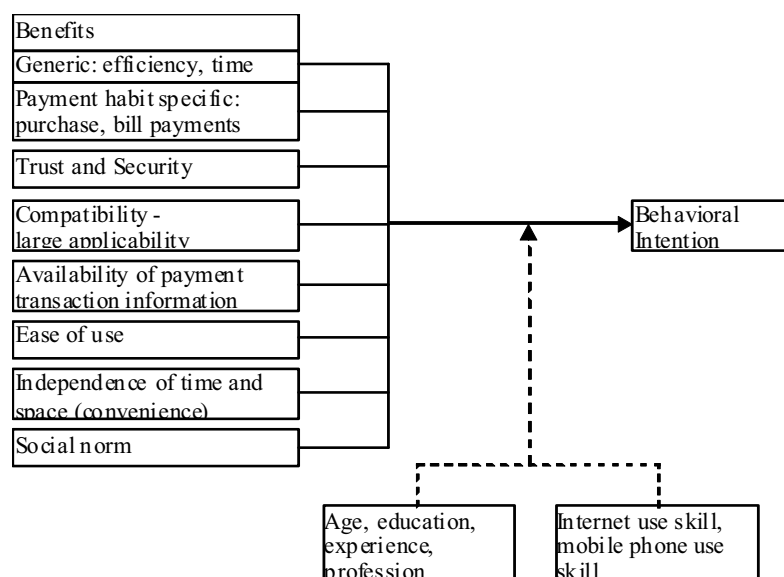


Figure 1. The model for change of consumer payment practice (Dahlberg and Öörni, 2006)

The model identified potential factors that influence the change of consumers' payment habits. According to the innovation spread theory the model include the following factors: payment patterns change, the defining factors of the payment instrument efficiency, time savings, pricing (valuation), payment instruments characteristics. According to the theory of planned behavior the model include the factors such as accessibility of information about transactions carried out, ease of use, the use of independence from time, space and social factors affecting choice of media literacy. These factors are combine with respondents demographic data, and information literacy, when modeling the change of payment practice of the exchange of certain factors. Limitations of the model are isolated macro

environmental factors affecting consumers' payment habits change: GDP, money supply in the market, the informal economic impact. The model does not take into account of financial institutions practice.

We expanded the model structure by adding the following factors as the level of employment, the number of payment instruments in the market, the number of transaction terminals on the market, the base of money, currency in circulation (Figure 2). The model consists of evaluating the internal and external factors. The internal factors describe consumers' expectations. The external factors describe the environmental impact of the consumer.

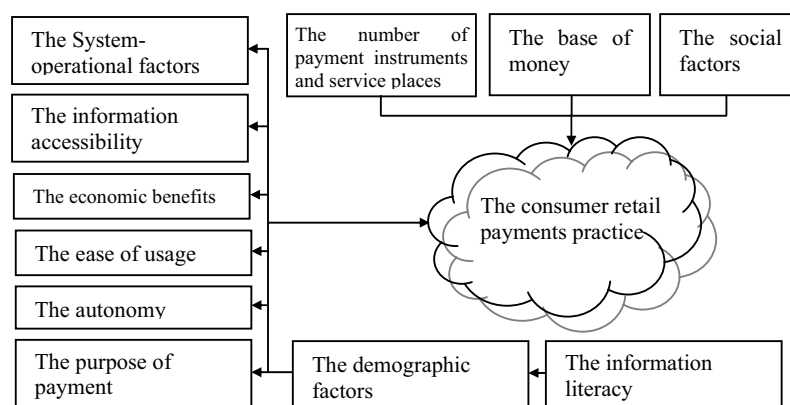


Figure 2. The supplemented model of the consumer payment behavior

Methodology of the empirical research of the consumers' retail payment practice

We have studied the evolution of Lithuanian consumer payment practice. The consumer payment practice evaluation was studied by applying the supplemented model of the consumer payment behavior. The study aimed to identify the external factors affecting the user to choose one or other payment instrument.

Performing the statistical analysis of the data we looked at the influence of external factors on Lithuanian consumer payment practice. The aim of analysis was to determine how the total amount of money, social factors (employment, unemployment) and the instruments of their service areas influenced the number of card payments and bank transfers via the Internet. The study data were selected for three groups of instruments and the number of service points (ATMs, card readers, card number), the total amount of money in circulation (cash in circulation), social factors (employment, unemployment). The correlation of these factors correlation between the credit transfers and online operations of the bank cards has been examined. The statistical analysis was performed at three different time periods of data series: real time period (T), the previous period (T-1), and the before that period (T-2). The data

used in the analysis included the 2001 - 2010 the first quarter. In order to determine whether the variable is of linear relationship the correlation coefficients between the non-cash payments, and environmental factors acting on the user in real time (T) was calculated.

The first analyzed group included the environmental factors and social factors. The correlative relationship between the non-cash payments and employment in the period was studied.

The second group included the relevant factors and instruments in support of their seats. In this step the correlation relationships between the non-cash payments and ATMs and the number of POS in the period was investigated.

The third group of factors considered involved the total amount of money in circulation (the details of cash in circulation correlate with non-cash payments).

The results of the investigation of Lithuanian consumers' retail payment practice

The study has identified through external factors influencing consumer choice of payment instruments.

It was found that the T period, the correlation relationship between the operations of bank cards and employment is $r = 0.21$, credit transfers and employment $r = 0.05$. It was identified that the T period between

employment and non-cash payment link is very low. T-1 period, the correlation relationship between the operations of bank cards and employment is $r = 0.68$, credit transfers and employment $r = 0.56$. It was noticed that the T-1 during the period between employment and non-cash payments occur an average connection. The correlation between the operations of bank cards and employment is $r = 0.99$, credit transfers and employment $r = 0.95$. The strong correlation between non-cash payments and the employment of T-2 period was observed.

It was observed that the T-period correlation between a bank and ATMs card, and the POS number is $r = 0.95$, credit transfers and ATMs and the POS number of $r = 0.98$. It can be stated that the period T relationship between ATMs and the POS number, and cashless payment is very strong. It was found that the T-1 period, the correlation between a bank and ATMs cards and the POS number is $r = 0.9$, credit transfers and ATMs and the POS number of $r = 0.95$. It can be argued that during the period the T-1 relationship between the ATMs and the number of POS and cashless payment is weakening, but it is still strong enough.

The correlation between a bank and ATMs cards and the POS number of T-2 period is $r = 0.87$, credit transfers and ATMs and the POS number of $r = 0.93$. The strong correlation between and cashless payments and ATMs the POS number was observed. The correlation was strongest in the period T.

It was found that the T period, the correlation between the operations of bank cards and cash in circulation is $r = 0.97$, credit transfers and cash in circulation $r = 0.93$. It was identified that the T period between cash in circulation and cashless payment is very strong. The correlation between the operations of bank cards and cash in circulation in T-1 period is $r = 1$, credit transfers and cash in circulation $r = 0.99$. It was observed that there is linear relationship in the T-1 period between the cash in circulation and the payment. This means that in the T-1 period of cash in circulation changes fully explain the evolution of cashless payments.

The statistical analysis showed that the external factors have different influence on consumers' payments practice over time. The number of payment instruments and services points affected by the real period (T), the total amount of money in circulation by the previous

period (T-1), and the social factors by the before period (T-2).

Conclusion

For investigation of consumer payment habits the models exploring the internal and external factors affect on consumer behavior are used. The internal factors are analyzed using qualitative research methods. This reflects the consumers' view on environmental factors. Such studies can be considered as subjective and dependent on the user's attitude. In practice, the user behavior is often influenced by factors independent of the user point of view. For the study of external factors on the consumers it is appropriate to apply quantitative research methods, analyze statistical data, finding the relationship between the individual factors.

In the statistical data analysis it was found that external factors have an uneven impact on the consumer behavior. The time lag factor is observed. Investigation of external factors impacting consumer choice of payment method showed that some factors have a stronger impact on consumer behavior during the period, while others affect the future influences on consumer behavior.

The statistical analysis showed that a significant causal relationship is found in comparing the current period (T), the former period (T-1) and the previous period (T-2) data. When the delay of data is increasing (i.e. the data are analyzed for later periods) the weakening causal relationship between the sampled data is observed. Therefore, increasing the data scroll more than T-2 is inappropriate.

The service points of instruments have the greatest influence on consumers, and the social factors such as employment or unemployment have the lowest influence. Statistical analysis showed that these factors have different influence on consumers' behavior over time. The instruments and their places of service have the greatest influence on the real period, and the total amount of money in circulation on the previous period, and social factors on T-2 period.

In the future the observed pattern allows the development of research in the field of elaboration of the causal relationship between consumer behavior and external factors, changes in consumer behavior modeling.

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STUDY OF CONSUMER RETAIL PAYMENTS PRACTICE

Summary

Development of new technology in the financial services market is gradually replacing customers' payment practice. For make the right decisions in the settlement process and identify the individual needs of specific consumer segments evaluation models of consumer behaviour are developed. Researches in this area are mainly developed in two separate directions: innovation diffusion and consumer behaviour theory. Payment behaviour change models can provide a more complete picture of factors affecting consumers' payment practice change. The aim of article is analysis of the consumer payments practice in Lithuanian retail settlement market. Research objectives are to identify common factors that explain the adaptation of innovative solutions in the payments market. Introduction of new technologies in the payment market, and changes of consumer behaviour in this area make subject of investigation topical both in theory and practice. The methods of article are systematic analysis of scientific literature, graphic and monographic analysis and empirical study. Banks and other payment service providers develop payment instruments and measure to reduce their costs, increase revenue from services and other revenues, intensify use of existing capital and / or improve their competitiveness in the payment services market (Dahlberg, 2007). Banks have an impact on their private clients when shaping the payment practice and choice of payment instruments. However, the payment service marketing generally focus on technical issues and ignore the opinion of consumer. The theory of behaviour states that, human action is guided by three motives: behavioural beliefs, normative beliefs and control beliefs. We expanded the model structure by adding the following factors as the level of employment, the number of payment instruments in the market, the number of transaction terminals on the market, the base of money, currency in circulation. The consumer payment practice evaluation was studied by applying the supplemented model of the consumer payment behavior. The study aimed to identify the external factors affecting the user to choose one or other payment instrument. Performing the statistical analysis of the data we looked at the influence of external factors on Lithuanian consumer payment practice. The study has identified through external factors influencing consumer choice of payment instruments. In the statistical data analysis it was found that external factors have an uneven impact on the consumer behavior. The time lag factor is observed. Investigation of external factors impacting consumer choice of payment method showed that some factors have a stronger impact on consumer behavior during the period, while others affect the future influences on consumer behavior. The service points of instruments have the greatest influence on consumers, and the social factors such as employment or unemployment have the lowest influence. Statistical analysis showed that these factors have different influence on consumers' behavior over time. The instruments and their places of service have the greatest influence on the real period, and the total amount of money in circulation on the previous period, and social factors on T-2 period.

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LITHUANIAN HIGHER EDUCATION STUDIES FINANCING MODEL: STUDENTS FOLLOW FUNDS

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Abstract

During the past two decades there has been a wealth of government policy initiatives and important money spent on Lithuanian higher education reformation. Those processes have been the focus of public and political concern in recent years, yet despite this there has been a noted lack of serious research into this key policy area. Highlighting the distance between theory and practice, this paper demonstrates some of the complexities and limitations of vouchers model application as studies financing model. Developing a better empirical understanding, the question of whether this education policy is merit-based, market-based or addressing social problems is discussed.

Keywords: education policy, studies financing model, vouchers, merit-based, market-based, social problems.

Introduction

The accumulation of human capital is considered as one of the basic engines of economic growth. Therefore, education issues are in the focus of public and political concern for most of governments. West (1996) finds that governments are rather becoming increasingly unwilling or unable to continue to raise the share of public expenditure spent on education, therefore the focus has switched to attempts to obtain higher output from given expenditure levels. Kleshchukova (2005, p.1) noticed that many governments concentrate their efforts on improving funding mechanisms, which could make their higher education systems more efficient and which would attract non budget revenues into the sector, avoiding if possible negative effects on equity. Jongbloed (2004, p.1) highlights four major goals formulated for public funding of higher education: additional private funding, efficiency, quality, and access. Seeking to make the providers of post-secondary education to become more efficient and more responsive to client demands, the governments should introduce a more market-oriented type of public funding mechanism (Jongbloed & Koelman, 2000, p.28). Summarizing different observations about the search for efficient and respecting social justice higher education system, one can conclude that the issues concerning higher education funding mechanisms are highly relevant.

During the past two decades there has been a wealth of government policy initiatives and important money spent on Lithuanian higher education reformation. One of key elements is the implementation of voucher system as higher education public funding model in 2009. Those processes have been the focus of public and political concern ever since, yet despite this there has

been a noted lack of serious research into this key policy area.

The aim of the article is highlighting the distance between theory and practice, to demonstrate some of the complexities and limitations of vouchers model application.

The object of research is educational voucher as higher education public financing scheme.

Research methods: systematic and comparative analysis of scientific literature and documents, Lithuanian press publications concerning vouchers (period 2008 – 2010) analysis.

Government intervention in the market for higher education

According to Jongbloed & Koelman (2000), markets function efficiently only if the standard assumptions hold when there is available perfect information, perfect competition, and no market failures (such as external effects), otherwise there may be good reasons for government intervention in order to ensure a more adequate match of supply and demand. According to this understanding, education services constitute an imperfect market. If left to its own devices, the market for education services would certainly fail because: 1) consumers of education (students) do not have perfect information about the product/educational service, the price in relation to the quality, and their capabilities for success; 2) competition among educational providers is often far from perfect; 3) education produces externalities; in addition 4) capital market in education sphere does not operate perfectly either – students or their families in general are in difficulty to provide collateral security for loans, on the other hand banks find too risky

to supply loans to young individuals that may have problems in getting a degree and repaying their debts (Jongbloed & Koelman, 2000, p. 3).

Government intervention in the market for higher education is generally grounded with efficiency and equity (social justice) considerations. As Jongbloed & Koelman notice (2000, p. 3–4), there are several direct ways of state interference in the market mechanism: a) regulation (e. g. of quality); b) finance (e.g. subsidies to producers); c) public production (e. g. state schools), and an indirect way: d) income transfers (e.g. benefits, grants). The choice of intervention mechanism depends on economic as well as on social and political decisions. The models of government intervention and higher education funding depend on the goals that policy-makers set on behalf of students and society. On top of that, the success of any system also depends heavily on the amount of public and private funds invested in it (Jongbloed, 2004, p. 9).

In debates about the funding of higher education the crucial question is: how to reach the optimal balance between centralized (public) and decentralized (private)

approaches, including the questions to what extent funding would have to be supply-driven or demand-driven and whether it should be input-oriented or performance-based (Jongbloed, 2004, p. 7). Trying to answer those questions a classification of higher education funding schemes is presented in Figure 1. According to Jongbloed & Koelman (2000, p. 5), two criteria are important: a) what is funded by the government (the funds are tied to educational outputs and performance, or to inputs); and b) how is it funded (the degree of market orientation in the funding arrangements – the degree of centralization, from a highly regulated situation in which the government determines the funding centrally to a situation in which consumer sovereignty drives the system). Funding on the basis of output is believed to contain more incentives for efficient behavior than input funding. In practice, funding arrangements are characterized by a mix of input elements and output elements as well as the degree of centralization (or market orientation) will lie somewhere in between the two extremes (Jongbloed, 2004, p. 4).

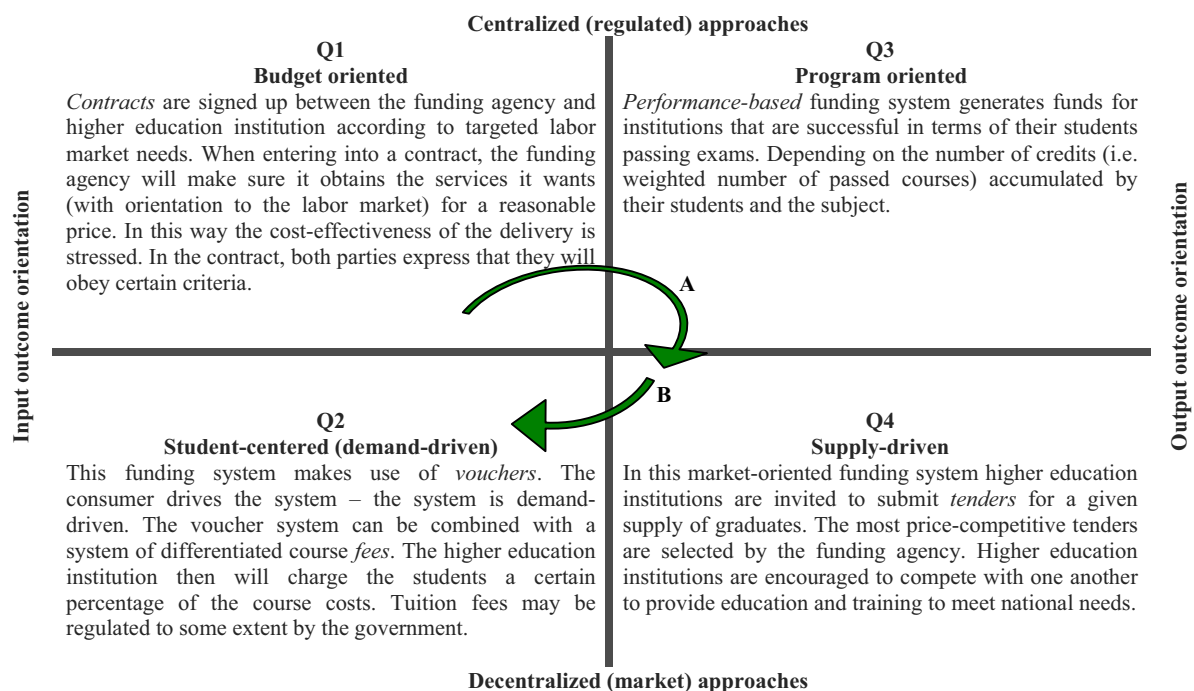


Figure 1. Classification scheme for funding systems according to Jongbloed (2004) and Jongbloed & Koelman (2000)

Jongbloed notices that governments in a number of OECD countries have attempted to separate their support for teaching and research by providing *block* (i.e. lump sum) funding for each activity. There also has been a move away from contracts based funding (quadrant Q1) towards more transparent, rational – formula-based – mechanisms (quadrant Q3) and the tendency to search for competitive funding mechanisms (Q4) is observed. The extent to which this has been achieved varies across countries. In all cases, the allocation of targeted funds is tied to specific conditions in terms of quality and accountability requirements. If to summarize the international trends in funding mechanisms, the direction

in which they are developing looks like the one shown by the upper arrow (A) in Figure 1. Whether a more demand-driven system – a further movement along arrow B – will be reached remains to be seen (Jongbloed, 2004, p. 5–6).

The student-centered option (Q2) is demand-driven system. Students choose which providers receive public money. Any differences in costs across programs are expressed through differential fees. Institutions are competing for customers by delivering tailor-made programs. In the program-oriented option (Q3) the degree of planning by the government is the largest. On the basis of economic and social reasons (e.g. rates of return, labor

market needs, cultural/regional diversity) the government decides about the number of student places to fund. Unfunded programs are left to the market. In supply-driven option (Q4) the strategy of the higher education provider is of the utmost importance. Institutions try to get their programs accredited in order to qualify for public funding and try to distinguish themselves from other providers by means of their program supply. The institution generates more resources when it is more successful in delivering graduates and setting its fees at levels that are acceptable for students (Jongbloed, 2004, p. 5–6).

Since our society is characterized by a large degree of individualization confronting higher education providers with a growing diversity in terms of individual client demands. The need for flexibility in training and education is strengthened by demands from firms and other organizations requiring employers with the relevant and up-to-date skills and knowledge. For the funding of the higher education sector this implies a large degree of *demand-side financing*. Vouchers are often propagated as a very powerful means of demand-side financing (Jongbloed & Koelman, 2000, p. 4–5). The concept of educational vouchers is analyzed further.

Educational vouchers

Educational voucher in the broadest sense is a tax funded payment made by the government to a school attended by the pupil or student. The voucher covers most of any tuition charged. The effect of vouchers is that students are encouraged to seek the provider that best satisfies their demands and private schools (for profit or not for profit) are encouraged to compete with public schools. In addition to tax funded there exist privately funded voucher systems, too. According to Jongbloed & Koelman (2000, p. 10), a voucher scheme is a specific way of funding education: instead of the government allocating subsidies directly to the providers of education, the subsidies are channeled through the consumers. The former – object subsidies – represents the most common way of allocating public money to education. The latter represents a way of subsidizing the producers, while the financial resources are channeled through the subjects who can only spend the money on education.

Some authors, like West, use a much broader definition of vouchers – “funds follow the student” – including all arrangements in which governments make either direct or indirect payments to an educational institution whenever a student enrolls in that institution. Tax funded voucher systems operate under different regulatory settings: a) government inspection of educational institutions; b) government licensed teachers; c) vouchers may be available to all families, or to low income families exclusively, on the basis of gender or other predetermined social parameters (selective voucher); d) vouchers values may vary inversely with income; e) the government funding could be directed straight to the school attended by the student (“funds follow the student”); f) vouchers might provide access to private schools only, public schools only, or to both public and private schools, etc. When institution has no

other direct government subsidy, each of them is in competition with every other school for students (West, 1996).

Some other authors, like Jongbloed & Koelman (2000), exclude the direct payments considering that an essential element of a voucher scheme is that individual students are receiving government subsidies – either in terms of real money, or in terms of entitlements to a given amount of education – to be spent at the educational institution of their choice. In this case vouchers are a form of *demand side* funding as student choice drives the funding. Meanwhile according to the broad definition of West a system of funding educational institutions on the basis of a formula where the number of students is the central parameter, by Jongbloed & Koelman (2000) is considered to be a form of *supply side* funding. Following the voucher definition of West, voucher systems would exist in quite a lot of higher education systems, e.g. in Chile, the Netherlands, or Sweden. However, in less broad definition, these are examples of countries where in fact the *supply side* receives the government subsidies. The crucial aspect of the voucher idea is *freedom to choose* and this would require that education is not just provided by public institutions but also by *private* institutions. In a voucher scheme, the providers of higher education are forced to be responsive to the needs and preferences of their customers (i.e. students, business) and it constitutes a market-oriented type of funding of higher education (Jongbloed & Koelman, 2000, p. 10–11). Some theoretical observations as well as examples of voucher schemes application in practice are presented below.

Theory and practice

The most elaborated and consistent plan seems to be the voucher model of Levin (1983), cited by Jongbloed & Koelman (2000), containing five key elements:

1. Students receive vouchers. When a student spends a voucher to attend a specific program at a higher education institution, the government is obliged to pay a pre-determined amount of money to the institution.
2. Higher education institution must be accredited to be eligible for governmental funding and new suppliers get a possibility to enter the market after receiving accreditation.
3. The voucher may also consist of a mixture of grant and loan. The composition of the voucher may vary with the type of program and student characteristics. For example, based on equity considerations, it could be considered to give vouchers with a larger grant-component to students from low-income families; also the possibility of a loans component in the voucher scheme creates the option to combine a voucher scheme with a loan scheme.
4. Vouchers retain their real value during the entire lifetime of the owner (lifelong learning possibilities).
5. In voucher scheme supply with accurate information to demanders and to providers of higher education is essential. Hence a special agency to collect

and disseminate information about institutions and courses in the higher education system should be established providing potential students with relevant and accurate information about programs, course contents, costs, quality of teachers, labor-market position of graduates, etc. At the same time, suppliers of higher education programs should be well-informed about enrolment patterns and new labor-market requirements (Jongbloed & Koelman, 2000, p. 17–18).

A large variety of voucher schemes can be identified, for example Johnes (1993), cited by Jongbloed & Koelman (2000, p. 13) starting from a list of answers to twelve basic questions that relate to *government regulation* issues, over 4000 different voucher schemes can be identified. Some of the most important questions are: 1) whether the voucher covers the full cost or only part of the cost of the program or the educational institution; 2) whether there is some form of preferential treatment for disadvantaged families; 3) what selection mechanism is used to allocate student places; 4) whether both public and private providers are included in the system; 5) the range of programs that is covered by the system; 6) whether educational providers are allowed to charge fees on top of the voucher; 7) whether students are allowed to change the higher education institution and/or studies subject, etc. Therefore, different voucher schemes could be proposed with a trade-off between individual freedom of choice (efficiency) and equality of educational opportunity (equity). Complete individual freedom of choice results in inequality of educational opportunity. Voucher schemes, in the view of its proponents, will increase efficiency and enhance consumer sovereignty. To opponents of voucher schemes, however, the efficiency advantages are debatable and the equity effects almost certainly undesirable. The efficiency issue is strongly related to the question whether students are sufficiently well informed about the standards of their studies institution and, if not, whether a publicly organized inspectorate will be more effective judging the standards of public and private schools. With regard to

equity, opponents of voucher funding argue that voucher schemes will increase inequalities in the distribution of education (both quantity and quality) by social class. Vouchers might well have advantages for middle-class families, but only at the expense of less-well informed choices by lower socio-economic groups (Jongbloed & Koelman, 2000, p. 17).

Common arguments against vouchers are that students cannot be expected to make sound choices; a free market would lead to different social segregation; vouchers (or tax credits) for education might result in fraudulent practices (West, 1996). In literature two main questions are pointed for a discussion about vouchers in higher education: 1) are students capable of making sound choices? 2) how useful is competition? Barr (1998), cited by Jongbloed & Koelman (2000, p. 18), concludes that it is a huge mistake to think that a simple-minded voucher model in which higher education institutions compete for students and those who attract large numbers flourish, meanwhile those who fail to attract enough students close. Policy-makers should consider a variety of constraints in choosing their position according to the decisions about: 1) protecting *subjects* by tying some vouchers to specific subjects; 2) protecting *institutions* by tying vouchers to institutions; 3) protecting *individuals* from low-income families, according to gender or other predetermined social parameters; 4) protecting *quality* by monitoring quality and publishing the results (Jongbloed & Koelman, 2000, p. 18).

There is no ideal method of funding education. Every system of funding arrangements has its advantages and shortcomings, partly related to the set of goals the government is pursuing. Moreover, the balance of argument changes over time. Jongbloed (p. 10) produced extensive literature review and proposed a table representing the potential advantages and risks of vouchers (see Table 1). Most of the arguments derive from the US and refer especially to the compulsory education sector.

Table 1

Potential advantages and risks of vouchers

Advantages	Risks
<ul style="list-style-type: none"> • Strengthening student choice • Strengthening responsiveness to customers • Increase in diversity of educational services (both in delivery methods and range of programs) • Strengthening flexibility in learning routes • Increase in efficiency of provision • Increase in quality of provision • Increase in private contribution to cost of education ('topping up' the voucher) • Greater opportunities for lower income families and minorities 	<ul style="list-style-type: none"> • Inability of clients to assess information on the quality of education • Geographical factors will limit choice • Over-subscription will require selection and favor high-income families • High administrative complexity (and costs) • Need for government regulations to protect subjects, individuals, quality and equity • Large variations in enrolment and funding may lead to under-utilization of capital and insecure jobs for teachers • Programs with high cultural value but with small enrolments will be forced to close • If used to the full, vouchers lead to additional government expenditures

Source: Jongbloed (2004)

Education vouchers most often are applied in secondary education, sometimes they also can be seen operating in post-secondary education. Therefore, most of the voucher schemes proposed in academic literature concern compulsory education: in 1996 West, using broader definition of voucher, analyzed voucher systems

operating in Bangladesh, Chile, Belize, Lesotho, Canada, Colombia, Guatemala, Sweden, The Netherlands, US, Puerto Rico, U.K., Poland, New Zealand. Nevertheless, the opinions about the efficiency of vouchers in compulsory education are rather mixed:

1. Chile: it was expected that competition generated between schools would improve the quality of education. The evidence obtained indicates that attending a voucher school is associated with higher standardized scores, but the impact is relatively small (Contreras, 2002, p. 22).

2. Poland: after a deeper analysis however, the voucher scheme seems to be much more difficult to apply and its effectiveness as the main education funding instrument becomes questionable. As the unit per student cost of school maintenance varies dramatically between different schools and localities, mainly due to objective factors (such as settlement patterns, specific needs of certain school profiles) beyond the control of the managing authorities, several different vouchers would be needed. This however seems to be inconsistent with the core of the voucher idea, according to which the amount per student should be uniform, and the shape of the school network should be decided by the market. Furthermore, implementing vouchers as a mandatory funding instrument would very significantly limit the autonomy of local governments in managing their schools (Herbst, 2008, p. 14).

3. Sweden: evaluating general achievement effects of choice and competition between private and public schools at the nine-year school level by assessing a radical voucher reform that was implemented in Sweden in 1992, the authors do not find any impact on medium or long-term educational outcomes such as high school grade point average, university attainment or years of schooling. The first-order short-term effect is too small to yield lasting positive effects (Bölmark & Lindahl, 2008, p. 1).

4. U.S.: according to data collected from Arizona, Florida, Ohio, Utah, Wisconsin, Washington D.C., the potential for education vouchers to serve as a long-term education policy solution is unconvincing (D'Entremont & Huerta, 2007, p. 65).

5. U.S.: Milton Friedman's dream of a publicly-funded (but not necessarily publicly-provided) school system where parents have a choice of many different schools for their children has been tested in the U.S. in several, mostly small-scale, attempts to determine whether students might benefit from such a reform. The most credible evidence comes from studies focused on the short-run academic gains for students who use vouchers. As a result, many questions remain about the potential long-run impacts on academic outcomes and about both the public and private sector responses to a large, permanent, and well-funded voucher program. As such, while there may be other reasons to implement school voucher programs, one should not anticipate large academic gains from this seemingly inexpensive reform (Rouse & Barrow, 2008, p. 37).

6. U.S.: the evaluation of District of Columbia Opportunity Scholarship Program indicated greater parental satisfaction (especially regarding school safety) and a significant increase in high school graduation rates. School choice offers real benefits to students and their families. On reading tests, voucher students scored slightly higher compared to non-voucher students, but the difference is not statistically significant; there were not

any gains in mathematics scores (Richwine, 2010, p. 1–3).

Regarding higher education and other forms of post-compulsory education, voucher schemes are rare. According to Kleshchukova (2005, p. 1), “voucher schemes for higher education have been discussed in several countries but have not been implemented, because every voucher model might have certain advantages and shortcomings depending on its design, and on the particular environment, where the program is supposed to be implemented”. The use of vouchers for funding education and training was applied in the United States; New Zealand was experimenting with a demand driven postsecondary education funding system since the late 1990s; different training vouchers programs were in place in England, Wales, Austria, France, and Belgium; a voucher-like higher education funding system has been implemented in Kazakhstan (Matveev, 2001, p. 4). In 2001 started the experiment of the merit-based voucher system in three regions in Russia (Kleshchukova, 2005, p. 1). Five different voucher-like models were discussed in Finland ministerial report. The implementation, however, was not very hopeful, because the funds were allocated directly to the universities, instead of to the students. In Netherlands In September 2000, a small experiment with voucher funding was to be started in the higher vocational education sector; in 2001, the Ministry of Education intended to start a second, much larger experiment with voucher funding (Jongbloed & Koelman, 2000, p. 25).

Most authors analyzing the results of vouchers experiments in post-secondary education are rather skeptic. “The impact of vouchers remains unclear. In general, the experience with vouchers and quasi-vouchers suggests a mixed record of success and failure. This can be explained by the fact that most voucher programs are limited in scope and are relatively new; therefore they cannot yield a reliable data to provide for objective evaluation” (Matveev, 2001, p. 4). “The analysis indicates that the effect of the merit-based voucher experiment in Russia increased inequality in the access to higher education, and that it is difficult to see any improvements of efficiency” (Kleshchukova, 2005, p. 1). Osipian (2005, p. 2) was doubtful about the positive effect of introduction of educational vouchers on the decrease in inequality in access to higher education and more effective, efficient, and fairer distribution of the state funds in higher education. Later he observed that “the initiative with the vouchers [in Russia] has failed and by now is already forgotten. Vouchers for higher education remain a theory, a perfect plan that has yet to be implemented successfully anywhere in the world. While the theory itself is sound, the necessary mechanisms for successful voucherization have yet to be developed and tested” (Osipian, 2008, p. 37).

Summing up, the most elaborated and consistent plan seems to be the voucher model of Levin (1983), containing five key elements, nevertheless, a large variety of voucher schemes can be identified according to different government regulation issues with a trade-off between individual freedom of choice and equality of educational opportunity. Obviously, there is no ideal

method of funding education – every system of funding arrangements has its advantages and shortcomings, partly related to the set of goals the government is actually pursuing. In practice education vouchers most often are applied in secondary education, sometimes they also can be seen operating in post-secondary education. The opinions about the efficiency of vouchers in compulsory education are rather mixed and most authors analyzing the results of vouchers experiments in post-secondary education are rather skeptic.

Lithuanian higher education studies financing model applying voucher scheme is analyzed below.

Vouchers in Lithuanian higher education

Since during the past two decades there has been a wealth of government policy initiatives and important money spent on Lithuanian higher education reformation including the implementation of voucher system as higher education public funding model, those processes have been in the focus of public and political concern. Nevertheless, a lack of serious research into this key policy area is observable (Stasiulis, 2009).

It looks like Lithuanian government concentrate efforts on improving higher education funding mechanisms with the goal of making higher education system more efficient. The major higher education problems discussed in 2008 just before the implementation of voucher system were: too elevated number of higher education institutions; the same studies programs proposed by different higher education institutions; inefficient students' admission to the higher education institutions system (students enter with too low rank of achievements or lacking studies motivation); studies quality; inefficient public funding system, etc. (Juodka, 2008; Paškauskas, 2008).

According to Juškaite (2008), by the end of 2008 Minister of Education and Science Gintaras Steponavičius named the need to strengthen competitiveness in higher education, to modernize universities and to minimize centralized regulation as basic problems that were to be addressed by implementation of voucher model in higher education public funding system. In 2009 seeking to make the providers of post-secondary education to become more efficient and more responsive to client demands as well as to reward the best and most motivated students (Delfi.lt, 2009) the government introduced a so-called market-oriented type of public funding mechanism – vouchers.

Lithuanian higher education funding arrangements are characterized by a mix of elements: partly centralized (public) and partly decentralized (students' private funds); some of it is input-oriented while another part is performance-based. Lithuanian policy-makers are not protecting particular *institutions* solving some regional social problems (when regional institution closes, low-income potential students face additional financial expenditures forced to study far from living place) or protecting variety (small institutions with particular orientation to arts or physical education); *individuals* are also not protected, because voucher scheme is not

addressing social problems, moreover Lithuanian voucher system is not elaborated according to the model “funds follow student”, since policy-makers decided to protect *subjects* by tying some vouchers to specific studies fields, the model is rather “students follow funds”.

In general the effect of vouchers is that students are encouraged to seek the provider that best satisfies their demands and private schools are encouraged to compete with public schools. In Lithuanian case vouchers are distributed among 6 studies areas: a) Biomedical Sciences (3 groups of study fields – Medicine and Health; Biological Sciences; Agriculture and Veterinary Studies – containing 25 study fields); b) Physical Sciences (2 groups of study fields – Natural Sciences; Mathematics and Computer Science – containing 15 study fields); c) Technological Sciences (2 groups of study fields – Engineering; Technologies – containing 21 study fields); d) Social Sciences (5 groups of study fields – Social Studies; Law; Business and Administrative Studies; Mass Communications and Documentation; Education – containing 32 study fields); e) Humanities (2 groups of study fields – Linguistics; History, Philosophy, Theology and Cultural Studies – containing 36 study fields); and f) Creative arts and design (1 group of study fields – Art Studies – containing 10 study fields) (LR Vyriausybė, 2009). For example in 2010 there were 9680 vouchers accorded for potential university students defining not only the number of vouchers accorded to one or another studies area, but sometimes for a group of studies fields, sometimes for some fields: 4 Education fields had 800 potential vouchers – 200 per field, when Humanities studies of 2 study fields groups containing 36 studies fields had 1132 potential vouchers – 31 per field (LR Vyriausybė, 2010). Therefore in Lithuanian higher education funding system there is a high level of governmental regulation, which is more or less market-based with predetermined number of vouchers for certain studies fields limiting students' choices and resulting in distortion of merit-based principle. On the other hand, the market-based government regulation is distorted by allowing unrestricted additional number of individually funded studies places. Hence according to the authors considering vouchers exclusively as a form of demand side funding where only student choice drives the funding, Lithuanian voucher system could not be named as voucher system at all: the crucial aspect of the voucher idea being freedom to choose between public and private institutions and the providers of higher education being forced to be responsive to the needs and preferences of their customers.

According to the voucher model of Levin (1983), cited by Jongbloed & Koelman (2000), Lithuanian voucher model analysis in five key elements:

1. Students receive vouchers when and if they satisfy certain clauses (according to the rank of achievement results and the choice of studies field that has an available voucher attributed). When a student manages to choose between 10 possible choices the right studies program and obtains the voucher, (s)he is attached to a specific program at a specific higher education institution, and the government pays a pre-determined amount of money to the institution. The vouchers' value

differs highly depending on studies program starting with 3892 Lt (Humanities and Social Sciences) ending up with 18162 Lt (Music) (Jackevičius, 2010). Higher education institutions are free to determine studies fees for the non-voucher students and it may vary for the same programs in different institutions making students to choose less expensive studies without taking in consideration the quality. Therefore institutions may not be focused on quality but on marketing issues attracting the biggest possible number of students (Stasiulis, 2009).

2. Higher education institution must be accredited to be eligible for governmental funding but new suppliers have difficulties to enter the market and to seek for accreditation considering that higher education institutions are already too numerous. Competition is far from being encouraged.

3. The composition of the voucher is strictly determined and without taking in consideration any social aspects (low-income families, gender, regional problems).

4. Vouchers are distributed for the year of entering, as they are not attributed according to merit-based principle to the concrete students with a particular rank of results, their real value is not retainable during the entire lifetime of the "owner". Furthermore, according to the rotation mechanism, vouchers may be attributed to other students according to the further studies results.

5. In Lithuanian voucher scheme supply with accurate information to demanders and to providers of higher education is far from satisfying. Potential students are not provided with relevant and accurate information about programs, course contents, costs, quality of teachers, labor-market position of graduates, etc. Neither the suppliers of higher education programs are well-informed about enrolment patterns and new labor-market requirements.

As analysis shows, none of vouchers advantages, discussed in previous chapter could be declared operating in Lithuania: since vouchers are attached to studies fields, but not attributed to the students, students' choice is not strengthened but rather limited to the "right choices" and flexibility in learning routes is blocked instead of being strengthened, hence, when students must find the way to fit into the system, higher education institutions are not incited to be responsive to customers nor interested in increasing diversity of educational services. On the other hand, the efficiency of provision and quality of provision is forgotten somewhere on the way of seeking for the potential students with vouchers or paying fees and neglecting the basic knowledge requirements. Lower income families and minorities are not in the scope of policy-makers interests. Finally, the only obvious advantage of Lithuanian vouchers is maintenance of private contribution to cost of education, because about 50% of students are studying without vouchers, providing higher education institutions with their personal funding, nevertheless it breaks the market-based clauses of policy-makers: the number of diplomas in certain subjects may be doubled by non-voucher students and is uncontrolled by the government.

Highlighting the distance between theory and practice, this paper demonstrates some of the

complexities and limitations of vouchers model application as studies financing model. Developing a better empirical understanding, the analysis of scientific literature and documents, as well as Lithuanian press publications concerning vouchers was produced allowing us to draw a conclusion that Lithuanian higher education voucher model is neither merit-based, nor market-based, nor addressing social problems, it rather may be called as original Lithuanian "students follow funds" model. Further research on the topic is badly needed.

Conclusions

Since the accumulation of human capital is considered as one of the basic engines of economic growth, education issues are in the focus of public and political concern for most of governments in the search for efficient and respecting social justice higher education system.

Education services constitute an imperfect market: if left to its own devices, the market for education services would possibly fail. Therefore, there may be good reasons for government intervention in order to ensure a more adequate match of supply and demand.

The models of government intervention and higher education funding depend on the goals that policy-makers set on behalf of students and society as well as on the amount of public and private funds invested in it. The crucial question concerning the funding of higher education is: how to reach the optimal balance between centralized and decentralized approaches, including the questions to what extent funding would have to be supply-driven or demand-driven and whether it should be input-oriented or performance-based.

Educational voucher in the broadest sense is a tax funded payment made by the government to a school attended by the pupil or student. Instead of allocating subsidies directly to the providers of education, the subsidies are channeled through the consumers providing with the freedom to choose among public and private institutions.

The most elaborated and consistent plan seems to be the voucher model of Levin (1983), containing five key elements, nevertheless, a large variety of voucher schemes can be identified according to different government regulation issues with a trade-off between individual freedom of choice and equality of educational opportunity.

Education vouchers most often are applied in secondary education, sometimes they also can be seen operating in post-secondary education. The opinions about the efficiency of vouchers in compulsory education are rather mixed and most authors analyzing the results of vouchers experiments in post-secondary education are rather skeptic.

Highlighting the distance between theory and practice, some of the complexities and limitations of vouchers model application were demonstrated. Lithuanian higher education voucher model is neither merit-based, nor market-based, nor addressing social problems, it rather may be called as original Lithuanian "students follow funds" model.

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LITHUANIAN HIGHER EDUCATION STUDIES FINANCING MODEL: STUDENTS FOLLOW FUNDS

Summary

The accumulation of human capital is considered as one of the basic engines of economic growth. Therefore, education issues are in the focus of public and political concern for most of governments. According to different observations about the search for efficient and respecting social justice higher education system, one can conclude that the issues concerning higher education funding mechanisms are highly relevant. During the past two decades there has been a wealth of government policy initiatives and important money spent on Lithuanian higher education reformation. One of key elements is the implementation of voucher system as higher education public funding model in 2009. Those processes have been the focus of public and political concern ever since, yet despite this there has been a noted lack of serious research into this key policy area.

The aim of the article is highlighting the distance between theory and practice, to demonstrate some of the complexities and limitations of vouchers model application.

The object of research is educational voucher as higher education public financing scheme.

Research methods: systematic and comparative analysis of scientific literature and documents, Lithuanian press publications concerning vouchers (period 2008 – 2010) analysis.

Since our society is characterized by a large degree of individualization confronting higher education providers with a growing diversity in terms of individual client demands. The need for flexibility in training and education is strengthened by demands from firms and other organizations requiring employers with the relevant and up-to-date skills and knowledge. For the funding of the higher education sector this imply a large degree of *demand-side financing*. Vouchers are often propagated as a very powerful means of demand-side financing.

Educational voucher in the broadest sense is a tax funded payment made by the government to a school attended by the pupil or student. The voucher covers most of any tuition charged. The effect of vouchers is that students are encouraged to seek the provider that best satisfies their demands and private schools (for profit or not for profit) are encouraged to compete with public schools. In addition to tax funded there exist privately funded voucher systems, too. The crucial aspect of the voucher idea is *freedom to choose* and this would require that education is not just provided by public institutions but also by *private* institutions. In a voucher scheme, the providers of higher education are forced to be responsive to the needs and preferences of their customers and it constitutes a market-oriented type of funding of higher education.

The most elaborated and consistent plan seems to be the voucher model of Levin (1983), containing five key elements, nevertheless, a large variety of voucher schemes can be identified according to different government regulation issues with a trade-off between individual freedom of choice and

equality of educational opportunity. Obviously, there is no ideal method of funding education – every system of funding arrangements has its advantages and shortcomings, partly related to the set of goals the government is actually pursuing. In practice education vouchers most often are applied in secondary education, sometimes they also can be seen operating in post-secondary education. The opinions about the efficiency of vouchers in compulsory education are rather mixed and most authors analyzing the results of vouchers experiments in post-secondary education are rather skeptic.

Highlighting the distance between theory and practice, this paper demonstrates some of the complexities and limitations of vouchers model application as studies financing model. Developing a better empirical understanding, the analysis of scientific literature and documents, as well as Lithuanian press publications concerning vouchers was produced allowing us to draw a conclusion that Lithuanian higher education voucher model is neither merit-based, nor market-based, nor addressing social problems, it rather may be called as original Lithuanian “students follow funds” model. Further research on the topic is badly needed.

Conclusions:

- Since the accumulation of human capital is considered as one of the basic engines of economic growth, education issues are in the focus of public and political concern for most of governments in the search for efficient and respecting social justice higher education system.
- Education services constitute an imperfect market: if left to its own devices, the market for education services would possibly fail. Therefore, there may be good reasons for government intervention in order to ensure a more adequate match of supply and demand.
- The models of government intervention and higher education funding depend on the goals that policy-makers set on behalf of students and society as well as on the amount of public and private funds invested in it. The crucial question concerning the funding of higher education is: how to reach the optimal balance between centralized and decentralized approaches, including the questions to what extent funding would have to be supply-driven or demand-driven and whether it should be input-oriented or performance-based.
- Educational voucher in the broadest sense is a tax funded payment made by the government to a school attended by the pupil or student. Instead of allocating subsidies directly to the providers of education, the subsidies are channeled through the consumers providing with the freedom to choose among public and private institutions.
- The most elaborated and consistent plan seems to be the voucher model of Levin (1983), containing five key elements, nevertheless, a large variety of voucher schemes can be identified according to different government regulation issues with a trade-off between individual freedom of choice and equality of educational opportunity.
- Education vouchers most often are applied in secondary education, sometimes they also can be seen operating in post-secondary education. The opinions about the efficiency of vouchers in compulsory education are rather mixed and most authors analyzing the results of vouchers experiments in post-secondary education are rather skeptic.
- Highlighting the distance between theory and practice, some of the complexities and limitations of vouchers model application were demonstrated. Lithuanian higher education voucher model is neither merit-based, nor market-based, nor addressing social problems, it rather may be called as original Lithuanian “students follow funds” model.

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KNOWLEDGE MANAGEMENT FOR PUBLIC HEALTH IN INDIA

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Abstract

Health is a fundamental right and central to the quality of life. Health of a population contributes to and results from socio-economic development, calling for effective and efficient utilization of the resources available to the health system. Modern management tools and techniques need to be harnessed and exploited to augment the health status of populations, particularly in developing countries where the health data pertaining to mortality, morbidity, prevalence of various diseases etc. are dismal as in India. Knowledge Management integrated in the overall Health System can bring about efficiencies addressing accessibility, affordability and quality issues in health. This paper attempts to outline broadly the objectives, strategies, processes and contents of a Health Knowledge Management System, which may be the first step towards building a robust design for such a system in India.

Key Words: Knowledge Management; Knowledge Management Systems, Public Health

Introduction

Health of a population contributes to and results from socio-economic development and must therefore be emphasized by all stakeholders – the individual, community, State as well as international agencies. Health development is achieved through the health care system, which must be exploited completely using modern management techniques and related technology, to address accessibility, affordability and quality issues in health care delivery in all developing nations. Modern management tools and techniques need to be harnessed and exploited to improve the health status of populations. Health Knowledge Management System must be understood and viewed as an integral part of the overall health system and all efforts must be carried out to develop process and use this fundamental tool of management and a key input for the progress of a healthy society.

Health is a fundamental right and is central to the concept of quality of life. The Universal Declaration of Human Rights (1948) establishes; “...everyone has the right to a standard of living adequate for the health and well-being of himself and his family...” This paper recognizes health as a highly personal responsibility on one hand and a major public concern on the other and to this effect health is the responsibility of the individual, the community and also the State.

The Problem

Unfortunately, India shows dismal figures of health status. The Infant Mortality Rate in India is as high as 58 as compared to 5 in the developed countries (Park, 2007). Communicable diseases like malaria (1.8 million cases with slide positivity), tuberculosis (16.1 million positive cases in 2005 and 400,000 deaths every year), diarrhea (7.1 lakh deaths each year in children below 5 years of age), acute respiratory infections (13.6 percent

hospital admissions and 13 percent inpatient deaths in pediatric wards are due to ARI), AIDS etc. continue to be a major problem in India (Park, 2007).

The figures may be even more alarming in the absence of a robust system of health information. Our policy makers have a stupendous task of working in the face of inadequate, unsatisfactory health information (Park, 2008) and lack of a system of information and knowledge dissemination to all stakeholders.

Knowledge Management in health sector faces three major challenges: (1) Unsatisfactory quality of data, (2) Non-availability of data for knowledge generation, (3) Inadequate dissemination of knowledge (Department of Health Research, GOI, 2009).

In the absence of ‘good quality’ data policy formulation and implementation of health care programs as well as quality of health research suffers. Most of the data captured may or may not be available in a suitable form for creating databases. Availability of digitized data in unified format helps in improving data quality and developing standards for knowledge generation. Dissemination of information and available knowledge to end users (health professionals, researchers, patients, students) through internet, information kiosks etc. is a major impediment in realizing the complete potential of the Indian health system.

Knowledge Management

“As a general rule, the most successful man in life is the man who has the best knowledge” (Anonymous).

The same holds good in the context of organizations. Comprehending the creation, communication and use of knowledge has been an area of concern for scientists, philosophers and intellectuals for the last centuries. However, it is only in the last decade that a formal distinct field of study called ‘Knowledge

Management' (KM) has emerged which focuses on the systematic development, exploitation and usage of knowledge. The basic premise of KM is that just as human beings are unable to draw on the full potential of their brains, organizations are generally not able to fully utilize the knowledge possessed by individual employees as well as that which exists collectively within the organization (King, 2007). Through KM organizations seek to acquire or create potentially useful knowledge and to make it available to those who can use it at a time and place that is appropriate for them to achieve maximum usage and maximum impact on organizational performance. It is generally believed that if an organization can increase its effective knowledge utilization by only a small percentage, great benefits will result, (King, W.R. 2007). In the domains of public health, a knowledge management system emerges as an integral part of the overall national health system. It qualifies as a basic tool of management and a key input for the progress of any healthy society. A Knowledge Management Model for health sector will essentially have specific objectives, strategies, content (information & knowledge itself) and processes for improving the health status of the population by imparting benefits of various health programs to the targeted communities and improving the quality of education and research which will lead to evidence based policies and strategy development.

The knowledge management system is distinct from the health information system as in the latter is defined as a "mechanism for collection, processing, analysis and transmission of information required for organizing and operating health services and also for research and training" (Alderson, 1974), the former also incorporates the individuals, the goals and strategies, processes related to the integration of the repositories of knowledge created into the overall system and also the development of a culture that is commensurate with the continual development and usage of such information & knowledge. The point that I would like to make is that the information systems have widened their scope to formulate a broader, more complete knowledge system. Knowledge Management Systems basically envisage capturing, creating, sharing and utilizing knowledge. It has three fundamental components viz. (i) people who create, share and use knowledge as part of their daily work and help shape a knowledge sharing organizational culture (ii) processes which include methods to acquire, create, organize, share and transfer knowledge to fit different situations and (iii) technology including the mechanisms for storage and retrieval of data, information and knowledge that must be integrated with the way people work and address their real needs.

Ideally a KM system would involve extensive databases, also including 'lessons learned' repositories and directories and networks, designed to facilitate communities of practice. For example, an organization may have repositories of 'best practices' to which individual users submit and update their innovative and effective practices for others to retrieve and use (King, 2007). As has been already mentioned such a system has to be supported by appropriate technology like computer

based Communication and Information Processing. It must be understood that KM systems, although automated also require discreet human activity in operation since each knowledge unit may be unique requiring an assessment for its relevance and importance. This is particularly true for a KM system in the health sector where area specific demands may emerge and local solutions may be the answer.

The overall KM system may have certain components that must be defined specifically like objectives, strategies, processes, knowledge itself – the content of KM system,, integration within the organization and interface with the external environment and last but not the least a clear definition of the knowledge culture desired in the organization.

Objective / Goal

This paper attempts to outline the basic requirements of Knowledge Management System in Public health in India. Although much of the discussions revolve around the Indian health system, deliberations may benefit policy makers of developing countries to apply these concepts in their precise situations to augment the health status of populations.

Research Questions

To achieve the above mentioned objective, the study was designed to answer the following questions:

1. What should the specific objectives of a public health knowledge management system be?
2. What should the essential components of public health knowledge management system be to create harmony for end users?
3. How can the knowledge created be utilized to improve quality of medical education?

Review of Literature

A recent innovation in the creation of a KMS for knowledge refinement is a labour intensive process of evaluating submissions, editing them and choosing the best for inclusion in a repository (Cho et al, 2008). Knockaert, (2011), assessed the conditions under which tacit knowledge transfer contributes to the performance of academic spin-offs using inductive case study approach and found that such transfer is effective when a substantial part of the original research team joins the new venture as founders. Brewer & Brewer (2010), examined the relationship between knowledge management, human resource management and typical knowledge learning goals of an accredited business education program and found a linkage between the three. Stein, Kahn (2008), acknowledged that increasing awareness of Knowledge Management is a critical determinant of an organization's competitiveness and surveyed employee perceptions of Knowledge Management Practices revealing public interest, transparency and accessibility as important factors in the success of development of Knowledge Management Systems. Rennolls, Al-Shawabkeh (2008), found that there were no established procedures for the domain

expert to express prior knowledge, understanding and aims in a way which can be linked to knowledge development or data mining processes and subsequent deployment of discovered knowledge. Concerns have been raised about the potential dependency of users on Knowledge Management Systems and the related potential for decreases in knowledge acquisition and expert development (Cole, 1998; Alavi and Leidner, 2001; O’Leary 2002) McCall et al (2008) found that Knowledge Management System users outperform users of traditional reference materials when they have access to their respective systems/materials, but the users of traditional reference materials outperform KMS users when respective systems/materials are removed. Tsung-Yi (2009) advocated and developed a functional framework of a knowledge management system with knowledge access control for effectively and securely sharing knowledge within an enterprise and across teams i.e. defining user knowledge privileges in a knowledge sharing enterprise to ensure security of knowledge access. Sheng-Tun, Fu-Ching (2009), proposed a Knowledge Management system powered by solution of concept guided query expansion schemes and repertory grid analysis to build a hierarchical concept structure and elicit domain expert’s tacit knowledge.

King (2007), argued that the broadest objective of any KM system is the leveraging and improvement of the organization’s knowledge assets to effectuate better practices, improved organizational behaviours, better decisions and overall improved organizational performance and to facilitate organizational learning. Organizational learning is “... encoding inferences from history into routines that guide behaviour” (Levitt and March, 1988). Organizational learning is indeed one of the important ways in which the organization can utilize knowledge. “Accumulated knowledge is of less significance than the processes needed to continuously revise or create knowledge” (Dixon, 1994).

The strategies followed in KM will inevitably stem from the basic objective of the organization and the very reason for instituting such a system – improved productivity, revenues, profits, return on investment, quality issues etc. (King, 2007). Hansen et al., (1999) maintained that in order to completely exploit the

effectiveness of the KM system many organizations focus mainly one or the other of two broadly defined KM strategies – ‘codification’ and ‘personalization’ Codification is primarily implemented in the form of electronic document systems that codify and store knowledge and permit its easy dissemination and reuse. This strategy is based on ‘reuse economics’ – invest once in creating or acquiring a knowledge asset and reuse it many times. Personalization on the other hand, focuses on developing networks to facilitate people-to-people knowledge transfer and sharing. It is based on ‘expert economics’ – channeling expertise to those with less expertise who may employ it to further the organizational goals.

Earl (2001) proposed that personalization strategies could be cartographic, organizational or social. Cartographic strategy means creating knowledge ‘maps’ or directories and networks to connect people; organizational is creating groupware and intranets to facilitate communities of practice and social strategies imply socialization as a means of knowledge creation and exchange, emphasizing the provision of physical or virtual places to facilitate discussion. While some organizations focus on only one of these strategies many use a combination of strategies to satisfy needs (Hansen et al., 1999).

KM processes have been described in many ways: ‘generate, codify/coordinate, transfer’ - three stage model (Davenport and Prusak ,2000); ‘Create, acquire, identify, adapt, organize, distribute, apply’ – seven stage model (Ward and Aurum, 2004). Similar models have been presented by Tiwana (2000), McElroy (2000), Alavi and Leidner (2001), Kucza et al. (2001), Meehan and Richardson (2002), Rus and Lindvall (2002), Nissen (2002), Edwards (2003), Qureshi et al. (2004), and Chang et al. (2005). Figure 1 depicts the KM processes clearly; (as stated by King, 2007) starting with creation and acquisition of information and data, refinement as per requirements, storage into information and communication systems that enable transfer, retrieval and sharing of information repositories by individuals for effective utilization, thereby leading to enhanced organizational performance.

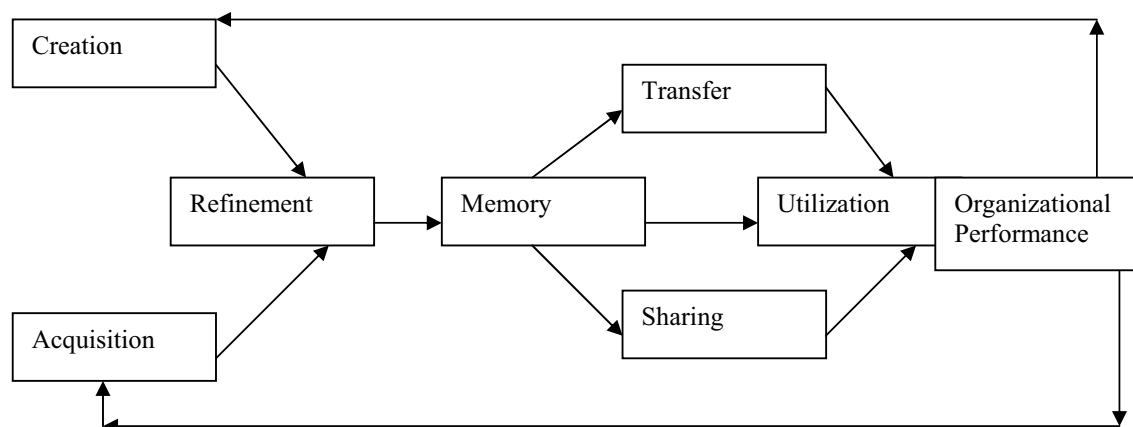


Figure 1. KM Processes – Cycle Model (King W. R., 2007)

Knowledge may be defined as a 'justified personal belief'. (King, 2007) Several taxonomies specifying various kinds of knowledge exist. The most fundamental distinction is between 'tacit' and 'explicit' knowledge. Tacit knowledge inhabits the minds of people and is difficult to articulate. Most knowledge is initially tacit in nature, is laboriously developed over a period of time through trial and error and is underutilized because the 'organization does not know what it knows' (O'Dell and Grayson, 1998). Some knowledge is embedded in business processes, activities and relationships that have been created over time through the development and implementation of a continuing series of improvements. 'Explicit' knowledge exists in the form of words, sentences, documents, organized data, computer programs etc. (King, 2007) The fundamental and perhaps the most challenging aspect of KM is to give tacit knowledge an explicit form, so as to enable its effective usage by others. A knowledge management system will necessarily create categories of knowledge for consumption at various levels in the organizational structure. For example, information on treatment effectiveness by age, gender etc may be used by patients as well as paramedical staff of the health systems; but symptomatic diagnosis of complex diseases and its treatment may not be available for consumption by all. (Alavi and Leidner, 2001)

Van de Ven, (2005) studied the development of knowledge intensive technologies and advocated that KM should ideally be integrated within an organization by creating a separate knowledge department handling the entire function and interfacing with all the departments of the organization as also the external environment such as with suppliers, partners and customers. Such KM activities obviously rely on communication networks and systems. 'Value supply chain' inter-organizational networks may be used to interact with suppliers to ensure that inventories are always at desired levels on retail shelves, customers know whether a particular item is available in the store thereby avoiding a futile visit.

Knowledge culture refers to a particular organizational culture that represents, "a way of organizational life that enables and motivates people to create, share and utilize knowledge for the benefit and enduring success of the organization". (Oliver and Kandali, 2006) Organizational culture is believed to influence the knowledge-related behaviors of individuals, teams, organizational units and overall organization itself because it importantly influences the determination of which knowledge is appropriate to share, with whom and when (King and Marks, 2008).

Methodology Description

The methodology adopted to achieve the above mentioned objective was two pronged. One, an extensive survey of concerning literature was undertaken. Management as well as health system journals, periodicals, magazines and books was scanned to find out the basic concepts and processes involved in knowledge management and its application in the health scenario.

Two, Management judgement method, Delphi technique and Focused Group Discussions (FGD) were held to further seek clarity on issues of specific requirements for knowledge management system as part of the overall health management system. The participating members consisted of grass root health workers involved in health delivery at the village level, doctors and paramedical staff working in primary health centers, community health centers, district hospitals and tertiary government hospitals, management and information technology experts in academia, and members of the general public who have been beneficiaries of the public health system of the country. Both open ended and close ended questions were asked.

Specific questions like "What possible purposes do you think a health knowledge management system should fulfill? What then, should be the specific objectives of such a system? What are the basic requirements of a knowledge management system in health fulfil to make it more meaningful to all concerned in the delivery of health as well as policy making? Keeping the objective in mind what in your opinion should the components of health knowledge management system? How do you think such knowledge can be utilized?" These were some of the questions asked during the sessions.

Four rounds of FGDs were held. After each round the minutes were recorded and put up for further review in the next round. Finally, a consensus was reached at the end of the fourth round of FGD. The results were triangulated by management judgement method and Delphi technique in which the above questions were administered to those who could not attend the focused group discussions.

Research Results and Discussions

After extensive discussions and deliberations the members concluded that the Knowledge Management system in public health needs to have essential and specific objectives and strategies, processes, content and culture – the model advocated by W. R. King (2007). The fundamental objective of KMS in public health is collection, creation, dissemination and utilization of knowledge for improving the quality, outreach and affordability of health services as well as improving health education and research. The specific objectives (as agreed by all members of the focused group discussions) may be written down as follows:

- To make authentic information about health knowledge services available to health professionals, managers, policy makers and common citizens.
- To promote sharing of health knowledge resources in health services delivery, education and research.
- To manage health aspects of disasters effectively using knowledge management tools.
- To enable access to high quality health and medical education.

- To contribute towards development of an efficient health research system.

All the members unanimously upheld the recommendations of WHO Expert Committee (1971) which identified the following requirements to be satisfied by the health information and knowledge systems:

- The system should be population based,
- Should avoid the unnecessary agglomeration of data,
- Be problem oriented,
- Employ uniform functional and operational terms,
- Express knowledge briefly and imaginatively that is in the form of charts, tables percentages etc. and provide for the feedback of data.

In order to create harmony among various health service providers and to impart their knowledge and services to all public at all times, the following essential components have been proposed:

- Empowering end user for better access to health services by
 1. Making available updated information about the service infrastructure such as manpower, equipment, medicines etc. available at different levels like sub-centers, primary health centers, community health centers, district hospitals, zonal hospitals medical college and other tertiary care hospitals
 2. Providing online information about functional status of the infrastructure I.e. availability of doctors, medical supplies including devices, vacant beds, surgical/medical/diagnostic facilities in real time.
 3. Providing information about geographical locations and other logistics of various health service providers
 4. Promoting overall user awareness about available information sources by training of end users
 5. Promoting access to financial resources including insurance.
- Enriching health professionals with knowledge about standardized functional, infrastructural and logistical information on various health care service providers in Government and private health care delivery centers.
- Increasing accountability of health care professional and services by
 1. Developing a well defined referral system for efficient utilization of resources between central, state and other public/private healthcare providing institutes.
 2. Creating a mandatory forward and back referral pathway over a period of 5-10 years. Responsibilities of every individual in the pathway to be enforced to ensure

perfect accountability involving human life.

- Connecting geographically remote areas and difficult terrains by effective use of telemedicine. Expert opinions of specialists need to be ensured on a structured fixed time interval basis as well as on emergency basis.
- Efficiently handling health aspects of disasters by using data mining and business intelligence tools on available data for quickly finding information about available resources around disaster site and mobilizing these resources.
- Establishing a user friendly, standardized, informative medical record system in a nationally compatible format.

Consensus was also reached amongst the group members regarding utilization of knowledge network to improve the quality of medical education uniformly across the country. In this regard the following was proposed:

- Sharing knowledge by
 1. Establishing an efficient physical network, connecting all medical/ dental/ nursing/ other health related professional colleges
 2. Creating a tele-education portal to house resources and repositories which can be accessed online.
 3. Creating and networking digital / resource libraries for educational materials such as lectures, slides, video clippings etc. which can be accessed online
 4. Organizing prescheduled interactive lectures and practical sessions by prominent teachers through tele-education via national and international networks.
- Developing unified high quality standards in health education across the country
- Updating knowledge of health professionals by conducting inline continued medical education/ special training programs. Evaluating quality of in-service health personnel by conducting online examinations periodically
- Training in-service health personnel by organizing localized interactive training courses
- Enforcing regulations for tele-education applications by following existing guidelines of regulatory bodies like Medical council of India, Medical Universities, Dental Council of India, Nursing Council, Pharmacy Council and various other statutory bodies and councils for alternate systems of medicine, physiotherapy and other related disciplines.

Conclusion

The suggestions made in this paper, may be viewed as an initial stride towards building a Knowledge Management System within the Public Health system to if improve the effectiveness and efficiency of the health

services and national/state programs through improved accessibility and knowledge based decision making. It would also improve the degree of satisfaction of the beneficiaries with the health system and also improve health and medical education and research. Thus knowledge management systems incorporated within the health system would go a long way in improving the overall health status of the population.

However, further research is needed to arrive at the basic methods required to capture this data in a standardized format enabling policy makers, health executives and workers at all levels better efficiencies and effectiveness. Some suggestions in this regard are: make proper usage of the census data (collected in India once in every ten years), which can provide a frame of reference and baseline for planning, action research not only in the field of medicine, human ecology and social sciences but in the entire governmental system.; continuous registration of vital events (births, deaths etc.); compulsory notification of diseases, hospital data, disease registers, epidemiological surveys and so on.

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KNOWLEDGE MANAGEMENT FOR PUBLIC HEALTH IN INDIA

Summary

Modern management tools and techniques need to be harnessed and exploited to improve the health status of populations. Health Knowledge Management System must be understood and viewed as an integral part of the overall health system and all efforts must be carried out to develop, process and use this fundamental tool of management and a key input for the progress of a healthy society. Our policy makers have a stupendous task of working in the face of inadequate, unsatisfactory health information (Park, 2008) and lack of a system of information and knowledge dissemination to all stakeholders.

Issues that need further deliberation are:

- How to motivate health workers to contribute their knowledge to the knowledge system and also help in capturing, generating and transferring reliable data from the grass root levels?
- How to obtain top management support for such developing such a Knowledge management system?
- How to verify the reliability and validity of data generated?
- How can security issues pertaining to such a system be addressed?

There may be many more issues that need clarifications, but these discussions have certainly set the ball rolling in the right direction to sensitize some members of the health fraternity towards the benefits and feasibility of developing such a knowledge management system in public health in India.

Knowledge Management in health sector faces three major challenges: (1) Unsatisfactory quality of data, (2) Non-availability of data for knowledge generation, (3) Inadequate dissemination of knowledge. (Department of Health Research, GOI, 2009)

Lack of dissemination of information and available knowledge to end users (health professionals, researchers, patients, students) through internet, information kiosks etc. is a major impediment in realizing the complete potential of the Indian health system.

The objective of this paper is sensitization and provision of an outline of requirements for the development of a Knowledge Management System in Public Health.

The methodology adopted to achieve the above mentioned objective was two pronged. One, an extensive survey of concerning literature was undertaken. Management as well as health system journals, periodicals, magazines and books were scanned to find out the basic concepts and processes involved in knowledge management and its application in the health scenario. Two, Focused Group Discussions (FGD) were held to further seek clarity on issues of specific requirements for knowledge management system as part of the overall health management system. The members of the focused group consisted of grass root health workers, paramedical staff, doctors involved in health delivery at the village, block, district and state level, management and information technology experts in academia, and members of the general public who have been beneficiaries of the public health system of the country. Several rounds of FGDs were held to reach a consensus.

After extensive literature search and focus group discussions a consensus was reached on the objectives, strategies, processes, and content of Knowledge Management System for the overall health system.

Knowledge Management Systems basically envisage capturing, creating, sharing and utilizing knowledge. It has three fundamental components viz. (i) people who create, share and use knowledge as part of their daily work and help shape a knowledge sharing organizational culture (ii) processes which include methods to acquire, create, organize, share and transfer knowledge to fit different situations and (iii) technology including the mechanisms for storage and retrieval of data, information and knowledge that must be integrated with the way people work and address their real needs. Ideally a KM system would involve extensive databases, also including 'lessons learned' repositories and directories and networks, designed to facilitate communities of practice.

It must be understood that KM systems, although automated also require discreet human activity in operation since each knowledge unit may be unique requiring an assessment for its relevance and importance. This is particularly true for a KM system in the health sector where area specific demands may emerge and local solutions may be the answer.

The fundamental objective of KMS in public health is collection, creation, dissemination and utilization of knowledge for improving the quality, outreach and affordability of health services as well as improving health education and research. The specific objectives (as agreed by all members of the focused group discussions) were, to make authentic information about health knowledge services available to health professionals, managers, policy makers and common citizens; promotion of sharing of health knowledge resources in health services delivery, education and research; managing health aspects of disasters effectively using knowledge management tools; enabling access to high quality health and medical education and contribution towards development of an efficient health research system.

All the members unanimously upheld the recommendations of WHO Expert Committee (1971) which identified the following requirements to be satisfied by the health knowledge systems viz., the system should be population based, should avoid the unnecessary agglomeration of data, have a problem solving orientation, employ uniform functional and operational terms, express knowledge briefly and imaginatively that is in the form of charts, tables percentages etc. and provide for feedback of data.

In order to create harmony among various health service providers and to impart their knowledge and services to all public at all times, the following essential components were proposed: Empowering end user for better access to health services by making available updated information about the service infrastructure such as manpower, equipment, medicines etc. available at different levels like sub-centers, primary health centers, community health centers, district hospitals, zonal hospitals medical college and other tertiary care hospitals; providing online information about functional status of the infrastructure i.e. availability of doctors, medical supplies including devices, vacant beds, surgical/medical/diagnostic facilities in real time; providing information about geographical locations and other logistics of various health service providers; promoting overall user awareness about available information sources by training of end users; promoting access to financial resources including insurance. Enriching health professionals with knowledge about standardized functional, infrastructural and logistical information on various health care service providers in Government and private health care delivery centers also emerged as an important aspect of the knowledge management system. Increasing accountability of health care professional and services by developing a well defined referral system for efficient utilization of resources between central, state and other public/private healthcare providing institutes and creating a mandatory forward and back referral pathway over a period of 5-10 years and responsibilities of every individual in the pathway to be enforced to ensure perfect accountability involving human life; connecting geographically remote areas and difficult terrains by effective use of telemedicine. Expert opinions of specialists need to be ensured on a structured fixed time interval basis as well as on emergency basis; efficiently handling health aspects of disasters by using data mining and business intelligence tools on available data for quickly finding information about available resources around disaster site and mobilizing these resources and establishing a user friendly, standardized, informative medical record system in a nationally compatible format.

Consensus was also reached amongst the group members regarding utilization of knowledge network to improve the quality of medical education uniformly across the country. In this regard it was proposed that there should be a sharing of knowledge between medical, dental, nursing colleges through knowledge management systems, organizing of prescheduled interactive sessions with prominent teachers; updating knowledge of health professionals by conducting inline continued medical education/ special training programs; evaluating quality of in-service health personnel by conducting online examinations periodically; training in-service health personnel by organizing localized interactive training courses.

The suggestions made in this paper, if implemented would help improve the effectiveness and efficiency of the health services and programs through improved accessibility and knowledge based decision making. It would also improve the degree of satisfaction of the beneficiaries with the health system and also improve health and medical education and research. Thus knowledge management systems incorporated within the health system would go a long way in improving the overall health status of the population.

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BRINGING THE REAL WORLD INTO YOUR CLASSROOM - APPLYING THE CASE STUDY METHOD^{MM}

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Abstract

In 2011 students from the Faculty of Organizational Sciences won the top ranking schools at the regional final at *The Hult Global Case Challenge* in London. The new type of case study, named the case study method^{MM}, uses the experiences and best practice to bring business reality to Marketing Management courses and to encourage communication and exchanging ideas among teacher, students, and the company representatives at the business case study competitions. This paper is based on research on the use of the case method among 128 students from Serbia, Bosnia and Herzegovina, Croatia, Montenegro, Former Yugoslav Republic of Macedonia (FYROM), and Slovenia, which have had experience with case study method during different level of studies. Findings indicate that solving the real business problem from practice is the most important motive for students to participate at the case study competition. This paper also summarizes the criteria for case study competition grading from the students view, advantages and disadvantages and crucial steps of applying case study in the learning process. These results should provide future direction for better use of *case study method*^{MM} for teachers, students and company who provide case study.

Keywords: real world, students, case study method^{MM}, Marketing Management, Business Case Study Competition

Introduction

The case study method is widely accepted today as an important tool of management education at the postgraduate level around the academia (Thomas, 2010). The world renowned universities (Harvard Business School from USA and Richard Ivey School of Business from Canada) apply the case study method in the educational process also at the undergraduate level. Authors define case studies as "a description of a real event, which includes a decision, challenge, opportunity, problem or attitude with which a person or people in an organization are faced with". (Erskine, 1998) A case study allows the reader to be in the decision maker's role in the very business process at hand. The use of case studies in the educational process represents an interactive method that is done directly through classes and the basic goal of which is the active participation of students in class, which needs to be stimulated and guided by the teacher.

The case study method^{MM} is methodology which is implemented in classroom and case study competitions where students solve business problems in Marketing Management field (Damjanovic, 2009). This method was developed by teachers from the Marketing Management and Public Relations department from the Faculty of Organizational Sciences in 2002. This method was applied very successful in local, national, regional and international business case study competition until 2011 where students were participants and showed excellent competence to think different understanding the real world situation. In the present study authors explains advantages and disadvantages of the interactive teaching and learning method which have used in case competition preparation phase, which can help students to have more

realistic view of business decision making.

The goal of applying the case study method^{MM} in the educational and business process allows individuals and teams to have an overview of crucial steps in analysis and to suggest concrete solutions drawn from practical experience. In this paper the research has tended to focus on applying case study method^{MM} and analyzing benefits for students in the classroom and case study competitions rather than on teacher view. This study also should help teachers for better understanding the advantages and disadvantages of case study method^{MM} from the student point of view.

Literature review

Many investigators have recently turned to changes on developing and improving learning and teaching process in higher education. Sykes et. al (2010) highlights components of organizational change requisite for the higher education by national funding bodies achieving their agendas by working collaboratively with a network of associate deans with responsibility for learning and teaching. Many authors agree that wide range of instructional methods is more effective in teaching and learning in higher education that using only one method. (Weber, 2000; Trunga, 2009; Jelenc 2010).

Case teaching can be a very rewarding way to teach, but it can also be extremely frustrating. Very few professors have had any training in how to teach by the case method. For many marketing courses case teaching can be an effective technique to help the students learn how to

apply marketing theory and concepts in a decision-oriented setting (Bernhardt, 1992).

Author (Coolsen, 1949) point out that the most common ways of assigning prepared cases to marketing classes are as follows: (1) as illustrative material – interesting example of marketing campaign (2) as a basis for oral discussion – exchanging the ideas and opinion about trends in specific industry or (3) as a written assignment to prepare a commentary on the situation or solution to the problem presented in the case. The case study method^{mm} includes all of these possibilities: first starting with illustrative material related to case study, second make analysis, identification of problems and recommendations for case study in written form and finally oral presentation with interactive discussion.

According to (Morris, 1987) “proponents of real life case studies believe the format exposes their students to situations they will face in business. The case method is the best way to prepare students for a business career.” However, when discussed in class, the case method should encourage the student to critically assess their own work by exposure to the ideas of others in the class. (Lunsford, 1999.)

The literature shows that the case study method is a useful technique for developing of student skills which will better prepare team for real life. This paper describes case study method^{mm} as a useful tool for preparation of students in the class and at the business case study competitions.

The aim of the present paper is also to provide overview of motives for students which they identified as the most important for them for participating at the business case study competitions.

The case study method^{mm}

The case study method^{mm} is interactive method in Marketing Management field. This method stimulates students that they must know the framework for developing strategic and operational marketing plans, be able to apply the various tools of analysis, recognising limitations, be able to make decisions, be able to explain broader implications to the business and connection with other disciplines: finance, people management, IT and finally have the various management skills to present ideas in a convincing way.

The case study method^{mm} consists of four parts: marketing analysis and evaluation, strategic marketing decision, managing marketing plan and marketing control. The written assignment usually includes: macro and micro analysis, identification of problems, determination the priority of problems and decision making criteria, proposition the solutions – marketing strategy, evaluation the alternative with criteria, selection of priority alternatives based on decision making criteria, developing the implementation plan and conclusion of case study.

The analysis of criteria in the field of marketing management depends on the problems and analysis presented in the case study. The most common problems assigned cover thematic entities in market segmentation, portfolio analysis, developing a new brand of products, defining market plans, and foreign market entry strategy, introduction of information systems into the sales sector, branding strategy, and formulating promotion mix.

Criteria used in competitions in marketing management case studies can also be classified as quantitative and qualitative. The quantitative criteria include: market percentage, return on marketing investment rate, new product sales percentage, profitability in relation to sales channels and market segments, and cost of bringing in new customers. Qualitative criteria in competitions most often include: customer satisfaction and loyalty, customer attitude and reaction, corporate socially responsible initiative, and product brand strength.

Research Methodology

In order to better understand the usefulness and potential limitations of applying the case study method in the process of students' preparation for case study competitions and in the classroom, a survey had been conducted.

The inspiration for the questionnaire design was found in the work of (Damjanovic and Novcic, 2010, Mauffette-Leenders, 1999), as well as in our experience gained during the previous years of working with advanced students, and preparing them for various case study competitions. Thus, our questionnaire consisted of 6 clusters of questions: demography, previous experience, motivation, advantages and disadvantages, area of expertise, and grading criteria.

The cluster that focused on students' motivation to participate in case study competitions had 10 given motives, while the cluster discussing the advantages and disadvantages of learning through the case study method had 11 and 12 options, respectively. For measuring the attitudes of examinees, a 5-item Importance Likert scale was used with *Unimportant* - weight of 1, and *Very important* - weight of 5, as the scale anchors. Our target examinees were students at the undergraduate level of studies in the Balkans region that have had any previous experience with the case study method. Surveying lasted for five weeks starting from April 4th until May 15th, 2011.

For the purpose of online surveying, we created an online survey using kwicksurveys.com, and the survey link was sent via email to the existing databases of students who participated at any level of competitions. The survey link was also advertised on social networks – Facebook, LinkedIn, and Twitter.

Findings

The research included 128 responses from students in six countries: Serbia, Bosnia and Herzegovina, Croatia, Montenegro, Former Yugoslav Republic of Macedonia (FYROM), and Slovenia, which have had experience with case study method during different level of studies. General statistics, out of 128 examinees 44.53% were male, and 55.47% were female. The majority of students were at the 2nd (24.22%), 3rd (25.78%), or final – 4th (14.84%) year of undergraduate studies, while at the 1st year of undergraduate studies there was no responses. Many students as respondents used case study method in the class at the undergraduate level (51.72%), on the graduate level (9.36%) and on additional classes and workshops (38,92%).

The next part of investigated related to the field that students prefer when they resolve case study. The list of fields has offered from the ECCH base. (ECCH, 2010) The next table describes the frequency in percent of their preferences.

Table 1

Field which students prefer in case study analysis

Field which students prefer	Percent
Marketing	39.06%
All fields together	21.88%
Human Resource Management/Organizational – Behaviour	8.59%
Strategy and general management	7.81%
Ethics and Social Responsibilities	4.69%
Knowledge information and managing of communication system	4.69%
Economic, political and business environment	3.91%
Entrepreneurship	3.91%
Financial Accounting and Control	3.91%
Production and operation management	1.56%

Most of the respondents in case study analysis prefer Marketing field (39,06%); then all fields together (21,88%); Human Resource Management (8,59%), strategy and general management (7,81%). These results also align the facts that the majority of students have had a lot of experiences using the case study method^{mm} in the class and the case study competitions during last years.

Research findings also present the answers which are related to advantages and disadvantages of implementing case study method in the class and case study competitions. Advantages of learning with case study method are mostly focused on improving students' skills. Table 2. shows detailed view of advantages from students' perspective. The advantages from learning with case study method that were outlined the most by students are, developing presentation skills and working

under pressure; analytical and problem solving skills, and opportunity developing team building skills.

Table 2

Advantages of Learning with the help of case study

Advantages	Percent The most important
Development of presentation skills.	68%
Development of skills under pressure.	56%
Development of problem solving skills and analytical skills.	55%
Development of teamwork skills.	54%
Studying is interesting and more useful than just studying theory.	48%
Students learning from one another – Exchange of opinions and ideas	43%
Theoretical and practical knowledge are combined.	43%
Development of time management skills.	40%
Development of agreement making skills.	39%
Students can implement new knowledge and skills.	34%
Employment is easier after completing studies.	32%

Disadvantages from learning with case study method from the students' perspective are presented in Table 3:

Table 3

Lack of Learning with the Case Study Method

Disadvantages	Percent The most important
Case studies are written poorly – without needed information, tables, and pictures.	45%
Teachers are not prepared enough for work with students.	33%
Case studies are badly presented.	29%
Teamwork results in interpersonal problems.	23%
Case study themes are uninteresting.	17%
Subjectivity of teacher regarding individual evaluation	17%
Case studies are not adapted to the level of student knowledge.	17%
Problem evaluating individual involvement in a team	12%
Case study is too long – longer than 2 A4 formatted pages	10%
Case studies don't have just one result.	6%

In research study conduct by (Rippin, 2002) students often complain that they cannot 'do' a case because they have insufficient information. The results of this study indicated the student attitudes about the lack to the case study method were mixed. (see Table 3). Moreover, 45%

of respondents felt that they case studies are written poorly – without needed information, tables, and pictures; 33% of them agree that teachers are not prepared enough for work with students and 29% think that case studies are badly presented.

We also analyzed how students perceived criteria in the case study competition. Marketing case study competition required cooperation with: company, teachers and students. Company representatives have three role in the case competition: first as a sponsor – provide money for competition, second provide source of data for case study and act as a jury member in evaluation of students solutions. Teachers have different roles in business case study competition: preparation and communication with students, communication and negotiation with representatives from company, writing case study, preparation of material, preparation of evaluation grade sheet for competition, organization of events in the term of time, space, equipments, drinks and promotion. Also sometimes teachers participate as a jury member in the competition. Students who participate at the case study competition have preparation phase with teachers, they apply for the competition, resolving problem in teams, presentation the case problem on competition and evaluate their knowledge.(Novcic, 2010).

There are not the same grading systems for case competition. In this research we used approaches of Balkan Case Challenge Competition (BCC, 2010) because many of respondents took participation in this regional competition and the other national competitions among ex Yugoslav counties. Students recognized that the most important part for the case study analysis and recommendation is structure and quality of the presentation in the Power Point form & presentation skills (32,81%); than feasibility of the proposed solutions (30,47%) and Innovation and creativity of solution (26,56%). Understanding of the case study and knowledge of the jury's questions they responded not so important for them, see Table 4.

Table 4

Criteria for business case study competition grading – student view

Criteria	Description	Percent
Understanding off the case	The task of the case study has been fully understood All relevant questions have been dealt with Background data has been used in a meaningful way Reasonable priorities have been set up in the presentation	5,47%
Feasibility of the proposed solutions	If necessary, realistic assumptions have been made by the presenters The solutions proposed have been taken the role of the product manager into account Individual recommendations have been concretely described to be put quickly into action	30,47%

Structure and quality of the presentation & Presentation skills	A clear overall message of the presentation requiring explicit action has been formulated The presentation has been coherently structured in a rational and logical way (understandable storyline) Important decisions have been substantiated with the help of quantitative data (applied with high information density) Graphs, tables, process descriptions etc. have been sufficiently explained Basic presentation and design principles (appropriate font size, distinct colours, legible graphs, et.) have been taken into consideration The presentation has been completed on time The presenter have been clear, audible and easy to follow The presenter have been performing with a good deal of self-confidence and demonstrating presentation experience (e.g. eye contact, body language etc.)	32,81%
Knowledge & question and answer part	The presenter has been making the impression of having profound knowledge of the matters covered The presenter has been showing a good understanding of the jury's questions The presenter has been extensively prepared for questions The answers presented have been able to convince the questioners	4,69%
Innovation and creativity of solution	The solution proposed has been taken the creative way of thinking Recommendations include out of box ideas	26,56%

The next part of this research study focused on understanding the motives of students for participating at the case study competitions, see Table 5. Findings showed that solving the real business problem from practice is the most valuable thing for them (67%). Majority of respondents also agree that case study competitions are the good way for getting the internship in the company (56%) or job (54%). Students also recognised the possibility for networking with company representatives (40%); with teacher as their faculty advisor (39%) and with other students (25%). Only 5% of respondents underlined that financial award is the most important for them to compete at the business case study competitions.

Table 5

Motives of students in the case study competitions

Students motives	The most important
Solving the real business problem from practice	67%
Opportunity of internship in companies which provide case for case study competition	56%
Job opportunity	54%
Acquiring new knowledge and knowledge testing	47%
Networking with company representatives	40%
Networking with faculty advisors	39%
Networking with other students -participants in the case study competitions	32%
Achievement recognition	25%
Travelling	23%
Financial award	5%

Conclusion

From these findings it is clear that the case study method^{mm} can be used as the basis for a learning process in the class in Marketing Management courses and also at could be used for as a preparation for business case study competitions. We provided suggestions for main elements in case study analysis and recommendation, explained the different criteria in Marketing Management analysis and explain the main advantages and problems in

applying the case study method^{mm}. Students recognized that this method could help them in developing the most important management skills: presentation skills, under pressure skills, team building skills, analytical and problem solving skills for business world.

We also explained the grading sheet which jury members use in the process of evaluation of students solutions and summarized the students' opinion that the quality of presentation, presentation skills and feasibility of solutions are the most important criteria. We also identified the motives for students for participating in the case study competition and they recognized the most important: possibility to solve the real business problem.

However, the practical constraints of using the case study method^{mm} in the classroom and the business case study competition refer to poorly written case study and badly presented and not enough prepared teachers. That means that teacher should improve knowledge and skills regarding case study approach. Also the important stakeholder for linking academia and business sector is company representatives who also should understand benefits of organizing case study competition and possibility to hire the best students who understand the real problems in Marketing Management of an uncertain world.

Further steps in our research will refer to analysis of applying the case study method^{mm} from the teachers as the faculty advisor view. Also, we want to conduct the survey with international students who took participations at the global business case study competitions ad provide broader picture of benefit with uses of case study approach.

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BRINGING THE REAL WORLD INTO YOUR CLASSROOM - APPLYING THE CASE STUDY METHOD^{MM}

Summary

This paper analyzed the application of case study method^{mm} in business education and at the case study competitions. Since the origins of the case method in US business schools before the First World War, conceptions of this method have moved on. Lecturers from the Marketing Management and Public Relations Department, Faculty of Organizational Sciences have developed this new method with experiences of uses in the classroom, additional classes and case competitions. The case study method^{mm} uses the concept of case study analysis, making strategic marketing decision, managing marketing strategies and evaluating the results of proposed business decisions. The paper is the results of primary research from the students' opinion that used case study method and from the secondary source experience of mentors and authors of this paper who prepared successfully students team for the local, national, regional and international case competitions. Students from ex Yugoslav countries took participation in research and provide answer regarding to advantages, disadvantages of using case study method in learning process, evaluating the criteria and motives which are important at the business case study competitions. The paper also explains the concept of business case study competitions, the role of different participants: company representatives, teachers and students. We present criteria as a grading tool for evaluation of students' analysis and recommendation which includes: understanding of the case, feasibility of the proposed solutions, structure and quality of presentation & presentation skills, knowledge and question and answer part and innovation and creativity of solution. These findings should provide guidelines for teachers who use case study method in the classroom or in the case study competition for better understanding the student perception of applying the case study method^{mm} in Marketing Management field.

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THE BANKING CRISIS MANAGEMENT MEASURES AND THEIR IMPACT ON THE COSTS OF BANKING CRISES

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Abstract

Laeven and Valencia (2008a) note that banking crises can be damaging and contagious, prompting for swift governments and regulatory authorities' responses. Choosing the best way of resolving a banking crisis and accelerating economic recovery is still problematic. Most of the empirical studies (Hutchison and Noy (2005), Barrell et al. (2006), Demirgüç-Kunt et al. (2006), Caprio and Honohan (2008), Laeven and Valencia (2008a, 2010), Serwa (2010), etc.) focus on the output losses and fiscal costs of banking crises, however, there is surprisingly little empirical literature investigating the linkages between banking crisis management measures and costs of banking crises.

The aim of this paper is to review the banking crisis management strategies and measures and to analyze the impact of banking crisis management measures on the costs of banking crises. The results of this study show that liquidity support is most often used crisis management measure in crisis containment phase and forbearance is a key component of banking crisis resolution plan. The results of this research show that lowering of reserve requirements, deposits freezes, banks holidays and bank closures tend to decrease the costs of banking crises. The results of this study suggest that output losses and fiscal costs of banking crises are larger when blanket guarantees to depositors and other creditors of banks, recapitalization and nationalizations of banks are imposed.

Keywords: banking crisis, banking crisis management strategies and measures, cost of banking crises.

Introduction

Tanaka and Hoggarth (2006) note that finding the most efficient banking crisis resolution method is a key concern for governments and supervisory authorities faced with a banking crisis. Hoggarth et al. (2004) argue that in the face of the banking crisis the governments and authorities need to take remedial actions, however, they must also consider how these banking crisis resolution actions will affect the future of the country's economy, banking system and private sector. According to Hoggarth et al. (2004), the main goal of banking crisis resolution is to protect the payments system and to reduce the damage to confidence in the banking system. Furthermore, the governments and supervisory authorities also seek to limit the fiscal costs of banking crisis resolution. Hoggarth et al. (2004) note that the potential systemic threat of banking crisis depends on the role of banks in financial system, economy and financial intermediation process and borrowers alternative sources of funding. Hoggarth et al. (2004) argue that in the face of the banking crisis the governments and supervisory authorities are facing a trade-off between maintaining financial stability today through offering support to failing banks and jeopardising future financial stability through increasing moral hazard later on.

Scientific problem of the article. Although there is a substantial empirical literature on the estimation of costs of banking crises (IMF (1998), Tang et al. (2000), Honohan and Klingebiel (2000), Hoggarth et al. (2002), Boyd et al. (2005), Hutchison and Noy (2005), Barrell et

al. (2006), Demirgüç-Kunt et al. (2006), Caprio and Honohan (2008), Laeven and Valencia (2008a, 2010), Serwa (2010)), there have been fewer studies investigating the linkages between banking crisis resolution policies and costs of crises. The analysis of the relation between banking crisis resolution policies and cost of banking crises could help to determine most efficient banking crisis resolution method.

Scientific novelty of the article. The relation between banking crisis resolution strategies and cost of banking crises had been analyzed in some empirical studies. Honohan and Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002), Calomiris et al. (2003), Claessens et al. (2004), Laeven and Valencia (2008a, 2008b) analyzed the impact of the crisis management measures adopted by the government and regulatory authorities' during the banking crisis on the fiscal outlays incurred in resolving crisis. Most of these studies focused on banking crises that occurred until the end of 20th century, whereas this study analyzes all systemically important banking crises for the period from 1970 to 2007. This study summarizes various banking crisis management policies and tools and focuses on the impact of banking crisis management measures on the costs of banking crises.

The aim of the article: to review the banking crisis management strategies and tools and to analyze the impact of banking crisis management measures on the costs of banking crises.

The research object: the relationship between crisis management tools and the costs of banking crises.

The research methods: the analysis and synthesis of scientific literature, logic analysis and synthesis, statistical methods (correlation analysis, regression analysis, descriptive statistic).

The review of banking crisis management strategies and tools

Honohan and Klingebiel (2000) note that regulatory authorities' and government banking crisis management process should start with a diagnosis of the scope of the banking crisis and then pass through a decision-tree which terminates with actions such as closures of banks, nationalization or liquidation of banks, disposition of assets, etc. Honohan and Klingebiel (2000) argue that a range of possible policy responses to banking crisis exists, and the appropriate decision will depend on the causes of the banking crisis, other initial conditions and political constraints facing the regulatory authorities'.

Before various banking crisis management policies will be discussed, it is important to understand the evolution of banking crisis. Moe et al. (2004) distinguish five parts of banking crisis (see Figure 1).

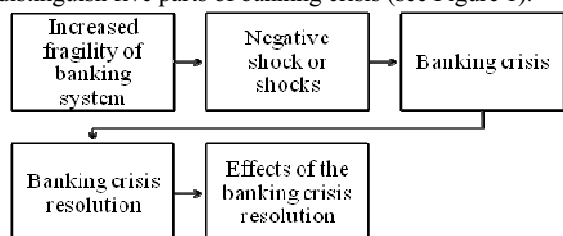


Figure 1. The evolution of banking crisis (adopted from Moe et al. (2004))

The governments and supervisory authorities focus mostly on the banking crisis resolution. Hoelscher (2006) distinguishes four main objectives of systemic banking crisis management (see Figure 2).

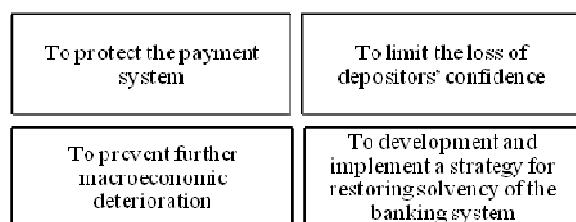


Figure 2. The main objectives of systemic banking crisis management (adopted from Hoelscher (2006))

A variety of tools can be used to achieve these objectives. However, various banking crisis management strategies and measures are used in different phases of banking crisis management. Most of researchers (Honohan and Klingebiel (2000), Tanaka and Hoggarth (2006), Laeven and Valencia (2008a)) distinguish two phases of banking crisis resolution: the short-term containment and the medium-term rehabilitation and restructuring phases. Honohan and Klingebiel (2000) note that in the early stage of banking crisis when the crisis is still unfolding, the regulatory authorities' and government

usually implement a number of measures aimed at restoring public confidence in the banking system in order to minimize repercussions on the real sector. Honohan and Klingebiel (2000) argue that during the rehabilitation and restructuring phase, the authorities' and government focus on restoring the capital and resolving bad assets of banks'. Laeven and Valencia (2008a) differentiate also two phases of banking crisis management: containment and resolution phases. Laeven and Valencia (2008a) note that immediate policy responses to banking crises often remain part of the long-run policy response and poorly chosen banking crisis management tools in containment phase undermine the potential for successful long-term resolution.

However, Claessens et al. (2004) differentiate three phases of banking crisis resolution. They note that during the first phase of banking crisis governments tend to implement policies aimed at restoring public confidence in banks to minimize the repercussions on the real sector of the loss of confidence by depositors and other investors in the financial system. Claessens et al. (2004) argue that the second phase of banking crisis involves the actual financial, and to a lesser extent operational, restructuring of banks. According to Claessens et al. (2004), the third phase of banking crisis involves structural reforms in laws and regulations, and other institutional reforms, the privatization of any nationalized banks, and so on. Cortavarria (2005) also distinguishes three stages of systemic banking crisis management: banking crisis containment, banks restructuring and asset management. Hoelscher (2006) note that banking crises management can be organized into three broad stages: containing the banking crisis, restructuring the banking system and managing assets from intervened and closed banks.

Concluding above-mentioned scientific discussions four main phases of banking crisis management can be distinguish (see Figure 3).

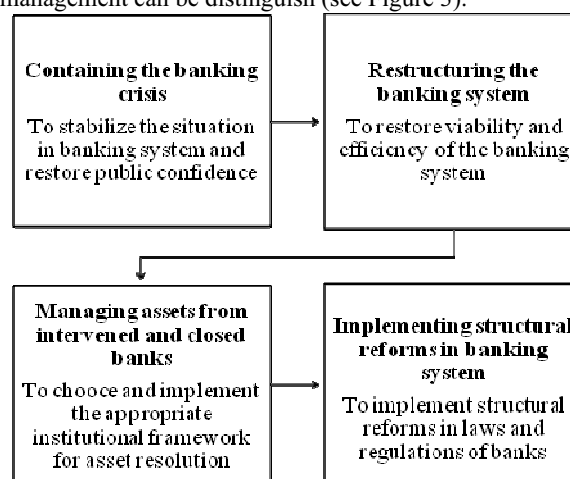


Figure 3. The main phases of banking crisis management and policy priority in each in phase (adopted from Hoelscher and Quintyn (2003), Hoelscher (2006))

Most of scientists (Honohan and Klingebiel (2000), Tanaka and Hoggarth (2006), Laeven and

Valencia (2008a)) distinguish different banking crisis management tools for each of crisis resolution phase. Tanaka and Hoggarth (2006) suggest that banking crises management policies can be split into two general types: financial restructuring policies that are targeted towards maintaining banks' liquidity and restoring public confidence in the banking system in the short-term and operating restructuring policies that are targeted towards improving balance sheets of those banks that are still open, and ensuring closure of insolvent banks in medium-term.

However, Calomiris et al. (2003) present quite different classification of banking crisis resolution tools. Calomiris et al. (2003) note that countries typically apply a combination of banking crisis resolution strategies, including both governments managed programs and market-based mechanisms. Calomiris et al. (2003) note that market-based banking crisis management strategies seek to strengthen the capital base of banks and/or borrowers to enable them to renegotiate debt and resume new credit supply. According to Calomiris et al. (2003), government-led banking crisis management strategies often include the establishment of an entity to which non-performing loans are transferred or the government's sale of banks (mostly to foreign banks). However, Calomiris et al. (2003) note that the success of application of market-based mechanisms depends on an efficient judicial system in country, a credible supervisory framework of banks and authority with sufficient enforcement capacity, and a lack of corruption in implementation. Calomiris et al. (2003) suggest that government-managed programs are less dependent on efficient legal and supervisory institutions for their success. Calomiris et al. (2003) conclude that despite the theoretical attraction of market-based mechanisms, simpler banking crisis resolution mechanisms affording

quick resolution of outstanding debts and improving banking system competitiveness are most effective.

Moe et al. (2004) suggest that each banking crisis resolution option could be one of the four types (see Figure 4).

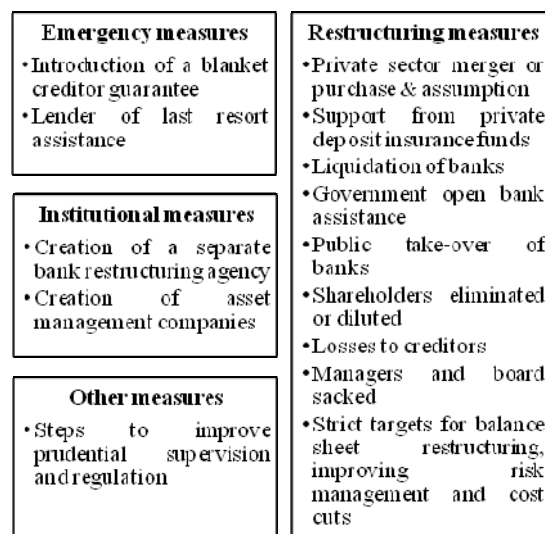


Figure 4. The banking crisis resolution measures according to Moe et al. (2004)

Moe et al. (2004) note that the type and the scale of a banking crisis influence on the choice of crisis resolution methods. Table 1 summarizes banking crisis management tools that could be applied in short-term containment phase. The review of banking crisis management tools in medium-term rehabilitation and restructuring phase is presented in Table 2.

Table 1

The review of banking crisis management tools in short-term containment phase

Banking crisis management tool	Description
Emergency liquidity support to banks (LOLR)	According to Claessens et al. (2004), liquidity support can be defined as a situation in which the government and/or central banks provide liquidity support that exceeds aggregate banking sector capital and/or also provides support to banks that are clearly known to be insolvent. Nakaso (2001) distinguishes five types of LOLR: (1) emergency liquidity assistance to a failed deposit-taking institution; (2) provision of liquidity to interbank markets; (3) emergency liquidity assistance to a failed non-bank financial institution; (4) provision of risk capital to a financial institution; and (5) emergency liquidity assistance to a temporarily illiquid financial institution.
Blanket guarantees	Honohan and Klingebiel (2000) note that in this case regulatory authorities and government extend explicit blanket guarantees to depositors and creditors in order to stem the loss of confidence in the banking system. Honohan and Klingebiel (2000) suggest that by extending the timely and temporary guarantees to depositors and creditors the regulatory authorities and government can avoid the much greater fiscal and economic costs that can result from a widespread panic.
Suspension of convertibility of deposits	Laeven and Valencia (2008a) suggest that suspension of convertibility of deposits prevents bank depositors from seeking repayment from banks. The application of this immediate policy tool can stop or prevent bank runs.
Regulatory capital forbearance	According to Laeven and Valencia (2008a), regulatory capital forbearance allows banks to avoid the cost of regulatory compliance. They also note that regulatory forbearance often continues into the banking crisis resolution (rehabilitation) phase, though it is generally viewed as a crisis containment policy.
Lowering of reserve requirements	Lietuvos bankas (2010) note that lowering of reserve requirements can help to solve short-term liquidity problems in the banking sector. However, the application of this policy does not resolve the loan portfolio quality and capital adequacy problems.

Source: [Honohan and Klingebiel (2000), Nakaso (2001), Claessens et al. (2004), Laeven and Valencia (2008a), Lietuvos bankas (2010)]

Table 2

The review of banking crisis management tools in medium-term rehabilitation and restructuring phase

Banking crisis management tool	Description
Forbearance	According to Calomiris et al. (2003), forbearance can be characterized as providing government protection to banks without the discipline of prudential regulation. Honohan and Klingebiel (2000) distinguish three degrees of forbearance policy. According to Honohan and Klingebiel (2000), in the most accommodating form of forbearance insolvent banks are permitted to continue functioning despite being technically insolvent. In the intermediate degree of forbearance only severely undercapitalized banks are allowed to remain open under existing management for an extended period. According to Honohan and Klingebiel (2000), the less accommodating forbearance policy can be characterized by temporary relaxation of other regulations (e.g. loan loss provisioning requirements, etc.) by the turning of standards and regulation by either individual banks or the entire banking system.
Restructuring	Aldean (2010) notes that restructuring the banks and the financial sector is crucial to long term health of the economy. He also notes that there are many ways to restructure banks, including inspections, capital ratio requirements, new services, transparent operations, cost cutting, internal controls, and management changes.
Government-assisted recapitalization of banks	This banking crisis resolution measure involves the recapitalization of banks with government assistance. According to Calomiris et al. (2003), the objective of this measure is to improve the capital base of banks. There are schemes offering injection of government capital funds for insolvent banks whose shareholders are willing to provide matching funds. Instead of relying on a flow of future profits, stock solutions require immediate capital injections, supported by the government in order to restore the solvency of viable but insolvent banks. If such recapitalization needs to be repeated, this may suggest that the initial recapitalization was inadequate and effectively amounted to unacknowledged capital forbearance. Laeven and Valencia (2008a) note that banks can be recapitalized using a variety of forms: (1) cash, (2) government bonds, (3) subordinated debt, (4) preferred shares, (5) purchase of bad loans, (6) credit lines, (7) assumption of bank liabilities, (8) ordinary shares, or (9) other means.
Asset management companies	Honohan and Klingebiel (2000) distinguish two different banks asset resolution strategies. The so-called centralized approach includes setting up a government agency with the full responsibility of acquiring, restructuring, and selling the assets of banks. The second – the so-called decentralized – approach includes letting banks manage their own non-performing assets.
Debt forgiveness	According to Calomiris et al. (2003), this approach uses some combination of legal innovations, the government's power to determine the numeraire and medium of exchange, and/or taxpayer resources to change the value of corporate and/or bank debts or to forgive part or all of borrowers' and/or banks' debts. Honohan and Klingebiel (2000) note that governments can implement an across-the-board public debt relief program, whereby government aid was provided to bank borrowers, helping them to service their debts. Calomiris et al. (2003) note that the objective of this approach is to reduce the debt overhang problem, and improve the repayment capacity of bank borrowers and banks. Laeven and Valencia (2008a) note that to the extent that they are discretionary, schemes of debt relief for bank borrowers carry the risk of moral hazard as debtors stop trying to repay in the hope of being added to the list of scheme beneficiaries.
Tax incentives for loan loss write-offs	Calomiris et al. (2003) note that this banking crisis resolution technique provides incentives to banks to engage in and/or accelerate corporate restructuring in the form of tax subsidies for loan write offs or other similar forms of subsidies.
Conditional government-subsidized workouts of distressed loans	According to Calomiris et al. (2003), this banking crisis resolution approach is a workout program for non-performing loans in which the government shares directly in the loan losses experienced by the lender, but requires as a condition for government subsidies that bank borrowers contribute to loan resolution, as well.
Government-assisted sales of banks to new owners	According to Calomiris et al. (2003), this approach can be characterized as a government-assisted sale of banks to strategic (typically foreign) investors. Calomiris et al. (2003) note that such as assistance usually takes the form of government sharing of loan losses to some extent. According to Calomiris et al. (2003), the aim of such a sale is to improve the efficiency and the capital base of banks in the country.
Private sector solutions	Hoggarth et al. (2004) note that private banking crisis management solutions are clearly preferable to public sector solutions. Private sector solutions are likely to place existing capital holders in a first loss position, and impose no direct costs on the taxpayer. Hoggarth et al. (2004) note that when bank becomes insolvent, existing shareholders could be asked by the supervisory authorities to provide the capital shortfall.
Temporary government ownership of troubled banks	Hoggarth et al. (2004) note that this approach can be characterized as an assumption temporary ownership of troubled large banks, to permit restructuring and subsequent sale to a private banks. While the government can maintain the business operation of the bank, the set time period forces the resolution authority to focus on cleaning up the bank's balance sheet in preparation for selling it. (Hoggarth et al. (2004))
Outright government ownership of troubled banks	In this case, according to Hoggarth et al. (2004), the government authorities take over the bank by nationalising it, usually eliminating the stockholders' interest but protecting depositors and other creditors.
Liquidation of banks	Aldean (2010) notes that when a bank becomes insolvent, the question of timing is crucial in minimizing damage to the economy.

Source: [Honohan and Klingebiel (2000), Calomiris et al. (2003), Hoggarth et al. (2004), Laeven and Valencia (2008a), Aldean (2010)]

The impact of banking crisis management policies on the costs of banking crises: review of literature

Despite the fact that many researchers focus on the estimation of costs of banking crises, there are some studies investigating the linkages between banking crisis resolution policies and costs of crises.

Honohan and Klingebiel (2000) analyzed the impact of the crisis management measures on the fiscal outlays incurred in resolving crisis. They investigated 41 banking crises that occurred in 40 countries during the period of 1977-1997. They found that fiscal costs were systematically associated with a set of banking crisis management strategies. Empirical findings of this study revealed that unlimited deposit guarantees to depositors, repeated recapitalizations of banks, open-ended liquidity support to banks, debtor bail-outs and regulatory forbearance added significantly and sizably to costs of banking crises. Using the regression results to simulate the effects of banking crisis management measures, they found that if countries had not adopted any crisis management measures average fiscal costs could have been limited to about 1 percent of GDP (little more than a tenth of what was actually experienced). However, they note that application of banking crisis management measures could have even worse consequences. The regression results of this study imply that if countries had engaged in all of the above mentioned policies fiscal costs could exceed 60 percent of GDP.

Bordo et al. (2001) analyzed the influence of different banking crisis management policies on the cost of crises. They considered a variety of potential explanations for the cost of banking crises: the size of the budget balance and the current account balance, currency regime, the structure of the financial system, the policies used to facilitate banking crisis resolution. Bordo et al. (2001) investigated 137 banking crises that occurred in 56 countries during the period of 1880-1997. The results of this study showed that in periods of 1919-1939 and 1973-1997 banking crises were more costly when open-ended liquidity support was provided. However, during period of 1880-1913 average cost of banking crises were higher in countries where liquidity support was not provided. The results of regression analysis showed that liquidity support dummy variable was statistically significant and positive signed in the regression equations where dependent variable was the output losses resulting from banking crises. However, other control variables (capital support and guarantees) were not statistically significant in the regression equations.

Hoggarth et al. (2002) investigated the impact of banking crisis resolution policy on the fiscal costs and output losses of crisis. They analyzed 47 banking crises that occurred in 37 countries during the period of 1977-1998. Although Hoggarth et al. (2002) found weak positive correlation between the provision of liquidity support and fiscal costs of banking crisis, the LOLR dummy variable was not statistically significant and negative signed when added to the regression equations. They found that output losses were much larger in countries where LOLR was provided.

Calomiris et al. (2003) reviewed the variety of banking crises resolution mechanisms and examined the benefits and costs of various crisis resolution policies. The results of this study show that countries typically apply a combination of tools to restructure their banking and corporate sectors, including market-based mechanisms and government managed programs. They note that the magnitude and type of banking crisis affects the appropriate choices of banking crisis resolution tools. Calomiris et al. (2003) conclude that emerging market countries should use simple assistance to banks measures: debt forgiveness or permitting entry by foreign banks.

Honohan and Klingebiel (2003) extended their previous research and examined whether the design of banking crisis containment and resolution policies can influence the magnitude of fiscal costs of crisis. They analyzed 40 banking crises that occurred in 34 countries during the period of 1970-2000. Honohan and Klingebiel (2003) found no evidence that accommodating policies of banking crises can reduce fiscal costs. They noted that some accommodating measures (open-ended liquidity support to banks, repeated recapitalizations of banks, blanket deposit guarantees, debtor bailouts and regulatory forbearance) seemed to be associated with higher fiscal costs of crises. Honohan and Klingebiel (2003) noted that the most commonly used banking crisis resolution tools were liquidity support to banks, forbearance and blanket government guarantees on bank deposits. The results of this study showed that the policy choices along different dimensions were not strongly correlated.

Claessens et al. (2004) examined what combination of fiscal costs, crisis management policy choices and institutional frameworks have proven to be the most effective in terms of resolving a banking crisis. They investigated 36 banking crises that occurred in 29 countries during the period of 1977-2004. The results of this study confirmed that banking crises are fiscally costly, especially when crisis management tools like explicit government guarantees on banks' liabilities, substantial liquidity support, and forbearance from prudential regulations are used. They found that some of the banking crisis management policy measures appeared to worsen the effects of fiscal outlays on economic recovery. The results of this research suggest that countries should adopt strict policies to resolve a banking crisis and that they furthermore should use the banking crisis as an opportunity to implement medium-term structural reforms, which will also help avoid future systemic crises.

Laeven and Valencia (2008a) analyzed systemic banking crises and policy responses to resolve them. The database used in this research covers systemic banking crises for the period 1970-2007, with detailed data on crisis containment and resolution policies for 42 crisis episodes in 37 countries. They observed that emergency liquidity support and blanket guarantees have frequently been used to contain banking crises, though not always with success. Laeven and Valencia (2008a) suggest that all too often, intervention in banking sector is delayed because regulatory capital forbearance and liquidity support are used for too long to deal with insolvent banks in the hope that they will recover, ultimately increasing

the stress on the real economy. The results of this study indicate that some banking crisis resolution measures are more effective than others in restoring the banking system to health. However, Laeven and Valencia (2008a) note that the speed of application of banking crisis management policies appears to be the most important issue: as soon as a large part of the banking system is presumed insolvent and has reached systemic crisis proportions, banks losses should be recognized, the scale of the problems should be identified, and steps should be taken to ensure that banks are adequately capitalized. The results of this research show that government-owned asset management companies appear largely ineffective in resolving distressed banks assets, largely due to political and legal constraints. They note that targeted debt relief programs to distressed borrowers and banks restructuring programs appear to be most successful policies of banking crisis management.

Laeven and Valencia (2008b) examine the impact of explicit blanket guarantees on restoring public confidence by depositors and fiscal costs of banking crises. They used a sample of 42 episodes of banking crises, of which in 14 cases explicit blanket guarantees were extended. Laeven and Valencia (2008b) found that blanket guarantees are successful in reducing liquidity pressures on banks arising from deposit withdrawals. The results of this study show that blanket guarantees tend to increase the fiscal costs of resolving banking crises, especially when guarantees tend to be employed in conjunction with extensive liquidity support to banks and when banking crises are severe. Laeven and Valencia (2008b) found that fiscal costs of banking crises also tend

to be higher when the blanket guarantee is announced after a prolonged use of extensive liquidity support to banks. They suggest that the success of a blanket guarantee can be significantly enhanced if accompanied by credible policy actions that adequately address underlying problems, such as undercapitalization of banks. They also note that when blanket guarantees are used in combination with extensive liquidity support to banks, they tend to be ineffective in restoring public confidence by depositors and add substantially to fiscal cost.

The impact of banking crisis management tools on the costs of banking crises: research methodology and empirical results

The impact of banking crisis management measures on the costs of banking crises was analyzed in this section of article.

Research methodology. The correlation and multiple regression analyses were used to test the relationship between banking crisis management tools and the costs of banking crises in this study. The statistic “Eta” that is designed for the case when one of the measures is nominal and the other is interval was used in the correlation analysis. All calculations were made using SPSS Statistics 17.0 software.

Data. Empirical analysis focuses on a sample that covers all systemically important banking crises for the period from 1970 to 2007 (42 systemic banking crises from 37 countries). Description and data sources of all variables used in this research are presented in Table 3.

Table 3

The description of dependent and independent variables used in this study

	Variable name	Description	Data sources
Dependent variables	Output losses _[T, T+5]	Output losses are computed as the cumulative sum of the differences between actual and trend real GDP over the period [T, T+5], expressed as a percentage of trend real GDP. Trend real GDP is computed by applying an HP filter (with $\lambda=100$) to the log of real GDP series over [T-20, T-1].	Laeven and Valencia (2010)
	Output loss _[T, T+3]	Output loss is computed by extrapolating trend real GDP, based on the trend in real GDP growth up to the year preceding the crisis, and taking the sum of the differences between actual real GDP and trend real GDP expressed as a percentage of trend real GDP for the period [T, T+3].	Laeven and Valencia (2008a)
	Net fiscal cost	Net fiscal cost expressed as a percentage of GDP over the period [T, T+5].	
Independent variables	Deposit freeze dummy, bank holiday dummy, blanket guarantee dummy, liquidity support dummy, lowering of reserve requirements dummy, forbearance dummy, large-scale government intervention dummy, bank closures dummy, nationalizations of banks dummy, mergers of banks dummy, bank restructuring agency dummy, asset management company dummy, recapitalization dummy	These dummy variables indicate whether or not the authorities imposed a specific banking crisis resolution measure. Dummy variables take on the value of one if there specific banking crisis resolution measure was imposed and the value of zero otherwise.	Laeven and Valencia (2008a)
	Deposit insurance dummy	Deposit insurance dummy indicates whether or not an explicit deposit insurance scheme is in place at the start of the crisis.	
	IMF program put in place dummy	IMF program put in place dummy indicates whether or not support from IMF was received.	

Note: T denotes the starting year of the banking crisis.

Source: [Laeven and Valencia (2008a, 2010)].

Empirical results. The frequency of application of banking crisis policies is presented in Figure 5. The results show that liquidity support is most often used crisis management measure in crisis containment phase (in 71 percent of the 42 selected banking crisis episodes). However, lowering of reserve requirements and blanket guarantees were used only in one-third of selected crisis episodes. Deposit freezes and bank holidays were less frequently used (these crisis management policies were used only in South American and North African countries).

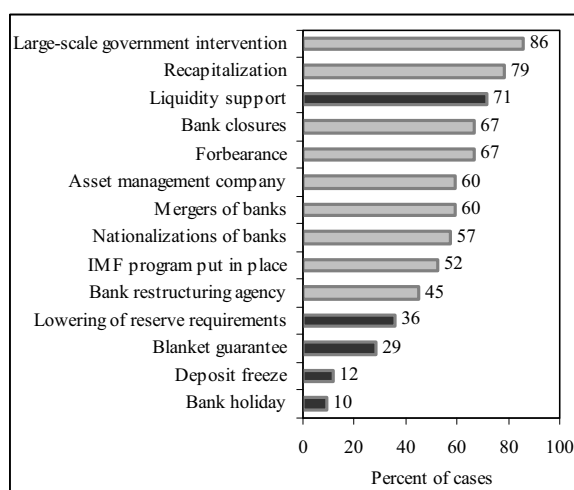


Figure 5. The frequency of application of banking crisis policies (author's calculation, data source – Laeven and Valencia (2008a))

The results presented in Figure 5 show that forbearance is a key component of banking crisis resolution plan. In most of cases (86 percent) large-scale government intervention in banks in the form of nationalizations, closures, mergers, sales, and recapitalizations of large banks was implemented. The

International Monetary Fund (IMF) has participated in banking crisis resolution through programs in about 52 percent of the 42 selected banking crisis episodes.

The impact of the imposed banking crisis resolution measure on average cost of crises is presented in Table 4. Average output losses and fiscal costs of banking crises were higher when the authorities imposed a specific banking crisis resolution measure. Average output losses and fiscal costs were higher respectively about 10 and 4 percent points in the episodes when the authorities implemented a specific banking crisis management tool. However, the results show that lowering of reserve requirements and bank closures tend to decrease the output losses. Deposits freezes, banks holidays and lowering of reserve requirements tend to decrease the fiscal costs of resolving banking crises. All the others banking crisis management tools tend to increase both output losses and fiscal costs of crisis. The participation of International Monetary Fund in banking crisis resolution process also increased the costs of banking crises. In the cases where an explicit deposit insurance scheme was in place at the start of the banking crisis the costs of banking crisis were lower when the authorities imposed a specific banking crisis resolution measure. The results presented in Table 4 suggest that output losses and fiscal costs of banking crises are largest when blanket guarantees to depositors and other creditors of banks and nationalizations of banks are applied.

The empirical results of analysis on the relationship between banking crisis management tools and the costs of banking crises using correlation ("Eta" coefficient) are presented in Table 5. The results are very similar to those that were presented in Table 4. A positive relationship between cost of banking crises and application of blanket guarantees and nationalizations of banks is found. However, the implementation of others banking crisis management tools has no significant effect on the cost of banking crisis.

Table 4

The influence of the imposed banking crisis management measure on average cost of crises (in percent)

Banking crisis resolution measure	The authorities imposed a specific banking crisis resolution measure			The authorities did not impose a specific banking crisis resolution measure		
	Output losses _[T, T+5]	Output loss _[T, T+3]	Net fiscal cost	Output losses _[T, T+5]	Output loss _[T, T+3]	Net fiscal cost
Deposit freeze	39.72	20.17	8.54	29.50	20.51	13.67
Bank holiday	34.08	22.16	10.67	30.59	20.25	13.29
Blanket guarantee	44.06	34.93	21.42	23.88	13.23	9.43
Liquidity support	34.43	23.25	15.08	19.86	8.91	6.87
Lowering of reserve requirements	22.05	15.67	10.29	34.81	22.52	15.27
Forbearance	34.01	22.95	14.03	25.50	14.00	10.69
Large-scale government intervention	33.22	22.08	13.88	20.65	7.52	5.30
Bank closures	27.02	19.65	14.78	37.44	22.09	8.94
Nationalizations of banks	43.27	26.71	16.17	13.48	11.71	8.77
Mergers of banks	32.46	26.97	15.45	25.85	10.08	10.02
Bank restructuring agency	38.27	27.76	13.70	22.49	14.73	11.67
Asset management company	39.76	25.22	14.75	21.16	13.80	10.44
Recapitalization	32.89	24.55	13.04	22.18	6.16	12.96
Average cost of banking crises	35.02	24.01	13.98	25.19	14.27	10.56
Deposit insurance	29.76	15.24	12.86	32.78	26.30	13.20
IMF program put in place	36.04	23.15	16.89	25.97	17.11	8.30

Source: [author's calculation, data source – Laeven and Valencia (2008a, 2010)].

Table 5

The empirical results of analysis on the relationship between banking crisis management tools and the costs of banking crises using correlation (“Eta” coefficient)

Banking crisis resolution measure	Deposit freeze dummy	Bank holiday dummy	Blanket guarantee dummy	Liquidity support dummy	Lowering of reserve requirements dummy	Forbearance dummy	Large-scale government intervention dummy	Bank closures dummy	Nationalizations of banks dummy	Mergers of banks dummy	Bank restructuring agency dummy	Asset management company dummy	Recapitalization dummy	Deposit insurance dummy	IMF program put in place
Output losses _[T, T+5]	0.134	0.042	0.357	0.229	0.214	0.151	0.178	0.188	0.544	0.119	0.293	0.344	0.151	0.055	0.187
Output loss _[T, T+3]	0.004	0.023	0.398	0.221	0.125	0.156	0.178	0.045	0.288	0.314	0.250	0.219	0.298	0.215	0.117
Net fiscal cost	0.129	0.060	0.417	0.270	0.184	0.116	0.196	0.203	0.278	0.201	0.076	0.161	0.003	0.013	0.325

Source: [author’s calculation, data source – Laeven and Valencia (2008a, 2010)].

The empirical results of analysis on the relationship between banking crisis management tools and the costs of banking crises using multiple regression are presented in Table 6.

Table 6

The empirical results of analysis on the relationship between banking crisis management tools and the costs of banking crises using multiple regression (p value in parentheses)

Banking crisis resolution measure	Dependent variable – output losses _[T, T+5]		Dependent variable – output loss _[T, T+3]		Dependent variable – net fiscal cost		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Bank holiday dummy		-4.802 (0.775)		-6.074 (0.741)			-4.676 (0.583)
Blanket guarantee dummy		-11.078 (0.553)	20.853 (0.036)	2.979 (0.868)	14.350 (0.002)	14.136 (0.002)	15.352 (0.052)
Liquidity support dummy		0.551 (0.977)		8.580 (0.664)			-1.422 (0.840)
Lowering of reserve requirements dummy		-7.917 (0.525)		-10.841 (0.423)			-3.453 (0.582)
Forbearance dummy		26.374 (0.168)		21.937 (0.300)			1.917 (0.761)
Large-scale government intervention dummy		-21.024 (0.443)		-34.180 (0.344)			9.773 (0.401)
Bank closures dummy		-17.805 (0.205)		-6.551 (0.651)			6.521 (0.299)
Nationalizations of banks dummy	33.215 (0.000)	43.781 (0.008)		14.773 (0.417)			6.336 (0.336)
Mergers of banks dummy		0.096 (0.994)		1.276 (0.936)			3.897 (0.539)
Bank restructuring agency dummy		-13.855 (0.377)		-8.471 (0.612)			-8.470 (0.172)
Asset management company dummy		24.020 (0.099)		9.226 (0.531)			-3.638 (0.546)
Recapitalization dummy		-6.553 (0.672)		28.736 (0.069)			-4.867 (0.463)
Deposit insurance dummy		-20.447 (0.150)		-23.152 (0.118)			-1.836 (0.768)
IMF program put in place dummy		20.569 (0.159)		21.239 (0.143)		8.428 (0.033)	6.429 (0.286)
Constant	9.728	23.862	14.471	6.756	9.002	4.619	-1.840
R	0.604	0.782	0.371	0.709	0.494	0.585	0.703
R ²	0.365	0.611	0.138	0.503	0.244	0.342	0.494
Adjusted R ²	0.343	0.271	0.109	0.094	0.222	0.303	0.157
Std. error of the estimate	22.34865	23.53981	25.57686	25.79108	11.98104	11.33989	12.46972
Durbin-Watson	2.024	1.373	2.212	2.514	-	1.427	1.052

Notes: Stepwise method (criteria: Probability-of-F-to-enter ≤ 0.050 , Probability-of-F-to-remove ≥ 0.100) was used in regression models 1, 3, 5 and 6. Enter method was used in regression models 2, 4, and 7.

Source: [author’s calculation, data source – Laeven and Valencia (2008a, 2010)].

The results of multiple regression analysis suggest that most of independent variables in the regression models are not statistically significant. Only one variable (nationalizations of banks dummy) is statistically significant in the first regression model (dependent variable is output losses). However, two variables (nationalizations of banks dummy and asset management company dummy) are statistically significant in the second regression model. In the third and fourth regression models only two variables are statistically significant (respectively blanket guarantee dummy and recapitalization dummy). In fifth and seventh regression models only one variable (blanket guarantee dummy) is statistically significant and in the sixth regression model two variables (blanket guarantee dummy and IMF program put in place dummy) are statistically significant. The results of multiple regression analysis are very similar to main findings of the empirical results of correlation analysis where a positive relationship between cost of banking crises and application of blanket guarantees and nationalizations of banks is found. The results of multiple regression analysis suggest that all statistically significant independent variables (nationalizations of banks dummy, asset management company dummy, blanket guarantee dummy, recapitalization dummy and IMF program put in place dummy) have a positive impact on the cost of banking crises.

The highest value of adjusted R^2 was observed in the first regression model (dependent variable is output losses) suggesting that the banking crisis containment and resolution policies have a better explanation of dependent variable fluctuations in the first regression model than in other regression models. However, these independent variables explain only 34 percent of output losses fluctuations suggesting that other important independent variables have also impact on the dependent variable.

The results of this research show that lowering of reserve requirements, deposits freezes, banks holidays and bank closures tend to decrease the costs of banking crises. The results of this study suggest that output losses and fiscal costs of banking crises are larger when blanket

guarantees to depositors and other creditors of banks, recapitalization and nationalizations of banks are imposed. The empirical findings of this study confirm the results of recent academic studies (Honohan and Klingebiel (2000, 2003), Claessens et al. (2004), Laeven and Valencia (2008a, 2010)).

Conclusions

1. The results of this study show that liquidity support is most often used crisis management measure in crisis containment phase. However, lowering of reserve requirements and blanket guarantees were used only in one-third of selected crisis episodes. The results also show that forbearance is a key component of banking crisis resolution plan. In most of cases (86 percent) large-scale government intervention in banks in the form of nationalizations, closures, mergers, sales, and recapitalizations of large banks was implement.

2. Average output losses and fiscal costs of banking crises were higher when the authorities imposed a specific banking crisis resolution measure. Average output losses and fiscal costs were higher respectively about 10 and 4 percent points in the episodes when the authorities implemented a specific banking crisis management tool. The results of the research suggest that output losses and fiscal costs of banking crises are largest when blanket guarantees to depositors and other creditors of banks and nationalizations of banks are applied.

3. The results of this research show that lowering of reserve requirements, deposits freezes, banks holidays and bank closures tend to decrease the costs of banking crises. The results of this study suggest that output losses and fiscal costs of banking crises are larger when blanket guarantees to depositors and other creditors of banks, recapitalization and nationalizations of banks are imposed. The empirical findings of this study confirm the results of recent academic studies (Honohan and Klingebiel (2000, 2003), Claessens et al. (2004), Laeven and Valencia (2008a, 2010)).

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Vilma Deltuaitė

THE BANKING CRISIS MANAGEMENT MEASURES AND THEIR IMPACT ON THE COSTS OF BANKING CRISES

Summary

Tanaka and Hoggarth (2006) note that finding the most efficient banking crisis resolution method is a key concern for governments and supervisory authorities faced with a banking crisis. Hoggarth et al. (2004) argue that in the face of the banking crisis the governments and authorities need to take remedial actions, however, they must also consider how these banking crisis resolution actions will affect the future of the country's economy, banking system and private sector.

The aim of the article: to review the banking crisis management strategies and tools and to analyze the impact of banking crisis management measures on the costs of banking crises. *The research object:* the relationship between crisis management tools and the costs of banking crises. *The research methods:* the analysis and synthesis of scientific literature, logic analysis and synthesis, statistical methods (correlation analysis, regression analysis, descriptive statistic).

Moe et al. (2004) distinguish five parts of banking crisis: 1) increased fragility of banking system; 2) negative shock or shocks; 3) banking crisis; 4) banking crisis resolution; and 5) effects of the banking crisis resolution. The governments and supervisory authorities focus mostly on the banking crisis resolution. Hoelscher (2006) distinguishes four main objectives of systemic banking crisis management: 1) to protect the payment system; 2) to limit the loss of depositors' confidence; 3) to prevent further macroeconomic deterioration; and 4) to develop and implement a strategy for restoring solvency of the banking system. Hoelscher and Quintyn (2003), Hoelscher (2006) distinguish four main phases of banking crisis management: 1) containing the banking crisis; 2) restructuring the banking system; 3) managing assets from intervened and closed banks; and 4) implementing structural reforms in banking system. Most of scientists (Honohan and Klingebiel (2000), Tanaka and Hoggarth (2006), Laeven and Valencia (2008a)) distinguish different banking crisis management tools for each of crisis resolution phase. Tanaka and Hoggarth (2006) suggest that banking crises management policies can be split into two general types: financial restructuring policies that are targeted towards maintaining banks' liquidity and restoring public confidence in the banking system in the short-term and operating restructuring policies that are targeted towards improving balance sheets of those banks that are still open, and ensuring closure of insolvent banks in medium-term.

The results of this study show that liquidity support is most often used crisis management measure in crisis containment phase. However, lowering of reserve requirements and blanket guarantees were used only in one-third of selected crisis episodes. The results also show that forbearance is a key component of banking crisis resolution plan. In most of cases (86 percent) large-scale government intervention in banks in the form of nationalizations, closures, mergers, sales, and recapitalizations of large banks was implemented. Average output losses and fiscal costs of banking crises were higher when the authorities imposed a specific banking crisis resolution measure. Average output losses and fiscal costs were higher respectively about 10 and 4 percent points in the episodes when the authorities implemented a specific banking crisis management tool. The results of the research suggest that output losses and fiscal costs of banking crises are largest when blanket guarantees to depositors and other creditors of banks and nationalizations of banks are applied. The results of this research show that lowering of reserve requirements, deposits freezes, banks holidays and bank closures tend to decrease the costs of banking crises. The results of this study suggest that output losses and fiscal costs of banking crises are larger when blanket guarantees to depositors and other creditors of banks, recapitalization and nationalizations of banks are imposed. The empirical findings of this study confirm the results of recent academic studies (Honohan and Klingebiel (2000, 2003), Claessens et al. (2004), Laeven and Valencia (2008a, 2010)).

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THE IMPACT OF INITIAL MACROECONOMIC CONDITIONS ON THE FISCAL COSTS AND OUTPUT LOSSES OF BANKING CRISES

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Abstract

Honohan & Klingebiel (2000), Claessens et al. (2004), Laeven & Valencia (2008a) note that many banking crises were triggered or exacerbated by unsustainable macroeconomic policies and exogenous macroeconomic conditions. Claessens et al. (2004) argue that initial conditions may affect the severity and the costs of banking crises. Laeven & Valencia (2008a) note that initial conditions of banking crisis are important because they may shape the market's and policymaker's response during the containment phase of banking crisis.

The object of this paper is to summarize the studies investigating the relationship between costs of banking crises and initial macro and micro-indicators and to analyze the impact of initial conditions of crisis on the costs of banking crisis. The results of correlation analysis show that most of independent variables are statistically insignificant. The empirical results suggest that output losses_[T, T+5] are larger in countries where private bond market and banking sector are better developed and credit boom on the onset of banking crisis is observed. The empirical findings of this study suggest that output loss_[T, T+3] is larger in countries where fiscal balance to GDP ratio and banks financial intermediation level are higher and banks are less financial leveraged. The results also show that net fiscal costs are larger in countries where concentration in banking sector is lower. The results of this study suggest that initial conditions on the onset of banking crises have only little impact on the costs of banking crises.

Keywords: banking crisis, initial conditions, fiscal cost of banking crises, output losses.

Introduction

Honohan & Klingebiel (2000), Claessens et al. (2004), Laeven & Valencia (2008a) note that many banking crises were triggered or exacerbated by unsustainable macroeconomic policies and exogenous macroeconomic conditions (e.g. by asset bubbles, excessive credit booms, large capital inflows). Claessens et al. (2004) argue that initial conditions may affect the severity and the costs of banking crises. Laeven & Valencia (2008a) note that initial conditions of banking crisis are important because they may shape the market's and policymaker's response during the containment phase of banking crisis. Laeven & Valencia (2008a) state that if macroeconomic conditions are weak, then policymakers have limited buffers to cushion the impact of the banking crisis and they must to apply different crisis containment and resolution policies.

Scientific problem of the article. All researches investigating explanatory variables influence on the cost of banking crises can be distinguish into three main areas. Some studies (Bordo et al. (2001), Hoggarth et al. (2002), Laeven & Valencia (2008a), Deltuvaite (2011)) focus on the relation between costs and features of banking crisis. However, most of researchers (Honohan & Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002, 2004), Calomiris et al. (2003), Claessens et al. (2004), Angkinand & Willett (2005), Laeven & Valencia (2008a, 2008b), Angkinand (2009), Serwa (2010)) investigate the impact of banking crisis containment and resolution

policies on the costs. Only limited number of studies (Honohan & Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002, 2004), Claessens et al. (2004)) analyzes the influence of initial conditions on the costs of banking crisis. This study aims to fill this gap.

Scientific novelty of the article. Most of studies (Bordo et al. (2001), Hoggarth et al. (2002, 2004), Claessens et al. (2004)) analyze only a few initial macro and micro-indicators influencing the costs of banking crisis. Only Honohan & Klingebiel (2000, 2003) analyzed the impact of large number of factors. This study analyzes about thirty initial macroeconomic, financial system's and banking sector's indicators. Many empirical studies have analyzed macroeconomic and banking sector's conditions but financial system's indicators were incorporated in the research for the first time. Most of studies focused on banking crises that occurred up to the year 2000, whereas this study analyzes banking crises for the period from 1970 to 2007.

The aim of the article: to summarize the studies investigating the relationship between costs of banking crises and initial macro and micro-indicators and to analyze the impact of initial conditions of crisis on the costs of banking crisis.

The research object: the relationship between initial conditions on the onset of crisis and the costs of banking crisis.

The research methods: the analysis and synthesis of scientific literature, statistical methods (correlation analysis, regression analysis, descriptive statistic).

The impact of initial macro and micro-indicators on the costs of banking crises: review of literature

All empirical studies investigating explanatory variables influence on the cost of banking crises can be distinguish into three main areas (see Figure 1).

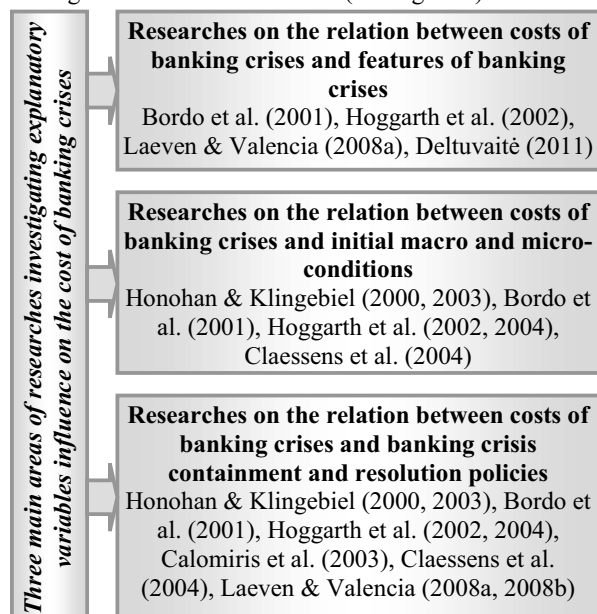


Figure 1. Three main areas of researches investigating explanatory variables influence on the cost of banking crises

Some studies focus on the relation between costs and features of banking crisis. Hoggarth et al. (2002) found that there was no clear statistical relationship between fiscal costs of banking crisis and crisis length. The results of Hoggarth et al. (2002) study showed that although output losses increased with the crisis length,

fiscal costs appeared to be independent of the crisis length. Deltuvaitė (2011) suggests that statistically significant positive effect on fiscal costs have duration of banking crisis and currency crisis onset dummy. The occurrence of ‘twin’ financial crisis has also stronger effect on fiscal costs of banking crisis.

However, most of academics investigate the impact of banking crisis containment and resolution policies on the costs. Honohan & Klingebiel (2000, 2003) found that fiscal costs are associated with a set of banking crisis management strategies. According to Honohan & Klingebiel (2000, 2003), liquidity support, debtor bail-outs, repeated recapitalizations, unlimited deposit guarantees, and regulatory forbearance added significantly and sizably to costs of banking crises. Bordo et al. (2001) found that the application of liquidity support significant increased output losses resulting from banking crises. However, the results of Bordo et al. (2001) study suggest that application of capital support and guarantees had no impact on the costs of banking crises. Hoggarth et al. (2002, 2004) found a weak positive relation between the provision of liquidity support and fiscal costs of banking crisis. Although the LOLR dummy variable was not statistically significant in the regression models, Hoggarth et al. (2002, 2004) found that output losses were much larger in countries where LOLR was provided. The results of Claessens et al. (2004) study confirmed that the use of banking crisis management tools like explicit government guarantees, liquidity support, and forbearance from prudential regulations increased the fiscal costs of banking crises. The results of Laeven & Valencia (2008b) study showed that blanket guarantees tended to increase the fiscal costs of resolving banking crises.

Only limited number of empirical studies analyzes the influence of initial conditions on the costs of crisis (see Table 1 and Table 2).

Table 1

The summary of studies on the relation between costs of banking crises and initial macro and micro-indicators

Author(s)	Data	Research results
Honohan & Klingebiel (2000)	41 banking crises in 40 countries during 1977-1997	The two indicators (the real interest rate and the change in equity prices) were consistently significant. Macro difficulties (high real interest rates and falling equity prices) tend to increase the total costs of banking crisis. Other macro and micro variables were not statistically significant in regression models.
Bordo et al. (2001)	137 banking crises in 56 countries during 1880-1997	Banking crises are more costly in the presence of pegged rates. Only two variables (lag of capital controls and lag of GDP per capita) are statistically significant and negative related to cost of banking crises. Other control variables were statistically insignificant.
Hoggarth et al. (2002)	47 banking crises in 37 countries during 1977-1998	Fiscal costs of banking resolution seem to be larger in countries where bank intermediation (bank credit/GDP) is higher. However, fiscal costs, on average, are lower in countries where GNP per head is higher.
Honohan & Klingebiel (2003)	40 banking crises in 34 countries during 1970-2000	Most of control variables were statistically insignificant. The regressions reported that only two control variables (high real interest rates and falling equity prices) tend to increase total fiscal costs of a banking crisis.
Claessens et al. (2004)	36 banking crises in 29 countries during 1977-2004	A better institutional framework (high quality of institutions and high judicial efficiency) lowers fiscal outlays of banking crisis resolution and also reduces the economic costs of a crisis. Other variables (world GDP real growth, the presence of an explicit deposit insurance scheme at the onset of the crisis, the average inflation rate, the degree of state ownership in banks, the degree of dollarization in the country, and the level of private credit to GDP) have not a significant explanatory power on the cost of banking crises.
Hoggarth et al. (2004)	33 banking crises in 29 countries during 1977-2002	The importance of bank intermediation in the economy (measured by bank credit/GDP) is associated with larger declines in output during a banking crisis.

Source: [Honohan & Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002, 2004), Claessens et al. (2004)]

Table 2

The summary of initial macro and micro-indicators used in the empirical studies

Author(s)	Macro and micro-indicators used in the research
Honohan & Klingebiel (2000, 2003)	Macroeconomic indicators: real interest rate , real GDP growth, percentage change of stock market prices , fiscal balance as a percentage of GDP, current account as percentage of GDP, short-term external debt as share of GDP, and percentage change in the terms of trade. Micro indicators: growth in bank credit relative to GDP, real deposit interest rate, enforcement of creditor rights series, and bank average loan to deposit ratio. Government intrusion indicators: bank reserves as percentage of deposits, share of government in total claims of banks, loan classification rules, and bank borrowing from central bank as percentage of their total deposits.
Bordo et al. (2001)	Macroeconomic indicators: inflation, capital controls , M2 to reserves, GDP per capita , GDP growth, government surplus, budget balance, current account balance, currency regime , the structure of the financial system.
Hoggarth et al. (2002, 2004)	Macro and micro-indicators: bank credit to GDP ratio , and GNP per head (PPP-measure) .
Claessens et al. (2004)	Macro indicators: credit growth, world GDP real growth, the average inflation rate and the degree of dollarization in the country. Micro indicators: quality of institutions , judicial efficiency , corruption , the presence of an explicit deposit insurance scheme at the onset of the crisis, the degree of state ownership in banks and level of private credit to GDP.

Note: indicators in bold are macro and micro-indicators that have impact on the cost of banking crises.

Source: [Honohan & Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002, 2004), Claessens et al. (2004)]

Summarizing the results of empirical studies by Honohan & Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002, 2004), Claessens et al. (2004), the following conclusions could be made: a positive relationship between the costs of banking crises and the initial conditions such as real interest rate, fixed exchange rate regime and bank intermediation (bank credit/GDP) was observed, however, a negative relationship between the costs of banking crises and the initial conditions such as percentage change of stock market prices, capital controls, GDP per capita, GNP per head, quality of institutions, judicial efficiency and corruption was indicated.

The results of Honohan & Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002, 2004), Claessens et al. (2004) empirical studies suggest that the costs of banking crises are larger in countries with fixed exchange rate regime and where real interest rates and development level of banking sector are higher. However, the results of these studies also suggest that the costs of banking crises are lower in countries where percentage change of stock market prices, capital controls, country's development level, quality of institutions, judicial efficiency and corruption are higher.

The impact of initial macro and micro-indicators on the cost of banking crises: research methodology and empirical results

The influence of initial macro and micro-indicators on the costs of banking crisis was analyzed in this section of article.

Research methodology. The correlation (Spearman's coefficient) and multiple regression analyses were used to analyze the impact of initial conditions on the costs of banking crisis in this study. Spearman's rank correlation coefficient is a nonparametric rank statistic measure of a monotone association. All calculations were made using SPSS Statistics 17.0 software.

Data. This study analyzes 42 systemic banking crises that occurred in 37 countries for the period from

1970 to 2007. The data used for this study relates to information from World Bank Financial Structure Dataset (2009), National Accounts of OECD Countries Database (2008), Income Statement and Balance Sheet Database (OECD Banking Statistics Database (2010)), Structure of the Financial System Database (OECD Banking Statistics Database (2010)) and Systemic Banking Crises: A New Database (Laeven & Valencia (2008a)).

Three dependent variables were used in this study: output losses_[T, T+5], output loss_[T, T+3], and net fiscal cost. For more detailed description and calculation of these dependent variables see Laeven & Valencia (2008a, 2010). In order to control for the impact of initial conditions on the costs of banking crises a variety of indicators were explored in this study (see Table 3).

Empirical results. The empirical results of analysis on the relationship between initial conditions and the costs of banking crises using correlation (Spearman's rho coefficient) are presented in Table 4. Calculating the Pearson's correlation coefficient requires the two samples to be normally distributed. In the case of non-normal distributions, may be used of Spearman's rank correlation coefficient that basically differs from Pearson's correlation only in that the values are converted to ranks before computing the coefficient. Because some of dependent and independent variables used in this research are not normally distributed, Spearman's rank correlation coefficient was used in correlation analysis.

The results of correlation analysis show that most of independent variables are statistically insignificant. A positive but very weak relationship was determined between output losses_[T, T+5] and private bond market capitalization to GDP ratio and deposits to GDP ratio suggesting that output losses of banking crises are higher in countries where private bond market and banking sector are better developed. However, a negative very weak relation was indicated between output losses_[T, T+5] and credit boom dummy variable suggesting that output losses are larger in countries where credit boom on the onset of banking crisis is observed.

Table 3

The description of independent variables used in this research

	Variable name	Description	Data sources
Initial macroeconomic conditions	Fiscal balance to GDP ratio	Fiscal balance to GDP ratio is the ratio of the general government balance to GDP.	Laeven & Valencia (2008a)
	Public debt to GDP ratio	Public debt to GDP ratio is the ratio of the general government gross debt to GDP.	
	Inflation	Inflation is the percentage increase in the CPI index.	
	GDP growth	GDP growth is real growth in GDP.	
	Current account to GDP ratio	Current account to GDP ratio is the ratio of current account to GDP.	OECD (2008)
	GDP per capita	GDP per capita (US dollars, current prices and PPPs).	
	GDP	GDP (billion US dollars, current prices and PPPs).	
Initial financial system's indicators	Long-term interest rate	Long-term interest rate (percentage).	
	Private credit by deposit money banks to GDP ratio	Private credit by deposit money banks to GDP is calculated using the following deflation method: $\{(0.5) \cdot [F_t/P_{et} + F_{t-1}/P_{et-1}]\} / [GDP_t/P_{at}]$ where F is credit to the private sector, P_e is end-of period CPI, and P_a is average annual CPI.	WB (2009)
	Private bond market capitalization to GDP ratio	Private bond market capitalization to GDP ratio is private domestic debt securities issued by financial institutions and corporations as a share of GDP, calculated using the following deflation method: $\{(0.5) \cdot [F_t/P_{et} + F_{t-1}/P_{et-1}]\} / [GDP_t/P_{at}]$ where F is amount outstanding of private domestic debt securities, P_e is end-of period CPI, and P_a is average annual CPI.	
	Stock market capitalization to GDP ratio	Stock market capitalization to GDP ratio is value of listed shares to GDP, calculated using the following deflation method: $\{(0.5) \cdot [F_t/P_{et} + F_{t-1}/P_{et-1}]\} / [GDP_t/P_{at}]$ where F is stock market capitalization, P_e is end-of period CPI, and P_a is average annual CPI.	
	Number of monetary institutions	Number of monetary institutions: commercial banks, savings banks, co-operative banks and other miscellaneous monetary institutions.	OECD (2010b)
	The assets share of monetary institutions	The assets share of monetary institutions is calculated by dividing total assets of monetary institutions to total assets of all financial institutions.	Author's calculation, data source OECD (2010b)
	The weight of monetary institutions in financial system	The weight of monetary institutions in financial system is calculated by dividing number of monetary institutions of total number of financial institutions.	
Initial banking sector's indicators	Deposits to GDP ratio	Deposits to GDP ratio is the ratio of total deposits at deposit taking institutions to GDP.	Laeven & Valencia (2008a)
	Banks credits to banks deposits ratio	Banks credit to banks deposits ratio is calculated by dividing private credit by deposit money banks of share of demand, time and saving deposits in deposit money banks.	WB (2009)
	Credit boom dummy variable	Credit boom dummy variable indicates whether or not the country has experienced a credit boom leading up to the crisis, defined as three-year pre-crisis average growth in private credit to GDP in excess of 10 percent per annum, computed over the period (T-4, T-1).	Laeven & Valencia (2008a)
	Growth in private credit to GDP	Growth in private credit to GDP is calculated by dividing annual growth in private credit of GDP for the pre-crisis year T-4, T-1.	
	Banking sector concentration	Banking sector concentration is the ratio of three largest banks assets to assets of all commercial banks.	WB (2009)
	Government-owned banks share	Government-owned banks share is the share of banking system assets that is government-owned (in percent).	Laeven & Valencia (2008a)
	Foreign-owned commercial banks share	Foreign-owned commercial banks share is calculated by dividing foreign-owned commercial banks assets to commercial banks total assets.	Author's calculation, data source OECD (2010a, 2010b)
	The weight of foreign-owned banks in banking system	The weight of foreign-owned commercial banks is calculated by dividing number of foreign-owned banks to number of all commercial banks.	
	Loans to assets ratio	Loans to assets ratio is the share of loans in banks assets.	
	Asset diversity level*	Asset diversity is a measure of diversification across different types of assets.	
	Income diversity level*	Income diversity is a measure of diversification across different sources of income.	
	Financial leverage ratio	Financial leverage ratio is calculated by dividing liabilities of equity.	
	Capital adequacy ratio	Capital adequacy ratio is calculated by dividing the total regulatory capital of risk-weighted assets.	

Notes: the values of all independent variables (except credit boom dummy and growth in private credit to GDP variables) are for the pre-crisis year T-1, where T denotes the starting year of the banking crisis. T denotes the starting year of the banking crisis.

*For more detailed description of these measures see Laeven & Levine (2007).

Source: [Laeven & Levine (2007), OECD (2008, 2010a, 2010b), WB (2009), Laeven & Valencia (2008a)].

The empirical results presented in Table 4 show a positive but very weak relation between fiscal balance to GDP ratio and output loss_[T, T+3]. Banks credits to deposits ratio is also positive related to output loss_[T, T+3] (a strong statistically significant relation). However, a very strong negative relationship between output loss_[T, T+3] and financial leverage ratio is found. The results of

correlation analysis among dependent variable output loss_[T, T+3] and independent variables suggest that output loss_[T, T+3] is larger in countries where fiscal balance to GDP ratio and banks financial intermediation level are higher and banks are less financial leveraged.

The results show that net fiscal costs are larger in countries where concentration in banking sector is lower.

Table 4

The empirical results of analysis on the relationship between initial conditions and the costs of banking crises using correlation (Spearman's rho coefficient)

	Variables	Output losses _[T, T+5]		Output loss _[T, T+3]		Net fiscal cost	
		Spear.	p-value	Spear.	p-value	Spear.	p-value
Initial macro-economic conditions	Fiscal balance to GDP ratio	0.0436	0.8068	0.3990	0.0159	-0.0490	0.7639
	Public debt to GDP ratio	-0.2859	0.1483	-0.2810	0.1475	-0.0181	0.9230
	Inflation	-0.0493	0.7206	-0.2122	0.2140	-0.0112	0.9459
	GDP growth	0.0120	0.9305	0.1570	0.3603	0.2414	0.1334
	Current account to GDP ratio	0.0577	0.7457	-0.2639	0.1199	-0.1644	0.3171
	GDP per capita	0.0276	0.8848	0.1786	0.7017	-0.5714	0.1390
	GDP	-0.2691	0.1504	0.0000	1.0000	0.5952	0.1195
	Long-term interest rate	0.1405	0.5545	0.8000	0.2000	-0.4000	0.6000
Initi. financial system's indi.	Private credit by deposit money banks/GDP ratio	0.1859	0.3342	0.2857	0.5345	-0.4286	0.2894
	Private bond market capitalization to GDP ratio	0.3531	0.0834	0.5357	0.2152	-0.4762	0.2329
	Stock market capitalization to GDP ratio	-0.0313	0.8768	-0.1261	0.7876	0.1078	0.7995
	Number of monetary institutions	-0.3381	0.1448	0.5000	0.6667	0.0000	1.0000
	The assets share of monetary institutions	0.4762	0.2329	-	-	-	-
	The weight of mon. institutions in financial system	-0.1167	0.7650	-	-	-	-
Initial banking sector's indicators	Deposits to GDP ratio	0.3066	0.0778	0.2269	0.1832	0.1074	0.5095
	Banks credits to banks deposits ratio	0.2547	0.1824	0.7143	0.0713	-0.2381	0.5702
	Credit boom dummy variable	-0.3435	0.0681	-0.1211	0.5164	0.0116	0.9507
	Growth in private credit to GDP	-0.2734	0.1512	-0.1452	0.4359	-0.0374	0.8416
	Banking sector concentration	-0.2137	0.3275	-0.1429	0.7872	-0.7143	0.0713
	Government-owned banks share	0.1283	0.4696	-0.0058	0.9732	-0.1362	0.4021
	Foreign-owned commercial banks share	0.1936	0.5263	-	-	-	-
	The weight of for.-owned banks in banking system	0.3306	0.2110	-	-	-	-
	Loans to assets ratio	0.1897	0.4367	-0.5643	0.3217	-0.1739	0.7417
	Asset diversity level	0.0682	0.7815	0.4000	0.5046	0.2000	0.7040
	Income diversity level	0.0181	0.9415	0.5000	0.3910	-0.4286	0.3965
	Financial leverage ratio	-0.0018	0.9943	-0.9000	0.0374	-0.0286	0.9572
	Capital adequacy ratio	0.2571	0.6228	-	-	-	-

Notes: correlation coefficients in bold are statistically significant at the 0.10 level (2-tailed).

Source: [author's calculations, data source – OECD (2008, 2010a, 2010b), WB (2009), Laeven & Valencia (2008a, 2010)].

The empirical results of analysis on the and the costs of banking crises using multiple regression relationship between initial macroeconomic conditions are presented in Table 5.

Table 5

The empirical results of analysis on the relationship between initial macroeconomic conditions and the costs of banking crises using multiple regression (p value in parentheses)

Variables	Output losses _[T, T+5]		Output loss _[T, T+3]		Net fiscal cost
	Model 1	Model 2	Model 3	Model 4	Model 5
Method	Enter	Enter	Enter	Stepwise	Enter
(Constant)	0.459 (0.001)	-0.138 (0.723)	0.319 (0.002)	0.250 (0.000)	0.134 (0.011)
Fiscal balance to GDP ratio	0.062 (0.971)		1.521 (0.166)	2.084 (0.031)	-0.116 (0.863)
Public debt to GDP ratio	-0.228 (0.236)		-0.189 (0.184)		-0.019 (0.814)
Inflation	-0.006 (0.543)		-0.011 (0.201)		-0.005 (0.359)
GDP growth	0.155 (0.934)		0.473 (0.749)		1.035 (0.158)
Current account to GDP ratio	-0.230 (0.881)		-0.482 (0.667)		0.215 (0.744)
GDP per capita		0.000 (0.234)			
GDP		0.000 (0.369)			
Long-term interest rate		0.024 (0.328)			
R	0.3300	0.3510	0.5410	0.4090	0.3240
Adjusted R Square	-0.1030	-0.0410	0.1310	0.1350	-0.0740
Std. Error of the Estimate	0.2964	0.2503	0.2379	0.2374	0.1501
Durbin-Watson	2.1190	1.6120	1.7150	1.8330	1.3890

Source: [author's calculations, data source – OECD (2008), Laeven & Valencia (2008a, 2010)].

The results presented in Table 5 show that there is no statistically significant relationship between costs of banking crises and initial macroeconomic conditions. Only one independent variable (fiscal balance to GDP ratio) is statistically significant in the fourth regression model where dependent variable is output loss_[T, T+3]. Fiscal balance to GDP ratio is positive related to dependent variable in this regression model. The results presented in Table 5 are very similar to empirical results or correlation analysis.

The empirical results of analysis on the relationship between initial financial system's indicators and the costs of banking crises using multiple regression are presented in Table 6.

Only one regression model where dependent variable was output losses_[T, T+5] has been computed. For models with dependent variables output loss_[T, T+3] and net fiscal cost, all independent variables were constants or have been missing correlations. For this reason all independent variables had been deleted from the analysis and statistics could not be computed.

The empirical results show that initial financial system's indicators are statistically insignificant in explanation of dependent variables fluctuations.

Table 7 show the empirical results of analysis on the relationship between initial banking sector's

indicators and the costs of banking crises using multiple regression.

Table 6
The empirical results of analysis on the relationship between initial financial system's indicators and the costs of banking crises using multiple regression (p value in parentheses)

Variables	Output losses _[T, T+5]
Method	Enter
(Constant)	-0.989 (0.510)
Private credit by deposit money banks to GDP ratio	-1.382 (0.547)
Private bond market capitalization to GDP ratio	3.129 (0.579)
Stock market capitalization to GDP ratio	-1.470 (0.650)
Number of monetary institutions	0.000 (0.742)
The assets share of monetary institutions	4.329 (0.479)
The weight of monetary institutions in financial system	-2.468 (0.563)
R	0.8460
R Square	0.7160
Adjusted R Square	-0.9910
Std. Error of the Estimate	0.2904
Durbin-Watson	-

Source: [author's calculations, data source – Laeven & Valencia (2008a, 2010), WB (2009), OECD (2010b)].

Table 7
The empirical results of analysis on the relationship between initial banking sector's indicators and the costs of banking crises using multiple regression (p value in parentheses)

Variables	Output losses _[T, T+5]		Output loss _[T, T+3]	Net fiscal cost
	Model 1	Model 2	Model 3	Model 4
Method	Enter	Stepwise	Enter	Enter
(Constant)	0.282 (0.073)	-0.512 (0.103)	0.185 (0.199)	0.134 (0.081)
Deposits to GDP ratio	0.077 (0.537)		0.089 (0.481)	0.009 (0.890)
Banks credits to banks deposits ratio				
Credit boom dummy variable	-0.008 (0.966)		-0.009 (0.958)	0.003 (0.972)
Growth in private credit to GDP	-0.556 (0.522)		0.343 (0.687)	0.088 (0.844)
Banking sector concentration				
Government-owned banks share	0.132 (0.630)		-0.112 (0.682)	0.020 (0.890)
Foreign-owned commercial banks share				
The weight of foreign-owned banks in banking system		1.787 (0.023)		
Loans to assets ratio				
Asset diversity level				
Income diversity level				
Financial leverage ratio				
Capital adequacy ratio				
R	0.2860	0.9290	0.2240	0.0740
R Square	0.0820	0.8630	0.0500	0.0050
Adjusted R Square	-0.0710	0.8170	-0.0960	-0.1480
Std. Error of the Estimate	0.2833	0.1800	0.2886	0.1517
Durbin-Watson	-		-	-

Source: [author's calculations, data source – Laeven & Valencia (2008a, 2010), OECD (2010a, 2010b), WB (2009)].

Fourth regression models have been computed, however, only one model (second regression model) seems to be statistically significant (adjusted R² is about 0.82). The results show that the weight of foreign-owned banks in banking system is statistically significant in explanation of output losses_[T, T+5] fluctuations. This independent variable has a positive effect on the output losses_[T, T+5] of banking crises suggesting that output

losses_[T, T+5] are larger in countries where foreign-owned commercial banks play the main role in banking sector.

In summary, the results of multiple regression analysis show that most of independent variables have no statistically significant impact on the costs of banking crises. Only two independent variables are statistically significant in dependent variables variation (fiscal balance to GDP ratio is statistically significant in explanation of output loss_[T, T+3] variation and the weight

of foreign-owned banks in banking system is significant in explanation of output losses_[T, T+5] fluctuations).

The results of this study suggest that initial conditions on the onset of banking crises have only little impact on the costs of banking crises. The review of empirical studies suggest that features of banking crisis and banking crisis containment and resolution policies have greater impact on the costs of banking crises than initial conditions on the onset of crisis.

The empirical findings of this study confirm the results of Hoggarth et al. (2002, 2004) studies that banks intermediation level has a positive impact on the costs of banking crises.

Conclusions

4. The results of correlation analysis show that most of independent variables are statistically insignificant. The empirical results suggest that output losses_[T, T+5] of banking crises are larger in countries where private bond market and banking sector are better developed and credit boom on the onset of banking crisis is observed. The empirical findings of this study suggest that output loss_[T, T+3] is larger in countries where fiscal balance to GDP ratio and banks financial intermediation level are higher and banks are less financial leveraged.

The results also show that net fiscal costs are larger in countries where concentration in banking sector is lower.

5. The results of multiple regression analysis show that there is no statistically significant relationship between costs of banking crises and initial macroeconomic conditions (only fiscal balance to GDP ratio is positive statistically significant in the regression model where dependent variable is output loss_[T, T+3]). The empirical results show that initial financial system's indicators are statistically insignificant in explanation of dependent variables fluctuations. The results show that the weight of foreign-owned banks in banking system is positive statistically significant in explanation of output losses_[T, T+5] fluctuations.

6. The results of this study suggest that initial conditions on the onset of banking crises have only little impact on the costs of banking crises. The review of empirical studies suggest that features of banking crisis and banking crisis containment and resolution policies have greater impact on the costs of banking crises than initial conditions on the onset of crisis. The empirical findings of this study confirm the results of Hoggarth et al. (2002, 2004) studies that banks intermediation level has a positive impact on the costs of banking crises.

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THE IMPACT OF INITIAL MACROECONOMIC CONDITIONS ON THE FISCAL COSTS AND OUTPUT LOSSES OF BANKING CRISES

Summary

Honohan & Klingebiel (2000), Claessens et al. (2004), Laeven & Valencia (2008a) note that many banking crises were triggered or exacerbated by unsustainable macroeconomic policies and exogenous macroeconomic conditions (e.g. by asset bubbles, excessive credit booms, large capital inflows). Claessens et al. (2004) argue that initial conditions may affect the severity and the costs of banking crises. Laeven & Valencia (2008a) note that initial conditions of banking crisis are important because they may shape the market's and policymaker's response during the containment phase of banking crisis. Laeven & Valencia (2008a) state that if macroeconomic conditions are weak, then policymakers have limited buffers to cushion the impact of the banking crisis and they must to apply different crisis containment and resolution policies.

All researches investigating explanatory variables influence on the cost of banking crises can be distinguish into three main areas. Some studies (Bordo et al. (2001), Hoggarth et al. (2002), Laeven & Valencia (2008a), Deltuaitė (2011)) focus on the relation between costs and features of banking crisis. However, most of researchers (Honohan & Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002, 2004), Calomiris et al. (2003), Claessens et al. (2004), Laeven & Valencia (2008a, 2008b)) investigate the impact of banking crisis containment and resolution policies on the costs. Only limited number of studies (Honohan & Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002, 2004), Claessens et al. (2004)) analyzes the influence of initial conditions of banking crisis on the costs. This study aims to fill this gap.

Most of studies (Bordo et al. (2001), Hoggarth et al. (2002, 2004), Claessens et al. (2004)) analyze only a few initial macro and micro-indicators influencing the costs of banking crisis. Only Honohan & Klingebiel (2000, 2003) analyzed the impact of large number of factors. This study analyzes about thirty initial macroeconomic, financial system's and banking sector's indicators. Many empirical studies analyzed macroeconomic and banking sector's conditions but financial system's indicators were incorporated in the research for the first time. Most of studies focused on banking crises that occurred up to the year 2000, whereas this study analyzes banking crises for the period from 1970 to 2007.

The aim of the article: to summarize the studies investigating the relationship between costs of banking crises and initial macro and micro-indicators and to analyze the impact of initial conditions of crisis on the costs of banking crisis. *The research object:* the relationship between initial conditions on the onset of crisis and the costs of banking crisis. *The research methods:* the analysis and synthesis of scientific literature, statistical methods (correlation analysis, regression analysis, descriptive statistic).

The summary of empirical studies (Honohan & Klingebiel (2000, 2003), Bordo et al. (2001), Hoggarth et al. (2002, 2004), Claessens et al. (2004)) show that real interest rate, fixed exchange rate regime and bank intermediation (bank credit/GDP) have a positive impact on the costs of banking crises. However, percentage change of stock market prices, capital controls, GDP per capita, GNP per head, quality of institutions, judicial efficiency and corruption level have a negative influence on the costs of crisis.

The results of correlation analysis show that most of independent variables are statistically insignificant. The empirical results suggest that output losses_[T, T+5] of banking crises are larger in countries where private bond market and banking sector are better developed and credit boom on the onset of banking crisis is observed. The empirical findings of this study suggest that output loss_[T, T+3] is larger in countries where fiscal balance to GDP ratio and banks financial intermediation level are higher and banks are less financial leveraged. The results also show that net fiscal costs are larger in countries where concentration in banking sector is lower. The results of multiple regression analysis show that there is no statistically significant relationship between costs of banking crises and initial macroeconomic conditions (only fiscal balance to GDP ratio is positive statistically significant in the regression model where dependent variable is output loss_[T, T+3]). The empirical results show that initial financial system's indicators are statistically insignificant in explanation of dependent variables fluctuations. The results show that the weight of foreign-owned banks in banking system is positive statistically significant in explanation of output losses_[T, T+5] fluctuations.

The results of this study suggest that initial conditions on the onset of banking crises have only little impact on the costs of banking crises. The review of empirical studies suggest that features of banking crisis and banking crisis containment and resolution policies have greater impact on the costs of banking crises than initial conditions on the onset of crisis. The empirical findings of this study confirm the results of Hoggarth et al. (2002, 2004) studies that banks intermediation level has a positive impact on the costs of banking crises.

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OPEN SOURCE SOFTWARE USAGE PREFERENCES IN LITHUANIA

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Abstract

The research deals with the open source software legal and political aspects in the European Union and Lithuania, presents its compatibility as well as innovation essence. The methods used were as follows: Internet questionnaire and expert interview. The received results made it possible to find out the spread of open source software in Lithuania, its usage aims, advantages and disadvantages. According to the specialists, open source software satisfies requirements of open standards, gives guarantees to have access to data in the future, is inexpensive, reliable, safe, and easily located.

Keywords: open source software, Lisbon strategy, innovations, IT development, FOSS

Introduction

Fast-spreading information technologies take more and more important positions in different spheres of life. Work on the computer has become a natural process, and both software combine this process. No wonder, software customers are looking for new opportunities to reduce their expenditure, so the spread of open source software offered analogues with their advantages and disadvantages and are a modern topic for discussions.

The problem of using nonlicensed programs is spread all over the world. Different countries solve this problem in different ways. Some of them draw attention to cultural and intellectual perceptions and traditions, others – to information spread, or financial opportunities. Open code software use is the most effective method in fighting illegal computer programs.

The notion 'open code software' originated from the term 'open software', first introduced by R. Stallman. The main feature of these programs is free-of-charge sending, usage, coping, spread and modification. By using open software, the money usually spent on purchasing licenses, may be spent for buying computer software or servicing (Dagienė, 2004). As open source software (OSS) communities mature, they have to introduce a variety of governance mechanisms to manage the participation of their members and to coordinate the launch of new releases (Sadowski *et al*, 2008).

There are quite many reasons why open source software is so widely spread, the main being independence from software producers, which influences software market establishment. An important component of an adaptive system is the ability to model the users of the system according to their goals and preferences. Web usage mining aims at discover interesting patterns of use by analyzing Web usage data. Knowledgeable programmers are able to compliment open code software with new functions, or offer adjustment, etc.) (Girardi *et al*, 2005). Successful software systems continuously

evolve to accommodate ever-changing needs of customers (Ullah *et al*, 2010).

The very essence of open code software lies in (the fact that the author of a computer program creates outgoing texts and is also the first one to place them in the Internet with open access. So they become freely accessible to every IT user. Open programs not only help to solve the problem of illegal usage but they have a more powerful mission: they offer possibilities to modify programs, to correct noticed mistakes in a short time, and to join efforts of a large number of programmers. Open source software is easily without any negotiation obstacles localized.

Nowadays there are a lot of open source software practical application forms, however, we find very few concrete researches or general data about the spread of open source software in Lithuania, so a question arises: what has already been done in this regard in Lithuania?

The aim of the research is by using the Internet questionnaire and expert interviews to investigate which open source software is popular in Lithuania; the objectives are as follows: to find out for what purposes (personal or working) open source software is used, what is its advantages and disadvantages, what analogues are offered by IT users, and also what are the obstacles for spread of open source programs in Lithuania, and finally to prepare the insights on the received results.

Legal and political environment on open source software usage in the EU

Over the last few years in Europe, like in other world countries, more and more areas of life (administration, management, education) get interested in the usage of open software. Even open program research international groups (European Labor Committee, UNESCO working committee, IDA (*Interchange of Data between Administrations*) and others) were established. There is a growing body of research to show that, with the advent of so-called professional Open Source,

attitudes within many organisations towards adopting Open Source software have changed. However, there have been conflicting reports on the extent to which this is true of the embedded software systems sector a large sector in Europe (Lundell et al, 2011).

In the presentation „Ethical Implications of Emerging Technologies: A Survey“ by International association Geneva Net Dialogue they “claim that UNESCO supports open standards and protocols which are created by democratic processes and are not influenced by huge corporations. They recommend Open Document Format and other open formats as they help to reduce the so-called „lock-in“ effect in some technologies.

In 2005 eEurope 2005 Action Plan (eEurope 2005) says that *issue an agreed interoperability framework (EIF) to support the delivery of pan-European e-government services to citizens and enterprises. It will address information content and recommend technical policies and specifications for joining up public administration information systems across the EU. It will be based on open standards and encourage the use of open source software.*”

From a number of Brussels representatives we can hear that “...ES progress is based on the usage of both OSS and OS”. It is emphasized that LISBON STRATEGY UNTIL 2010 WILL BE IMPLEMENTED THROUGH THE USE OF OPEN STANDARDS AND OPEN SOURCE SOFTWARE! The communiqué of the COUNCIL, EUROPEAN PARLIAMENT, and EUROPEAN COMMITTEE FOR ECONOMIC AND SOCIAL AFFAIRS AND REGIONAL COMMITTEE says that „2010 is the start of incentive of European information for encouraging society growth as well as employability“ (Kurkauskas, 2008).

- Digital approach needs equipment; platforms and services for inter relations. The Committee using all accessible means is planning to encourage the development of communication technologies through research, development of open standards, support for dialogue in groups of interest and, if necessary, obligatory means. Such a mixed policy was successfully used in European for mobile phone connections. According to 2010 the Committee is going to establish sufficient, effective and interrelated management methods of digital rights.

Open source software programs take the central place in IDA (IDABC) program, the main ES e – management program. In 2007 European Committee approved EUPL (European Union Public Licence). The licence is going to be used to spread the programs, created in the frame of IDABC program. EUPL means a preamble explaining the essence of Open Source Software- OSS licence, just as the licence itself. In 2008 European Committee announced "European Union Open Licence" in all 23 official EU languages, Lithuanian among them.

IDABC gives in the report „The IDA Open Source Migration Guidelines“ recommendations for migration towards open software: „...4000 internal and distant users in the computer net, among them HW, SW with 10 servers, and servicing personnel price over the 5 years makes:

- Commercial (MS) equipment case - 37 289 039 EUR over 5 years;
- Open program case - 11 490 983 EUR over 5 years;
- Migration price from 1) to 2) - is 4 331 250 EUR over 5 years;
- SAVINGS OVER 5 YEARS – 21 466 806 EUR. Only this one example proves that it is economically convenient to use open programs;
- The research “The economic impact of Free/Liberal /Open Source Software (FLOSS) on innovation and competitiveness of the EU ICT sector” concludes that FLOSS influence on ICT sector competitiveness and innovation in Europe is essential, consequently, it has to be regarded seriously in all projects”.

Legal and political aspects of open source software usage in Lithuania

After the establishment of the public movement „Open Software for Lithuania“(AKL) in 2001 a lot of activities have taken place in open software. Thanks to the first projects, which were implemented through the volunteers initiative in the Committee of Information Society Development under the Government of the Republic of Lithuania as well as other organizations and enterprises, open software programs have been more often used.

2003 April 18 the Government of Lithuania issued a law No. 480 „General Requirements for the internet sites in public institutions“. This is the first step to start implementing open software standards. You do not need to use commercial software to browse the Internet of public institutions. The documents in the net have to be accessible by using open software data formats HTML, PDF and others. Erkki Liikanen (European Commissioner responsible for Enterprise and Information Society) in his speech „eGovernment for Europe's public services of the future“ emphasized „...At the technical level, open standards and open source solutions assist in realising such integration. In addition, administrations are building up experience with open source considering intrinsic aspects such as cost and security, and benefits from externalities“ (Borge, 2003).

One of the institutions to pay a considerable attention to the use of open software and open standards is Information Society Development Committee (ISDC). The largest input is done by Vilnius University Mathematics and Informatics Institute, specialists from Mathematics and Informatics Faculty and public enterprise „Infostruktūra“. In 2006 February, 28 the law No. T-17, was issued by ISDC general Manager on “Regarding recommendations how to use open electronic documentary standards in public service of society, public institutions and offices during the exchange of information“.

Nowadays the main advertiser of open software organization, is called „Atviras kodas Lietuvai“. It was officially registered in spring 2003 as a public non-profitable organization. In AKL web AKL <http://www.akl.lt> assistance can be found as well as news forums for free and open source software users, program

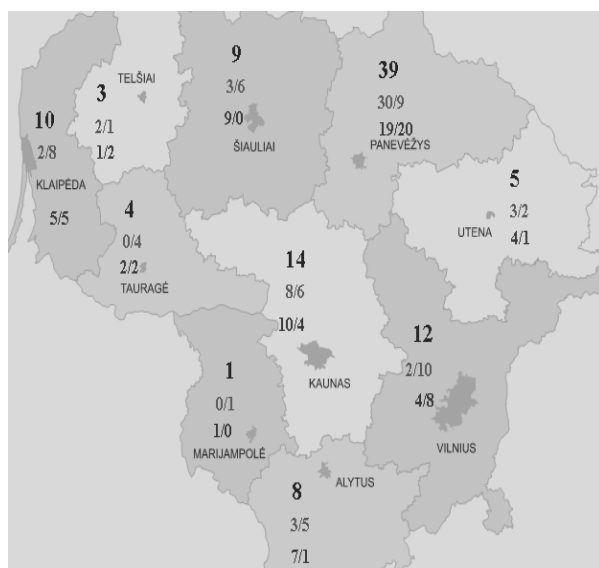
descriptions, open software philosophy, and a lot of other useful information.

Research methodology

The research was carried out in spring 2011 according to Leonardo DaVinči project „Forstering Free Usage in The Baltic States”. The paper deals with the data on the spread of open source software and aims of its usage, on advantages and diadvantage reffering to Lithuania. The research was organized in two parts: the first survey involved IT users as respondents, the second part involved IT professionals. In both parts a specially developed questionnaire was used to receive the information from 105 IT users and from 12 IT professionals. Respondents reside in Vilnius, Kaunas, Klaipėda, Šiauliai, and Panevėžys (Figure 1).

The survey involved 105 IT users from such types of organizations:

- State institutions – 77;
- Small enterprises (<50 employees) – 4;
- Medium enterprises (<250 employees) – 4;
- Large enterprises (>250 employees) – 4;
- Other – 1 (joint stock company);
- Students (pupil) – 8;
- Students – 5;
- Unemployed – 2;



----- Women / Men
 ----- IT professional / IT user

Figure 1. Respondent distribution in Lithuanian regions

According to demographic characteristics: 50,48 percent women, 49,52 percent men.

The survey aimed at gathering the information on what programs they use at work and at home; what programs are not necessary at work and at home; what programs they would like to improve their knowledge on; awareness of open source software and their alternatives; the main reasons for choosing FOSS, the reasons for not using FOSS, etc.

Research findings

The results obtained in the survey demonstrate that:

1. UBUNTU is most widely spread out of Linux family;
2. 47 percent of IT professionals and 37 percent of IT users use Office Software, Mozilla Firefox Web browser, Mozilla Thunderbird Mail server, VLC Multimedia player, Gimp GNU image Manipulation program programs at work;
3. 48 percent of IT professionals and 26 percent of IT users use Office Software, Mozilla Firefox Web browser, Mozilla Thunderbird Mail server, VLC Multimedia player, Gimp GNU image Manipulation program programs at home;
4. 23 percent of IT professionals and 33 percent of IT users responded that such programs as OFFICE Software, Mozilla Firefox Web browser, Mozilla Thunderbird Mail server, VLC Multimedia player, Gimp GNU image Manipulation program are not necessary at work;
5. 27 percent of IT professionals and 33 percent of IT users responded that such programs as OFFICE Software, Mozilla Firefox Web browser, Mozilla Thunderbird Mail server, VLC Multimedia player, Gimp GNU image Manipulation program are unnecessary at home;
6. respondents would like to attend a course basically for their better education and in modules, as OpenOffice Office software and Gimp GNU image Manipulation program;
7. respondents are aware and use a lot of open code programs;
8. respondents claim that FOSS are not used due to:
 - fear of format non-matching, the public does not receive the right information;
 - Microsoft usage is influenced by governing institutions;
 - no accessible information in Lithuanian;
 - hardly accessible to non IT professionals;
 - very popular „pirated“ commercial programs;
9. main reasons to choose FOSS: quality, convenience, freedom and attractive, software maturity, sufficiency of offered functions, convenient to use, simplicity of instalment; convenient administration, independence from software producers, possibility of contribution to software perfection, localization and translation, openness, convenience and flexibility. Information about FOSS is found in the Internet or received from friends.
10. lack of information about open source software programs and their use;
11. IT professionals have no problems either working or implementing FOSS;
12. majority of respondents are aware about alternatives for FOSS;

Conclusions and Recommendations

The analysis of the survey enabled to define the reasons of open source software importance and its usage:

- OSS (open source software) meets the standards;
- Open Software Source offers transparency and at the same time information;
- OSS guarantees the accessibility to information in future.
- OSS is inexpensive in regard to reusability, so most of EU programs use it (e.g.: IDABC) to reduce the cost.
- OSS is secure and reliable in quality check-ups, done by the public.
- If Lithuania is a true member of the European Union, it has to follow the general documentary policy, Open Source Software implementation and usage policy among all others.

After analysis of survey and conclusions several recommendations can be drawn:

1. Advertising is necessary to promote open source software and in this way it could attract more users;
2. Popular articles are badly needed about FOSS use;
3. Governmental institutions should pay more attention to FOSS use and apply funding measures for those, already using FOSS;
4. Organize more courses on how to use FOSS programs on a wider scale;
5. Offer courses to different employees in different organizations;
6. Present more teaching material and handouts for FOSS users;
7. Universities, colleges, and schools should use in teaching more and different FOSS.

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Alina Dėmenienė, Saulė Kairienė

OPEN SOURCE SOFTWARE USAGE PREFERENCES IN LITHUANIA

Summary

The goal of the work is to reveal the spread of open source software programs and their usage purposes in Lithuania, and to point out their advantages and disadvantages. The obvious benefit and spread of such programs is rapidly changing together with the spread of IT and the Internet. open source software programs take the central place in IDA (IDABC) program, which is the basic EU e. government program. However, in Lithuania the main advertize of open source software programs is still "Atviras kodas Lietuvai". The summary of the results allows to confirm that more and more people connect to open source software program movement, the supply of specialized technical equipment is expanding. Apart from some legal shortcomings, open source software programs not only help to solve the problem of usage of illegal programs, it has a more powerful mission: they give an opportunity to modify programs, to correct noticed mistakes in a short time, to join efforts of most programmers and most importantly they can be quite quickly localized without any negotiation obstacles. This is a great alternative not only to modern business, but also to a country, as even a little open source software program competition will make more favorable conditions to purchase commercial programs on a state level.

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SUSTAINABLE ENTERPRISE

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Abstract

Sustainability proves to be an issue of strategic significance facing today's enterprises and not only within the context of building a company's image or legitimizing its operations. Implementation of principles for sustainability and communication of all management issues in the environmental and social dimensions is a determinant for the quality of management as well as enhanced enterprise value. The article provides an insight into the core of sustainable growth of an enterprise and sustainable value based on economic, social and ecological performance. The study also addresses the issue of reporting on economic, social and ecological performance to stakeholders in an enterprise.

Keywords: management, sustainable development of an enterprise, sustainable value, standards for sustainable development, sustainability reporting

Introduction

Changes occurring in an environment and pro-ecological legislation, crash on financial markets prompting decline in confidence to financial assets as well as a magnitude of risk types inherent to business operations significantly affect conditions for conducting business. New conditions constitute fundamentals for innovations in manners and methods of management, which then creates new challenges for both the academics concerned with analyzing these processes as well as practitioners in business. Also, discussions were initiated on changes of paradigms in management, revision of approach to managing an enterprise value and a broad spectrum of business opportunities provided by implementation of sustainability principles in an enterprise. Increasingly, sustainable development becomes a driving force behind innovations and measurement of the quality of management systems in the company. Moreover, it delivers immense business advantages.

New conditions for operating business caused decline of confidence in traditional systems for assessing the company performance that chiefly rely on financial data. Non-financial data are gaining in prominence and investors are increasingly keen on analyzing environment and social reports together with their audit results, standards for enterprise's managements, ranking of responsible companies and stock exchange indexes covering socially responsible companies. An enterprise should therefore communicate a sustainable development strategy to its stakeholders as well as economic, social and environmental results.

Sustainable development and corporate social responsibility

In current circumstances for running business, sustainable development and corporate social responsibility as a philosophy and a suite of tools enabling achievement of a state of sustainable growth take on a strategic importance. On top of that numerous rankings and records as well as public opinion put - pressure on companies to communicate - their financial results as well as non-financial activities. By neglecting a responsible approach to business, an enterprise will be punished by -public opinion, and alongside the tarnished reputation the financial performance will be eroded. Sustainable growth in the enterprise's operations is therefore not only a moral impulse but also a business incentive, as companies that integrate environmental and social aspects in their activities as well as embracing the principles of corporate governance are capable of gaining a stable competitive advantage and thus building stable value.

Such efforts are appreciated by investors as operating in compliance with principles of sustainable development, which is effective management of concerns related to environmental protection, society and corporate governance is an adequate indicator of the quality of management and potential increase in enterprise value as well as its investment attractiveness. Thus, investors while making investment decisions and in their proprietary practices are increasingly focused on non-financial aspects of business operations which have an impact on the investment outcome, mainly in the long term. They steadily realize that maximization of value is triggered by so-called sustainable and responsible investments as companies that take social and environmental concerns into account in their business operations and deploy principles of corporate governance

are able to attain a stable competitive advantage and build a stable value.

The definition of sustainable development, being cited most widely was set out at the UN conference, known as “the Earth Summit”, held in Rio de Janeiro in 1992. Sustainable development was defined as social and economic development to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs. Over recent years the concept of sustainable development gained crucially in popularity and attempts were taken to adapt the concept of sustainability to the macroeconomic reality where an enterprise is an object of the advancement. At present the category of sustainable development of enterprises is enormously capacious and encompasses a number of more or less detailed concepts, e.g. corporate social responsibility, business ethics, stakeholder relationships management or the concept of triple bottom line (Witek-Crabb, 2005), which assumes that the company’s success is determined by its performance in three realms: economic, ecological and social, and it entails a fundamental shift in perceiving and understanding the business and its role within society. In the concept of sustainable development which is premised on three dimensional managing process, the economical facet plays a significant role. Changing social and market circumstances in which current enterprises operate have not had any considerable bearing on the shift in fundamental objectives for business operations. A basic target of enterprise’s operations and thus a major assignment for managers is to generate profits for the enterprise’s owners, which is then manifested, principally, in an increase in market enterprise value in the long run (Suszyński, 2002). Therefore building its value is the primary goal of the enterprise. It should be emphasized that a changing environment stimulates enterprises to modify their behaviours. They are compelled to integrate social and environmental targets in their schemes and methods of operations. However the economic imperatives have not been substituted by other goals. What’s more, such substitution would prove to be irrational and unethical. As the source of the enterprise value is not social activity but economic operations (Laszlo, 2008). Nevertheless patterns of enterprises behaviours underwent a change. Integration of social and environmental needs appeared to be the means to achieving economic objectives.

The idea of sustainable development holds the key to comprehending the fundamentals of sound business which by creating a value for owners thus creates it for all stakeholders. Maximizing the value for shareholders implies maximizing the benefits for all entities involved in the enterprise. Whereas taking into consideration the stakeholders’ benefits and establishing all kinds of loyalty bonds with environment adds to the enterprise value. What’s more, without this mutual cooperation it is unlikely to achieve long term growth. Such a value, based on economic, social and ecological performance as well as a compromise between a value for shareholders and that for stakeholders in the enterprise, is called sustainable. This value is lasting in the long term and

more resilient to market turmoil due to its social legitimization of the enterprise operations.

Bearing in mind the foregoing, sustainable development may be defined as growth at which a company achieves a sustainable value that is a long term value based on performance in economic, social and ecological spheres. An integrated economic, social and ecological approach contributes more effectively to building a more stable enterprise value than an approach focused on instant business success which deprives one or numerous stakeholders of the value and transfers it to shareholders in the company. Creation of sustainable value is made possible on the ground of common benefits shared by both shareholders as well as stakeholders (Laszlo, 2008). The concept of sustainable and stable development is thus a socially and ecologically conscious strategy for development (Paliwoda-Matoliańska, 2009). Its operational actions then produce favourable conditions for enhancing social well-being and boosting benefits of the company’s owners. To do so, it is necessary to cooperate closely with local environment. Management based on relations between organizations/partners (Interorganizational Relationship Management – IORM) provides an enterprise with opportunities of effective functioning and growth. It will result in mutual confidence and respect for each parties’ in compliance with their roles determined in the society (Wereda, 2010).

The concept of sustainable development is connected with a notion of corporate social responsibility (CSR). Frequently these terms are used interchangeably. Also it is hard to discern differences between two concepts, so it is worthwhile elucidating the idea of corporate social responsibility placing it in the strategy for sustainable development.

The most frequently cited definition of corporate social responsibility is the one formulated by the European Commission as a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis. This definition highlights a voluntary nature of establishing a balance among economic, social and environmental aspects of business operations. Whereas ISO 26000 (The International Standard ISO 26000:2010), a standard designed to systemize knowledge on CSR by defining corporate social responsibility as organization’s accountability for the impact their decisions and operations (products, services, processes) have on the society and environment, through implementing transparent and ethical behaviour which contributes to sustainable development, health and social prosperity, and takes into consideration the expectations of stakeholders, is in conformity with binding law and coherent with international behaviour norms, and is in line with the organization and its relations.

By analyzing the definitions of social responsibility and sustainable development, indeed there are a number of common aspects and the sphere of interests of these two concepts unlikely to be distinguished. We may attempt to summarize the deliberations and claim that the concept of CSR coming into attention of the enterprise represents a specific philosophy as well as a set of tools

that facilitate to attain a state of sustainable development (Gasiński, Piskalski). In a longer term such a state not only delivers social and environmental benefits, but it also allows for building stable, sustainable value of the enterprise.

Standards and guidelines for sustainable development and social responsibility

At present day there are a number of managing standards to be deployed by organizations which implement the strategy for sustainable development. They are useful while incorporating social and environmental concerns as well as issues connected to relations with stakeholders in the business practice. In many cases, these include practical tools for implementation of CSR, forming a collection of procedures, processes describe step by step or specifications with regard to both managing and decision process as well as operational activities and relations with the environment. A driver behind all norms and standards is an attempt to systemize concepts and manners of approach as well as to provide precise tools and methods for implementing the CSR philosophy in companies, and specifically to establish relevant foundations, a minimum level for CSR practices. Simultaneously they are intended to stimulate to continuous growth and improvement, to devise increasingly extended and company specific programmes and strategies. They assist companies in managing social responsibility, suggest behaviour patterns and methods for their implementation, instruct how to assess and integrate in their operations the impact of their operational activities on the environment (Makuch, 2011).

Norms and standards of corporate social responsibility may be classified subject to whether they include (Makuch, 2011):

1. Aspiration principles and conduct codes.
2. Guidelines with regard to management system and certification systems.
3. Assessment indices used by investors (Sustainable and Responsible Investing-SRI).
4. Guidelines for reporting and communicating.

Ad. 1. Aspiration principles and conduct codes constitute codes and guidelines which provide enterprises with widely accepted patterns and desired methods of conduct, though they are deficient in formal implementation mechanisms and external verification (e.g. UN Global Compact, The Ethical Trading Initiative for Global Sullivan Principles), other are subject to informal social evaluation or formal verification (system of contact points in the case of the OECD Guidelines for Multinational Enterprises). Furthermore, there are a multitude of industry codes comprising issues specific to enterprises operating in a single area (e.g. IPIECA, ICMM, etc.).

Ad. 2 Guidelines with regard to management and certification systems include recommendations which may be implemented, subject to audit, revision and external certification as to their conformity with the standard. These instruments facilitate enterprises practical implementation of CSR philosophy, and therefore enhance credibility in their stakeholders' eyes due to

external certification and verification. These may concern the organization alone (e.g. ISO standards, EMAS), employees' rights and work conditions (e.g. SA8000), certification of stakeholders' integration in the sustainable development process (AA 1000) or a product (e.g. FSC). From among the guidelines outlined above it is recommended to focus on ISO 26000 and AA1000.

Ad.3 Assessment indices used by investors SRI. Investors eager to utilize these indices include investment funds which on their basis identify companies qualified for an investment basket. Increasingly, investors in the capital market realize that maximization of value is driven by so-called sustainable and responsible investments as companies that incorporate environmental and social aspects in their operations and apply the principles of corporate governance are better positioned to gain a lasting competitive advantage and create stable value. Therefore, a trend emerges and evolves for so-called sustainable and responsible investments. *Sustainable and Responsible Investing (SRI)* (European SRI Study, 2010) is a generic term embracing any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues. Individual funds apply their own methods of assessment and verification, whereas individual investors may harness stock exchange indexes such as: FTSE4Good, Dow Jones Sustainability Indexes or the first SRI based index– RESPECT Index to be launched in Central and Eastern Europe, which had its debut at the Warsaw Stock Exchange in November 2009. These are the indexes set up on the basis of values of companies operating in compliance with high standards for corporate social responsibility.

Ad. 4. Guidelines with regard to reporting and mechanisms for communicating on responsibility do not specify responsibility levels to be achieved by the enterprise. Yet they deliver methods, procedures for communicating, conducting a dialogue with stakeholders and responding to their needs in relation to social, environmental and economic aspects of company's functioning. Measurement of outcomes and degree of goals delivery as well as communication and reporting, represent particularly elements for management in the CSR domain. Measurement and reporting serve as a basis for decision making process. From among the guidelines for reporting and communication mechanisms we may enumerate Global Reporting Initiative Guidelines and reporting for the purposes of the Global Compact initiative in accordance with guidelines set by Communication on Progress.

Reporting on sustainable development – tool for management and communication with stakeholders

In the concept of sustainable development transparency with regard to economic, environmental and social issues is a key element for relations with stakeholders, investment decisions, and remaining interactions taking place on the market. To precisely communicate on sustainable development the need arose to establish framework for reporting on sustainable development. Transparency for sustainable development strategy of the organization lies in the interest of

numerous groups of stakeholders: employees, business partners, NGOs, investors, accountants, etc. Additionally, a reporting process adequately carried out may become a basis for the strategy, and for current management of sustainable development as well as corporate responsibility.

In sustainability reporting, a tremendous emphasis is placed on usage of data contained in reports by investors to make investment decisions. So-called SRI investors integrate in their decision making process financial and non-financial aspects of companies' operations which affect investment outcomes, particularly in the long run. While pre-selecting companies to be invested in, they take into account, in spite of economic dynamics, social and environmental factors as well as concerns associated with corporate governance.

In recent years there may be observed a growing number of enterprises publishing their social reports that display the active involvement of enterprises in the sphere of social responsibility, sustainable development and social engagement. The biggest companies worldwide make extensive efforts to expose their initiative devoted to environmental protection or all kinds of pro-social activities to various groups of stakeholders. Though, on more developed markets social reporting becomes a requirement for listed companies and state enterprises, a prerequisite for inclusion in stock exchange indexes, appraisal by investors and ratings assigned by rating agencies. According to the research conducted by the consulting company KPMG over 80% of 250 biggest companies across the world issue social reports/reports on sustainable development. An increasing number of these companies embrace a recognized international reporting standard Global reporting Initiative (GRI) which is recommended by investor organizations. Some of them produce reports on adopting and applying ten fundamental principles set out by UN Global Compact.

Global Reporting Initiative (GRI)¹ framed one of the most widespread, if not currently the foremost framework for reporting on sustainability performance. This framework is made up of international guidelines "Sustainability Reporting Guidelines" to be applicable by enterprises as well as NGOs in order to standardize disclosure of their performance in key sustainability areas, and thus to assist stakeholders to better understand the process and foster enhanced comparability of reports globally.

Efforts to harmonize international guidelines for sustainability reporting started in the 1990s; however they assumed the form of a document in 2000. The latest, third edition of the Guidelines labelled in short as "G3" was published in 2006. In March 2011 GRI launched the updated social reporting guidelines "G3.1". They include

expanded guidance for reporting on human rights, gender and impact on local communities. As a result these are the most comprehensive reporting guidelines across the world available today. It is apparent that GRI evolve to resemble financial statements, even though GRI is not obligatory.

Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. 'Sustainability reporting' is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts. A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions. Sustainability reports based on the GRI Reporting Framework disclose outcomes and results that occurred within the reporting period in the context of the organization's commitments, strategy, and management approach. Reports can be used for the following purposes, among others:

- benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives;
- demonstrating how the organization influences and is influenced by expectations about sustainable development; and
- comparing performance within an organization and between different organizations over time.

The GRI Reporting Framework is intended to serve as a generally accepted framework for reporting on an organization's economic, environmental, and social performance. It is designed for use by organizations of any size, sector, or location. It takes into account the practical considerations faced by a diverse range of organizations – from small enterprises to those with extensive and geographically dispersed operations. The GRI Reporting Framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organization's sustainability performance (Sustainability Reporting Guidelines, 2011).

Sustainability Reporting Guidelines GRI feature numerous guidelines and indicators. The section on sustainability Performance Indicators is organized by economic, environmental, and social categories. Social Indicators are further categorized by Labour, Human Rights, Society, and Product Responsibility. Each category includes a Disclosure on Management Approach ('Management Approach') and a corresponding set of Core and Additional Performance Indicators. Indicators under GRI cover the following categories (Sustainability Reporting Guidelines, 2011):

- economic performance indicators (aspects: economic performance, market presence, indirect economic impacts),
- environmental (aspects: materials; energy; water; biodiversity; emissions, effluents and waste; products and services; compliance; transport and overall),

¹ The Global Reporting Initiative (GRI) is a network-based organization that produces a comprehensive sustainability reporting framework that is widely used around the world. GRI is committed to the Framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance. GRI's Reporting Framework is developed through a consensus-seeking, multi-stakeholder process. Participants are drawn from global business, civil society, labor, academic and professional institutions.

- labour practices and decent work (aspects: employment; labour/management relations; occupational health and safety; training and education; diversity and equal opportunity and equal remuneration for women and men),
- human rights (aspects: investment and procurement practices; non-discrimination; freedom of association and collective bargaining; child labour; prevention of forced and compulsory labour; security practices; indigenous rights; assessment and remediation.),
- society (aspects: local communities; corruption; public policy; anti-competitive behaviour; and compliance),
- product responsibility performance indicators (aspects: customer health and safety, product and service labelling, marketing communications, customer privacy, compliance).

GRI Guidelines are flexible and may be adopted in a voluntary basis. When preparing a report organizations may decide at which scale they employ GRI guidelines and in what manner to present the data. An integral part of the guidelines are so-called GRI Application Levels which specify a number of indicators reported by the organization. This scale enables to meet needs of all organizations that prepared the reports, both beginners as well as advanced reporters and remaining representing other level of advancement. It is expected to be a motivating impulse of the beginners and recognition for the advanced. Certain applications levels were titled C, B, and A, with A representing the most advanced level. In addition, designation “+” (plus) on each of three levels were introduced, awarded when the report is verified by an external, independent certifying body.

In March 2011 Global Reporting Initiative published an update of Sustainability Reporting Guidelines – G3.1 Guidelines which are intended to enhance transparency of reports. While G3-based reporting is still valid, GRI recommends that reporters, particularly beginning reporters, use G3.1 due to its comprehensive guidance. Both versions are applicable until release of the consecutive generation of GRI Guidelines due in 2013. They will then become the only binding version from 2015. A new generation of guidelines – GR14 will aim to standardize reporting on non-financial social, environmental and corporate governance dimensions. Despite standardization, another critical issue appears to be obliging enterprises (at least public companies) to publicly disclose non-financial information pertaining to ESG criteria. Providing disclosure of approach to these factors should also include investors (above all institutional ones) which would be obliged to inform concerned parties of investment strategies exploited and the mode of integration of ESG issues into the decision process.

Conducting two reporting systems: financial and sustainability proves to be arduous and ineffective for a number of companies, so some of them decide to conduct so-called integrated reporting. Efforts on integrated reporting framework, designed to support companies and facilitate their reporting, were initiated by Global Reporting Initiative in partnership with The Prince's

Accounting for Sustainability Project which then set up the International Integrated Reporting Committee on 4 August 2010. The intention behind the project is that integrated reporting to demonstrate the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates.

Another guideline for sustainability reporting is reporting for the purposes of the initiative **Global Compact** (The Practical..., 2009). The Global Compact Initiative is the largest voluntary civic initiative worldwide. A company which participates in the Initiative evidently holds the view that business practices enshrined in universal principles contribute to creating a more stable, equitable and integrated market across the world and help to build a prosperous and evolving societies.

A decision on joining the Global Compact Initiative implies a manifest commitment to adhere to its ten universal principles in the areas of human rights, labour, the environments and anti-corruption. A company embracing the foregoing principles agrees to (Global Compact, 2007):

1. Implement changes in business operations so that the Global Compact Initiative and its principles to be incorporated into management systems, strategies, organizational culture and day-to-day operations of the company.

2. Publish in the annual report or any other report publicly available (e.g. in a report dealing with sustainable development of the company) information on manners for implementation of assumptions and principles of the Global Compact Initiative (Global Compact – Communication on Progress – COP).

3. Support and promote publicly the Global Compact Initiative and its principles through press communications, public addresses and other channels.

Put simply, implementation of the Global Compact principles means making a commitment, framing policies and strategies, taking action and finally preparing a report on progress.

Over the recent years a multitude of initiatives were initiated in the area of responsible business. A number of them rely on the universal values platform created by the Global Compact Initiative. Treating the Global Compact Initiative as a benchmark, individual companies may in a natural way develop their strategies, development schemes and policy, aligning them to their needs. In autumn 2006 the Global Compact entered into a strategic alliance with the Global Reporting Initiative (GRI). The alliance provides an overall framework for business responsibility and transparency, which help companies to prepare a practical review of their engagement in the Global Compact Initiative (Global Compact, 2007).

The Global Compact Initiative offers participants a wide spectrum of tools designed to help accomplish the tasks that are regulated by the GC's principles. Implementation of the principles is a long term process. It should stress that there is no single appropriate method of infusing them into a business model applied in a given company. In fact there are few models and approaches to management issues which may greatly facilitate the

process. One way includes drawing inspiration from the structure offered by the Global Compact Performance Model which as an optional model is set to bring the company from the vision stage through the measurement to reporting on performance. The proposed Performance Model is composed of ten elements of business practice, each represented by a separate segment of the diagram. It is a company-driven process of continuous improvement. Its crucial element proves to be reporting which is understood as communicating on and reliable assessment of economic, social and environmental actions performed by the company. To ensure favourable conditions enabling continuous improvement it is necessary to adopt detailed indicators for assessment of operations performed.

Producing an annual Communication on Progress (COP) for stakeholders (consumers, employees, labour organizations, shareholders, mass media, governments, etc.) is a key commitment made by a company joining the Global Compact Initiative. The report should contain a description of actions taken and outcomes achieved (usually in the form of quantity indicators). Preparing the report implies fulfilment of portion of the Global Compact Reliability Principles, aimed to safeguard and enhance commitments of participants, protect the integrity of the Initiative and provide a repository of data on corporate practices that constitute a basis for continuous improvement of business manners. From the perspective of companies, the report serves as a tool for exercising control, facilitating a learning process, supporting efforts for dialogue and promoting actions. The significance of the report, principally COP, lies in producing the report (Internal benefits) and making it public (external benefits) (Global Compact, 2007). Internal benefits include, among others, motivating companies to specify and realize their own vision and sustainable development strategy, improving corporate governance, fostering attempts to identify opportunities and business risk and holding up innovations. External benefits encompass promoting its own active participation in the Global Compact Initiative which thus will not be viewed as public relations campaign, strengthening reputation and bolstering value of the company due to enhanced transparency of the company's operations, improving relations with stakeholders, opportunity to include the company into socially responsible investment funds and stock exchange indexes.

While there is no specific format or standard for the report, though it should involve the following elements (Global Compact, 2007):

1. Executive statement of continued support for the Global Compact.
2. Description of practical actions taken in the previous year to implement the ten Global Compact principles.

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3. Measurement of current or expected outcomes – if possible with means of standard indicators or reporting standards such as GRI Guidelines for sustainability reporting.

Following drawing up of the report it is presented to company's stakeholders. It should be noted that the report is not a document submitted to the Global Initiative Office as it is solely an instrument which enables participants of the Initiative to inform stakeholders of their progress toward implementation of the ten principles. Companies should make the report available to stakeholders by exploiting various platforms and channels on which stakeholders may search for information on sustainable development (e.g. websites, direct mailing, intranet, newsletters, open-days). On top of that, companies should post an electronic version of their annual report (along with a link if possible) on the website of the Global Compact and concisely describe carriers which display the report to their stakeholders.

Conclusions

Sustainable development of the enterprise is a strategy for building lasting value on the basis on stable, transparent relations with a wide spectrum of partners, among others, employees, customers, suppliers, shareholders, competitors, authorities and local communities. An integrated economic, social and environmental approach leads to creating a more lasting value of the enterprise than an approach geared to immediate business success. However, enterprises should communicate stakeholders on their involvement in sustainability strategy as transparency with regard to economic, social and environmental concerns holds the key to rewarding relations with stakeholders. Key stakeholders expect not only responsibility assumed by the company for its operations but they need know its scale and effectiveness. Therefore, companies readily implement standards and guidelines reinforcing sustainable development reporting on an integrated, responsible approach to running business.

Aligning the concept of sustainability development with microeconomic reality, where an enterprise is an object of advancement is growing in popularity as financial markets rate responsible investments highly, guided by the assumption that there is a possibility to maximize social and environmental utility when maximizing profitability. At present sustainable development increasingly becomes a quality measurement for management systems in the company. Thus, we should believe in evolution of this concept and bringing it to the mainstream as the core managing standard.

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Beata Domańska-Szaruga

SUSTAINABLE ENTERPRISE

Summary

A key objective of the enterprise is creating its value. However, it should be emphasized that a shift in circumstances for business operations drives changes in approach to determinants of this value. Sustainable development and corporate social responsibility for today's enterprises has turned out to be an issue of strategic significance contributing extensively to creating long-term value of the company. It is immensely important to translate social and ecological efforts into business advantage and then to make these actions a core feature for the identity of the company as well as its brand, having in mind though strategic and financial drivers for building value. Sustainable development of the enterprise is development which leads to attaining sustainable value, which is long-term value based on economic, social and environmental performance. Sustainable value grows on the ground of common benefits shared by shareholders and stakeholders.

Efforts to bolster sustainable development are appreciated by company's stakeholders, including investors who not only tap into traditional financial statements but increasingly draw on non-financial data when making investment decisions and assessing the related risk. Alongside questions regarding profit, enquiries are made about the manner of achieving it. Overall, investors realize that active management of the enterprise in the field of sustainable development and corporate governance signifies the quality of management of the enterprise and building its value in a sustainable and stable manner. This innovative and more conscious attitude of investors significantly affects the behaviour of companies, which feel more obliged to adequately address the social and environmental issues in their organization and while communicating stakeholders to keep them informed of crucial and comparable data in this respect. Stakeholders' expectations towards realization of sustainability development strategy is therefore a driving force behind the overhaul of management systems in the enterprise, implementation of corporate responsibility principles, adopting ethical codes and publishing sustainability reports.

Implementation of sustainability principles in the enterprise is facilitated by a suite of standards and guidelines useful for incorporating social and environmental issues as well as concerns related to stakeholder relations in business practice. The bulk of these standards include aspiration principles and codes of conduct. Yet, they are increasingly applied by companies in their management and decision making processes as well as in operational activities and relations with communities. A crucial portion of standards involve sustainability reporting guidelines, the most widespread of which are international Sustainability Reporting Guidelines developed by the Global reporting Initiative as well as the annual report on progress towards implementation of the Global Compact principles - - Communication on Progress – COP. By seeking to meet reporting standards the company is motivated to devise and pursue its own vision and sustainability strategy, to improve its corporate governance as well as to assist innovative processes. Moreover, it serves as a tool contributing to promoting an enterprise, boosting relations with stakeholders and increasing the value of the brand. Also, the enterprise is provided with enhanced opportunities to raise capital as markets currently promote so-called responsible investments, that is consideration by investors of environmental, social as well ESG issues while making investment decisions and in business practices.

The concept of sustainable development has been implemented into the microeconomic ground relatively recently. However, as the concept increasingly gains in popularity, the number of sustainability reports published as well as so-called ethical investment products (investment funds which have sustainable enterprises in their portfolios) are on the increase. We have to cherish the hope that the concept illustrated will move to the mainstream and become a core managing standard.

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THE EUROPEAN MARKET OF SUSTAINABLE AND RESPONSIBLE INVESTMENTS

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Abstract

Increasingly, investors are keen on the idea of sustainable and responsible investing – SRI, which implies integrating Environment, Social, Governance (ESG) issues with traditional, financial drivers which guide investors in the process of investment decision making. The article provides an insight into European SRI market on the basis of data gathered by international institutions conducting analytical research in the realm of responsible investment and stability of financial markets.

Keywords: Sustainable and Responsible Investing, SRI market, investment decisions, non-financial risk factors

Introduction

Sustainable development in an enterprise, which is development driving an enterprise to achieve sustainable value based on economic, social and ecological performance increasingly proves to be an objective pursued by today's companies. In essence, it allows to build competitive advantage embedded in the process of social dialogue as well as to efficiently manage risk inherent to business operations. It should be emphasized that confronted with social and economic changes sustainability as well as operations within the areas of corporate social responsibility may lose their significance as a factor for building competitive advantage and become even a basic requirement for conducting business.

In accordance with the concept of sustainable development the company which is driven in its operations by not only profit but also corporate social responsibility and interest of widely understood stakeholders is capable to build lasting value for its owners (Laszlo, 2008). Increasingly investors focus on these issues as sustainability strategy and implementations of principles for corporate social responsibility in an enterprise, despite legitimizing company's operations provides an opportunity for sustainable and long-lasting values increase. Investors are not only interested in economic dimension of business but also risk associated with social and environmental aspects. By analyzing this risk, investors use an abbreviation ESG (Environment, Social, Governance) and for them the idea of sustainable and responsible investing is growing in prominence. We may risk

ascertaining that the idea is expected to be a mega trend in the twenty first century.

The objective of this article is to display the idea of responsible investing and depiction of European market of responsible investments. Deliberations draw on documents and publications released by institutions involved in investigating stability of financial markets as well as sustainable development, which analyze global and European market of sustainable and responsible investments.

Sustainable and Responsible Investing

Sustainable and responsible investment is premised on integrating ESG factors with traditional financial factors which guide investors in their investment decision making process. Thus, it consists of combining financial objectives with issues related to environmental protection, social responsibility and quality of management in an enterprise. It appears that such measures are increasingly appreciated by investors and when assessing the investment risk they are also interested in non-financial data. Along with questions about profitability, additional questions about the manner of its achievement are raised. Investors are convinced that it is possible to attain a satisfying return on investments in compliance with basic, widely accepted values defined today on the basis of international standards and agreements.

A multitude of ethical funds came into being to invest collected funds into ethically verified issuers of securities, therefore contributing to stimulate their dynamic development as well as increase the gains on the

invested savings in a stable manner. Such an attitude to investing deserves promoting.

The idea of sustainable and responsible investing stems from the concept of sustainable development and presently evokes growing interest among investors.

These issues are relatively ill-defined and examined in the literature devoted to management matters. Moreover, it may be overtly stated that there is a lack of studies addressing these issues, with exception of publications analyzing the market of sustainable and responsible investments (SRI) globally and in Europe, drawn up by the organizations involved in issues of financial market stability as well as corporate social responsibility. Additionally, there is a variety of expressions illustrating the issues explored or selected aspects such as: Sustainable and Responsible Investing, Responsible Investing, Sustainable Investing, Socially Responsible Investing, Ethical investing, Mission Related Investing, Green investing or Cleantech Investing (Domańska-Szaruga, 2011).

In this article we will be using the term of Sustainable and Responsible Investing (SRI), adopted by Eurosif (the European Sustainable Investment Forum). Sustainable and Responsible Investing (European SRI Study, 2010) is a generic term covering investment processes that combine investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues. Sometimes the acronym SRI is developed as Socially Responsible Investing.

The most common expression utilized interchangeably with Sustainable and Responsible Investing is Responsible Investing (RI) – a term principally popular among institutional investors and currently the most connected to the mainstream financial community. The Principles for Responsible Investment (PRI), developed by the United Nations, define Responsible Investing as “integration of environmental, social and governance (ESG) issues into investment analysis and decision-making processes”. Whereas Robeco Investment Management and Booz & Company classify Responsible Investing (Responsible Investing, 2009) as an investment process whereby investors investing in a given company recognize social and environmental effects and take into account aspects related to the quality of company's management. To this end, they deploy investment strategies starting from negative screening, positive screening, through to active execution of their corporate rights as a stockholder to the integrated approach where ESG factors are utilized as a part of comprehensive investment processes at all levels – examinations and analyses, portfolio construction, risk management and reporting (ESG integration).

International Finance Corporation (IFC) calls for adoption of the terminology: Sustainable Investing (SI), providing a definition similar to that describing Responsible Investing. According to the IFC Sustainable Investing integrates ESG factors into investment analysis, stock selection and active ownership practices in the belief that these factors may enhance long-term efficiency of risk management.

In essence, all the definitions cited underline integration of ESG (Environmental, Social, Governance) factors into the decision-making process and they all reflect the essence of the issue presented. That's why, apparently, a multitude of studies use the terms such as Responsible Investing, Sustainable Investing, Socially Responsible Investing and Sustainable and Responsible Investing in an overlapping way. It should be admitted that all-encompassing definition of the area of phenomena explored proves difficult, likewise in the case of defining the concept of corporate responsibility or sustainable development.

The purpose of sustainable and responsible investments is to induce investors to take a wider perspective when selecting companies into their investment portfolio, integrating the quality factors such as: environment protection, company's relations with its stakeholders and corporate governance into the analysis process. The risk-return relation when making capital allocation and portfolio management should be completed and supplemented with extra quality criteria such as ESG factors. The growing number of examples of real situations reveals that neglecting these analyses may have adverse consequences for performance of the investment portfolios.

Shifts in attitudes and expectations of the society towards large corporations induce companies to conduct operations in a coherent way while taking into account economic, social and ecological determinants. Such orientation of the company, in line with the concept of sustainable development, assumes that the company is driven in its operations not only by the profit imperative but also by social responsibility and widely understood interests of stakeholders is capable of creating a sustainable value for its owners. The value constitutes one of element of the company's characteristic, a basis for drawing conclusions on development and effectiveness of company's management. On top of that, the magnitude of rankings and records puts pressure on companies to provide information on their financial performance as well as non-financial initiatives, and thus compels them to launch socially responsible investments and incorporate CSR principles in their activities. SRI is a concept of investment that is marked by perceiving environmental, social and governance factors from the perspective of investors, whereas CSR represents a perspective of the company.

Effective management of environmental, social factors and appropriate management impact on the value of the company and therefore they are considered by investors when making investment decisions. In other words, investors regard ESG issues as additional elements of the portfolio risk which should be subject to identifications and then suitable administration. We may even risk a statement that there has been a decline in confidence to traditional systems for assessment of business operations based on financial data. Yet non-financial data are gaining significance and investors increasingly probe environmental and social reports alongside their audit results standards for management of the company, rankings of responsible companies and

stock exchange indexes which include socially responsible companies.

SRI investors, like traditional ones strive for extraordinary return on investments, being guided by the belief that there is an opportunity to maximize social and environmental utility together with maximizing profitability. Standards for enterprise management, based on principles of sustainable development, may create a value in a variety of manners, contributing to boosting return on capital and mitigating risk.

When the SRI strategy is implemented, investors deploy several essential methods (Table 1):

- negative screening
- positive screening,
- engagement,
- integration.

SRI Strategy

Table 1

SRI Strategy	Definition		Types
Positive screening	Seeking to invest in companies with a commitment to responsible business practices, or that produce positive products and/or services. Includes Best-in-class and Pioneer screening.	Core SRI	Best-in-Class
			SRI theme funds
Negative screening	Avoidance of investment in targeted companies, industries and countries.		Values-based exclusions
			Norms-based exclusions
Engagement	Active voting and engagement in companies in which one has invested.	Broad SRI	Simple screening
Integration	ESG is incorporated into investment analyses and decision making.		Engagement
			Integration

Source: European SRI Study 2010, [document in an electronic form], <http://www.eurosif.org/research/eurosif-sri-study/2010>; Responsible Investing: A Paradigm Shift from Niche to Mainstream, [document in an electronic form], Robeco Investment Management & Booz & Company 2009, <http://www.robeco.com>.

Within particular strategies a variety of combinations as well as division into Core SRI and Broad SRI are applied. This division is utilized in the report European SRI Study 2010 prepared by Eurosif (European Sustainable Investment Forum), an organization tasked with developing of stability through European financial markets.

Core strategies are composed of both negative screening (applying *norm based screening* and *value based screening* when selecting companies to the investment portfolio) as well as positive screening (selection of the most efficient companies in a given branch or category - *Best-In-Class*, *SRI thematic funds*).

Broad SRI is compiled with the following strategies: *simple screening* as well as *engagement* and *integration* (positive ones). Broad strategy practitioners tend to be large institutional investors and they represent so-called mainstreaming investment trend. Selected types of Broad SRI as well Core SRI have been characterized in Table 2.

Table 2

Types of Broad SRI and Core SRI

Types	Definition
Best-in-Class	Approach where the leading companies with regard to ESG criteria from each individual sector or industry group are identified and included in the portfolio.
SRI theme funds	Thematic funds may focus on sectors such as water or energy, or issues such as the transition to sustainable development and a low carbon economy. To be considered SRI, a theme fund must show an explicit SRI motivation, taking into account ESG considerations in the fund construction process. This requires the existence of specific mechanisms, such as the involvement of SRI expertise in stock analysis selection, the application of an ESG screen, or the management of the product by the SRI team.
Values-based exclusions	This refers to exclusions where more than two negative criteria/filters are applied (as opposed to just tobacco or weapons for example).
Norms-based exclusions	Negative screening of companies according to their compliance with international standards and norms such as issued by OECD, ILO, UN, UNICEF, etc. If the exclusion approach is based on more than two criteria, it is considered to be an 'ethical exclusion'.
Simple screening	An approach that excludes given sectors or companies from a fund if involved in certain activities based on specific criteria, such as arms manufacture, publication of pornography, tobacco, animal testing, etc.
Engagement	A long-term process of dialogue with companies which seeks to influence company behaviour in relation to their social, ethical and environmental practices.
Integration	The explicit inclusion by asset managers of ESG-risk into traditional financial analysis. Corporate Governance risk should be limited here to the interface between Governance and Social and Environmental issues.

Source: European SRI Study 2010, [document in an electronic form], <http://www.eurosif.org/research/eurosif-sri-study/2010>; Responsible Investing: A Paradigm Shift from Niche to Mainstream, [document in an electronic form], Robeco Investment Management & Booz & Company 2009, <http://www.robeco.com>.

Sustainable and Responsible Investing and related ESG factors may not be ignored by professional participants of the financial market. Also, non-professional actors of the market are advised to take a “wider perspective” when making investment decisions. Above all, it is financial institutions (pension funds, investment funds) that specifically should be interested in this increasingly mainstream concept, as they collect savings from individuals and invest them on the capital market burdened with risk. A social dimension for management of assets allocated in pension funds holds significance which presents a challenge for regulations with regard to implementing a transparent investment policy for these institutions. In some countries such as the United Kingdom, suitable regulations are instigated placing the obligation on pension funds to disclose information on principles for appropriate investment in the decision-making process.

SRI European market

The scale of investments carried out on the basis of the analysis of ESG factors and their increase is an undisputable fact. A report drawn up by Eurosif (the European Sustainable Investment Forum) entitled European SRI Study 2010 (European SRI Study, 2010) demonstrates the scale of increase in SRI investments as well as their structure. The report presents findings as of 31 December 2009 and is currently the most up-to-date research devoted to SRI market. Eurosif conducts analyses using the data provided by the European Fund and Basset Management Association (EFAMA). In accordance with the report the level of assets invested in a responsible manner worldwide stands at around Euro 7 trillion (based on estimated value of assets under management – AuM), almost 5 trillion of the value is invested in Europe (over 70%). To compare the dynamics, the value of responsible investment in 2008 reached around Euro 5 trillion (in Europe the figure stood at over 2.6 trillion) which constitutes growth of almost 40% within two years (87% increase in Europe). The majority of resources are invested by investment funds, specialist funds and EFTs. Figure 1 illustrated the relation between strategies Core and Broad applied by investors.

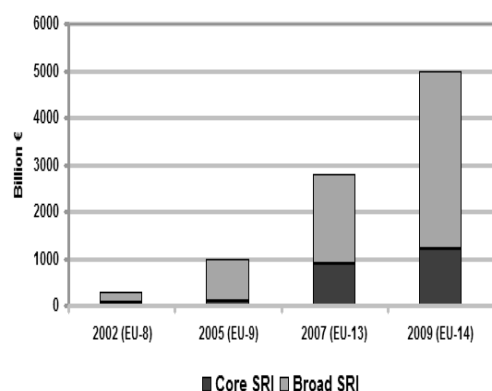


Figure 1. Core and Broad SRI in Europe, 2002-2009
Source: European SRI Study 2010, p. 11

European SRI market is not homogenous as various strategies: Broad or Core are clearly favoured in certain countries. It is determined by the specifics of capital markets in particular parts of Europe as well as by cultural differences (Figure 2).

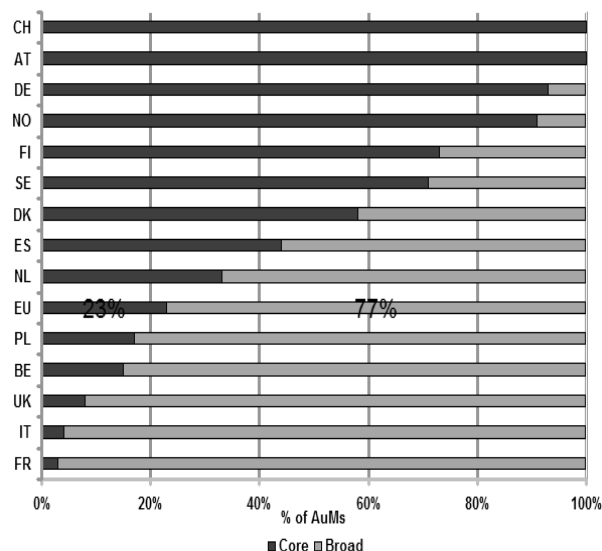


Figure 2. Share of Core and Broad SRI in Total SRI AuMs by Country
Source: European SRI Study 2010, p. 12

Growth of the SRI market regards Core SRI (Best-in-Class and ethical exclusions) – current value at Euro 1.2 trillion, and chiefly Broad SRI (wider strategy encompassing methods consisting in exclusion of certain sectors from portfolio, engagement in business and inclusion of ESG risk into making investment decisions) valued at Euro 3.8 trillion.

The European SRI market is 92% dominated by institutional investors (European SRI Study, 2010) representing mainstream and traditional trend (so-called mainstream investors), focused principally on maximizing profits (Figure 3). The capacity to interpret and relate ESG factors to development perspectives of companies may influence the performance of their investment portfolios as it diminishes investment risk and allows satisfying returns on investments, at times higher than those “traditional” investments. Among institutional investors definitely dominate pension funds (Figure 4).

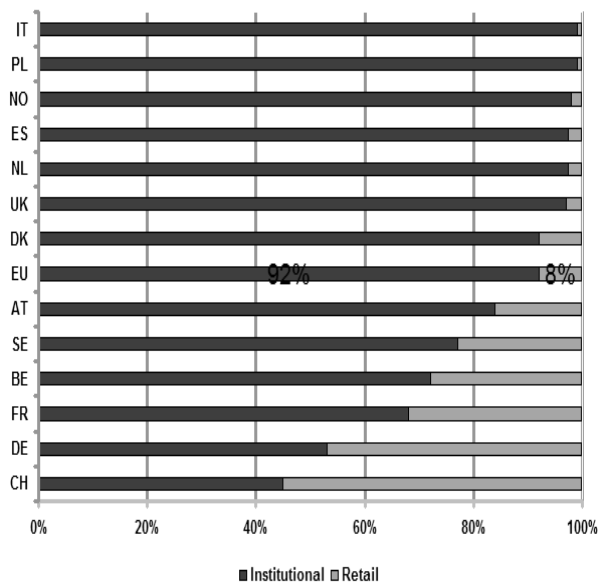


Figure 3. Institutional vs. Retail SRI Investors by Country
Source: European SRI Study 2010, p. 16

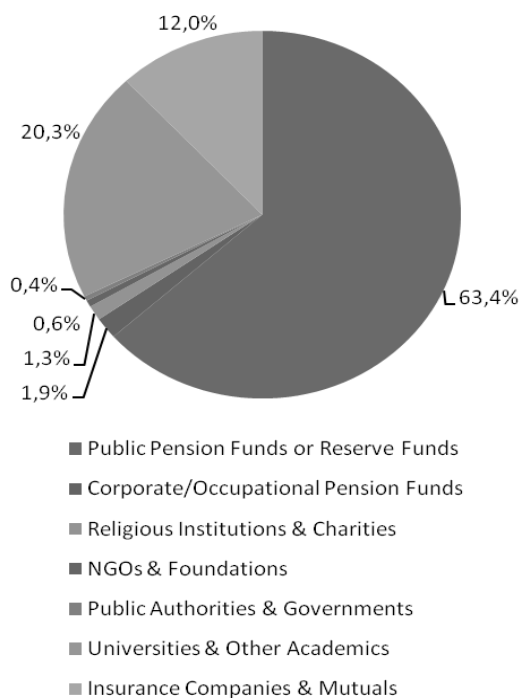


Figure 4. Type of Institutional Investors on the European SRI market
Source: European SRI Study 2010, p. 16

In Europe, at present, a boosted significance of the capital market may be observed and increasing financing of enterprises by means of that market. Therefore, dominance of the management model based on requirements of the capital market as well as changes in shareholding structure of companies is noticeable. A

process of institutionalizing of corporate property is taking place. The growing role of institutional investors (investment and pension funds) as well as their impact on management modifies the image of the capital market. In these circumstances they are positioned to force certain behaviors through direct engagement in management of companies or indirectly through taking certain decisions on the capital market (Bojańczyk, 2010). Traditional disciplining by the proprietor is replaced by disciplining by the capital market.

Boosted significance of institutional investors and their increasing role as proprietors of enterprises leads to a shift in an approach to investment and strategy for investment of funds entrusted, as well as creating a new quality on the capital market. Activity of investors, being aware of implications of managing issues related to environment, society and corporate governance, is a disciplinary element as well as mobilizing imperative behind implementation of principles of sustained development and corporate social responsibility. We may risk advancing a thesis that these concepts without support of socially responsible investors would have slim chance of being implemented at the strategic level.

An Association Business for Social Responsibility (BSR) in the report entitled ESG in the Mainstream: The Role for Companies and Investors in Environmental, Social and Governance Integration” (ESG in the Mainstream, 2010) indicates that the increasing number of investment companies regard implementation of CSR principles into the investment policy as a source of competitive advantage and a chance to stand out from other companies on the market. When thinking about how to manage ESG issues and communicate with investors, BSR's report recommends that companies consider the following key trends (ESG in the Mainstream, 2010):

- Integration is still somewhat limited to specific investor types or niche products. The majority of the growth in integration is being driven by global pension funds, especially in Europe. This is due both to the incorporation of ESG factors into their fiduciary duty, and the longer time horizon of institutional investors. While few large-scale mainstream investors have integrated ESG criteria across their full portfolios, some are designing specialized products to meet the demands of a specific client base.
- Investors focus on material issues. Rather than using all ESG factors with available data, mainstream investors are applying the concept of materiality to evaluate which of these issues are likely to influence companies' products, clients, and market share most significantly. The investors then integrate performance indicators only for those particular issues and for those particular companies or sectors.
- Companies are not proactively communicating to investors on ESG issues. Many companies cite a lack of questions from investors to explain why they have yet to integrate ESG into their communications. Consequently, investor relations officers generally have been reactive rather than proactive in providing investors with data about ESG issues.

The authors of the report underline that traditional financial measures are not sufficient to assess the long-term and sustained outcome of the company and prices of stocks. Today's businesses face greater challenges from various groups of stakeholders in the ESG field. The BSR report also shows basic determinants of demand for sustainable and responsible investments. These are the following:

- changing conditions for operating business,
- external pressure of non-governmental organizations and media,
- demand from institutional investors,
- demand from individual investors,
- international initiatives (e.g. UN PRI).

Whereas Robeco Investment Management and Booz & Company in the study "Responsible Investing: A Paradigm Shift from Niche to Mainstream" (Responsible Investing, 2009) recognizes the following key drivers for SRI market change:

- increasing social awareness and media attention,
- increasing energy prices/economic pressure,
- track record of SRI performance,
- changes in legislation relating to SRI,
- technology innovation.

The authors of the report "Responsible Investing: A Paradigm Shift from Niche to Mainstream" predict that RI market to represent 20% of total global assets under management by 2015 and become mainstream within asset management. At the end of 2007 world SRI assets accounted for 7% of total global assets under management. Since 2003, the RI market has grown by 22% annually. The launch of the UN Principles of Responsible Investing is a major driving force for promoting RI globally. Due to increased awareness of CSR issues among companies, growing media attention to social and environmental issues as well as legislative amendments, the authors predict that RI will grow by

25% per annum over the next few years and become mainstream by 2015. The RI penetration is expected to reach 15%-20% of total global assets under management. This growth, except for factors arising from boosted social and environmental awareness, will be driven by legislation favoring this type of investment.

Additionally, the report reveals that the pension funds and institutional funds are currently major investors on the SRI markets, however in the future, individual investors are expected to become interested in this type of investments. Undoubtedly sustainable and responsible investments will significantly change the asset management landscape over the coming years.

Conclusions

Taking into account the management quality in the area of ESG by investors in the decision-making process is not mandatory. Nevertheless, it is gradually becoming a crucial element of the mainstream management and a strategy for management of non-financial risk. The significance of responsible investing will be on an upward trend over the coming years as crises and falling confidence in financial markets induces investors to search for investments with less risk, especially risk through decreased confidence. Thus, they seek companies having potentials of sustainable development and, by extension, long-term increase in value of investments made. It often proves difficult to reconcile with market pressure to achieve the optimal financial performance in the short term. Increasingly, investors realize that companies capable of attaining boosted value in the long term are an attractive investment both in terms of profitability as well as risk. Integrating ESG issues into management of the company affects the business continuity and long-term success.

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Beata Domańska-Szaruga, Piotr Senkus

THE EUROPEAN MARKET OF SUSTAINABLE AND RESPONSIBLE INVESTMENTS

Summary

Changes in the environment and environmentally friendly legislation, the collapse of the financial markets associated with falling confidence in financial assets as well as a variety of risks associated with economic activity, quite seriously alter the conditions of business conducting. There was the loss of confidence in the traditional systems of evaluation of the companies activities based mainly on financial data. It makes the investors'

growing interest in an idea of sustainable and responsible investing (SRI), which consists of integrating ESG factors (Environment, Social, Governance) with the traditional financial factors, by which the investors are led in making investment decisions. The series of ethical funds are formed which direct the collected money to ethically verified issuers of securities, thereby helping to energize their development and multiplication in a stable invested savings.

Non-financial risk and investment decisions making factors, which are referred in the article, are significant enough for the companies to rebuild their management systems by implementing the principles of responsible business, introducing codes of ethics and expanding their reporting on reporting on sustainability issues. They are aware of the growing importance of capital market, the requirements set by this market and the interest in the integration of ESG factors with the classical methods of financial analysis.

The scale of investments made in the analysis of ESG factors and their growth are unquestionable. The level of assets invested in a responsible way in the world is at the level of around 7 trillion euros, of which nearly 5 trillion is invested in Europe. In view of the growing awareness of companies in CSR, rising energy prices and raw materials, growing media interest in social and environment issues, and changes in legislation, it is provided that in the coming years the annual growth rate of assets in the SRI market will amount to 25% and by 2015 the SRI market will be no longer a niche market. SRI asset value will be driven to the level from 15% to 20% of global assets under management.

The article discusses the European SRI market by comparing the markets of individual countries in terms of size of SRI investments, applied investment strategies and types of investors. The analysis was based on current data presented by organizations concerned with issues of financial market stability and responsible investing.

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THE SOCIO-ECONOMIC ANALYSIS OF RELATIVE POVERTY IN TURKEY

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Abstract

In this study, the reasons and dimensions of relative poverty in Turkey will be studied. It plans to contribute to the solution of this problem by taking the average income per capita as an index, measuring the dimensions of relative poverty in Turkey and identifying the poverty profiles and reasons of relative poverty. The household Budget and Consumption survey conducted by the Turkish Statistical Institute has been taken as the basic data source for this study. The reasons and dimensions of relative poverty in the 21st century Turkey have been measured by comparison to the monthly per capita income in those surveys. According to the results of this study, relative poverty in Turkey is highest among the least educated, temporary workers and the people who are employed on a daily basis, workers who work in jobs that do not require skills, people who are 60 and above and the females among all the related groups.

Keywords: relative poverty, monthly income, socioeconomic and demographic status.

Introduction

Poverty has been an important problem in Turkey with the new millennium and is seen as one of the most important social problems. The economic crises in the early previous decade and two big earthquakes have been two factors in the issue being on Turkey's agenda. During this period, the related institutions, politicians and researchers have been more active in defining the borders of poverty and determining the poverty line. The poverty limit has been taken as 1, 2.15 and 4.30 U.S. Dollars in the research done during this period.

Research carried out in Turkey has tied poverty to several reasons:

1. Income Distribution Inequality: According to the place of residency, the inequality will decrease if the coefficient approaches 1. Turkey's gini coefficient has decreased from 0.49 in 1994 to 0.40 in 2004 but the rate is still higher than the EU average. Although the problem is not as bad as it used to be, Turkey still has an income distribution problem. While the bottom 20 percent of the population gets 6 percent of the income, the top 20 percent of the population gets 46.2 percent of the income (TÜİK, 2004).

2. Low wages: The average before tax monthly wage in 2006 has been 1,099 TL in Turkey but real wages have been declining with the economic crisis.

3. Inter-Regional Discrepancies: There have been historical income discrepancies in Turkey due to geography, the distribution of qualified labor, proximity to markets and trade paths, climate and capital accumulation. The Aegean region is the area with the lowest poverty rate and the East Anatolian Region with the highest (Es-Güloğlu, 2004).

4. Informal Employment: There is a close link in Turkey between informal employment and poverty. The non-skilled labor that migrated to the urban areas works in informal employment and this type of work is disorderly and the pay is inadequate (Es-Güloğlu, 2004).

5. Migration to Urban Areas: There is a rapid migration from rural to urban areas because of modern technologies being used in agriculture, lower productivity, the fragmentation of agricultural lands due to inheritance and other socio-economic reasons. The Marmara Region and cities in the Aegean, Mediterranean and Western Anatolian Regions attract migration due to employment opportunities in industry and services (TÜİK, 2000).

On the other hand, the stringent economic policies implemented after the economic crises in 1999 and 2001 have improved the growth rate. While the average 7.5 percent average growth rate, the reduction of the inflation rate to single digits and the reduction of budget deficits show the success of the economic program, the fact that the unemployment rate rose from 6 percent to 10 percent and real wages decreasing show that the poverty reduction effects of the policies are weak (Guloglu-Guder, 2007). The combat against poverty has not been successful because of the lack of social policies.

The Household Budget and Consumption Expenditures surveys carried out in 2003, 2004, 2005, and 2006 are useful in determining the boundaries of poverty. Also, the effort to analyze the relative poverty rates of 51,423 households according to monthly incomes have started with these surveys. The sections below include the surveys used in this research, the data, the relative poverty definition, the methods used, and the

analysis of the data, a summary and a discussion of some suggestions.

The Data

The raw data of Household Budget and Consumption Expenditure surveys carried out between the years 2003-2006 have been used in this study. The Household Budget and Consumption Expenditure surveys are the most important surveys in portraying the consumption structures and tendencies of households in Turkey. These surveys used to be made every 10 years with about 25 thousand households. After 2003, they are done with about 8000 households every year. The surveys include all households living in Turkey. In the surveys, urban areas have been defined as places with a population of more than 20,001 and rural areas have been defined as places with a population of less than 20,000. The surveys were made between January 1st and December 31st in the year of the related surveys. The stratified multi-stage sampling method was used (TÜİK, 2002).

Methodology

The three different statistical techniques, descriptive statistic, chi-square and variance analysis have been used in order in this study. Of the six columns, the zeros in the first column shows the ones who are above the poverty line and the 1s show the ones who are below the poverty line. The existence of a meaningful relationship between socio-economic factors from a relative poverty point of view is tested with q-square tests and variance analyses. If .05, (**), < .01, (***), $p < .001$, (****) then $p < .0001$ shows the meaning value. In this study, in accordance with OECD and EU definitions, people who receive less than half the income of the median value of the monthly and yearly income of the head of the household are considered poor. The same method was used in this study and the median income of the household head was calculated between the years 2003 and 2006 and the dimensions and rates of poverty were determined from two perspectives. The relative poverty definition is a kind of income distribution analysis and generally the bottom 10-13 percent of income earners are below half the median income level.

Results

Table 1
Monthly Individual Income (TL) and Relative Poverty (2003–2006)

Monthly Income	Subject Numb.	%	Average (TL)	Std. Dev. (TL)	Med. (TL)
0	44531	86,6	813	900	600
1	6889	13,4	141	119	150
Total	51420	100	723	870	530
$\chi^2 = 19,3$; $df = 3$, $p = 0.000$					
Variance Analysis (ANOVA)					
Change Source	Square total	Degree of freedom	Average Squares	F test	Eta2
Inter-group	2,697E21	1	2,697E21	3,828E3 ****	0,069
Intra-group	3,623E22	51418	7,046E17	-	-
Total	3,892E22	51419	-	-	-

As can be seen in Table 1, in the Household Budget and Consumption Expenditure Surveys, 44,531 household heads or 86.6 percent of them are above the relative poverty line and 6889 or 13.4 percent of them are below the poverty line. In this case, the 4 year poverty rate is 13.4 percent.

Table 2
Relative Poverty through the Years and the Average Monthly Individual Income (2003–2006)

Monthly Income	Subject Numb.	%	Average	Std. Dev.	Med.
0 2003	22406	87	691	882	500
0 2004	7353	86,1	833	844	615
0 2005	7315	85,5	921	820	700
0 2006	7457	87,4	1054	1012	800
0 Total	44531	86,7	813	900	600
1 2003	3358	13	123	77	144
1 2004	1191	13,9	144	91	162
1 2005	1241	14,5	152	108	166
1 2006	1099	12,6	181	214	207
1 Total	6889	13,3	141	119	150
2003	25764	(49,9) 100	618	845	450
2004	8544	(16,6) 100	737	819	550
2005	8556	(16,6) 100	810	806	610
2006	8556	(17) 100	942	992	718
Total	51420	(100) 100	723	870	530
$\chi^2 = 9,4$; $df = 4$, $p = 0.000$					
Variance Analysis (ANOVA)					
Change Source	Square Total	Degree of freedom	Average Squares	F test	Eta2
Inter-group	2,7E+21	1	2,7E+21	3827 ****	0,069
Intra-group	3,62E+22	51418	7,05E+17	-	-
Total	3,89E+22	51419	-	-	-

Summarizing the 2003 results in Table 2, 22,406 household heads are above the relative poverty rate. The number of household heads which are below the poverty line is 3,358. The number of households surveyed in 2003 are half the total number of households surveyed in 2004, 2005 and 2006. In this case, 87 percent of household heads are above the relative poverty line and 13 percent are below the relative poverty line. When we analyze the year 2004, a total number of 8,544 (the total number of 0+1 values is 7,353+1,191=8,544) of households are surveyed.

Table 3
Rural-Urban, Monthly Average Individual Income (TL) and Relative Poverty (2003–2006)

Rural-Urban	Number of Subjects	%	Average	Std. Dev.	Med.
0 Rural	15488	83	776	789	570
0 Urban	29043	88,7	934	954	610
Total	44531	86,6	814	900	600
1 Rural	3183	17	150	94	160
1 Urban	3706	11,3	134	137	150
Total	6889	13,4	141	119	150
$\chi^2 = 3,3$; $df = 1$, $p = 0.000$					
Variance Analysis (ANOVA)					
Change Source	Square Total	Degree of freedom	Average Squares	F test	Eta2

Inter-group	2,7E+21	1	2,7E+21	3827* ***	0,069
Intra-group	3,62E+22	51418	7,05E+17	-	-
Total	3,89E+22	51419	-	-	-

While 3,183 of the 18,671 people or 17 percent of the people who live in rural areas are below the poverty line, 3,706 of the 32,749 people or 11.3 percent of the people who live in urban areas are considered to be in the poor category.

Table 4

Monthly Income and Relative Poverty According to the Ages of the Households (2003–2006)

Age	Numb. of Subjects	%	Average	Std. Dev.	Med.
0 Below 29	10482	87,1	947	118	700
0 30-39	9737	89,2	787	775	600
0 40-49	10354	88,9	862	833	660
0 50-59	7296	97,1	782	882	550
0 60+	6662	78,9	601	599	445
0 Total	44531	86,6	813	901	600
1 Below 29	1551	12,9	174	186	200
1 30-39	1173	10,8	155	79	170
1 40-49	1297	11,1	134	90	150
1 50-59	1082	12,9	126	93	141
1 60+	1786	21,1	118	87	118
Total	6889	13,4	141	119	150
$\chi^2 = 5,5$; $df = 4$, $p = 0.000$ Variance Analysis (ANOVA)					
Change Source	Square Total	Degree of freedom	Average Squares	F test	Eta2
Inter-group	2,7E+21	1	2,7E+21	3827,981	0,069
Intra-group	3,62E+22	51418	7,05E+17	-	-
Total	3,89E+22	51419	-	-	-

The poverty rates of household heads with respect to their ages are; under 29 – 12.9 percent, 30-39 – 10.8 percent, 40-49 – 11.1 percent, 50-59 – 12.9 percent, above 60 – 21.1 percent. Of the 1,786 who are above 60 years of age and are below the relative poverty line, 1,224 (69 percent) of them are illiterate household heads and 536 of them (30 percent) are household heads who have a primary education.

Table 5

Relative Poverty According to the Sex of Household Heads

Female-Male	Number of Subjects	%	Average	Std. Dev.	Med.
0 Male	41036	86,6	832	922	608
0 Female	3495	68,4	611	550	450
Total	44531	86,6	813	901	600
1 Male	5276	11,4	143	125	153
1 Female	1613	31,6	137	98	150
Total	6889	13,4	141	119	150
$\chi^2 = 1,6$; $df = 1$, $p = 0.000$ Variance Analysis (ANOVA)					
Change Source	Square Total	Degree of freedom	Average Squares	F test	Eta2
Inter-group	2,7E+21	1	2,7E+21	3827* ***	0,069
Intra-group	3,62E+22	51418	7,05E+17	-	-
Total	3,89E+22	51419	-	-	-

1,613 (31.6, percent) of the 5,108 female household heads are below the poverty line and 5,276 (11.4 percent) of the 46,312 male household heads are below the poverty line. As for the reasons of poverty being more prevalent among females, it can be seen that of the 1,613 who are below the poverty line, 60 (2.6 percent) have never been married, 316 (19.5 percent) are married, 1,051 are widows whose husbands have died, 123 are widows because of divorce and 80 (5 percent) are separated from their husbands.

Table 6

Employment Status, Monthly Income and Relative Poverty (2003-2006)

Sector	Number of Subjects	%	Average	Std. Dev.	Med.
0 Full-time employee	17424	97,2	855	657	710
0 Daily Worker	2320	71,6	521	286	450
0 Employer	2866	87,9	1813	247	1200
0 Self Employed	9994	83,2	815	700	618
0 Nonremunerative Family Worker	12	54,5	716	299	661
0 Total	32616	90,5	903	1103	684
1 Full-time employee	509	2,8	204	64	207
1 Daily Worker	921	28,4	186	71	190
1 Employer	45	12,1	50	868	200
1 Self Employed	1929	16,8	171	81	175
1 Nonremunerative Family Worker	10	45,5	48	100	0
Total	3414	9,5	178	126	186
$\chi^2 = 2,6$; $df = 4$, $p = 0.000$ Variance Analysis (ANOVA)					
Change Source	Square Total	Degree of freedom	Average Squares	F test	Eta2
Inter-group	1,62E+21	1	1,62E+21	1770,5	0,047
Intra-group	3,3E+22	51418	9,17E+17	-	-
Total	3,47E+22	51419	-	-	-

Between the years 2003-2006, the average relative poverty rate among people who are full-time employees, daily workers, employers, self-employed and nonremunerative family workers is, respectively, 2.8 percent, 28.4 percent, 12.1 percent, 16.8 percent and 45.5 percent.

Table 7

Education Level, Total Monthly Income and Relative Poverty (2003-2006)

Education	Number of Subjects	%	Average	Std. Dev.	Med.
0 Below elementary school	3897	60,6	518	403	415
0 Elementary school	22527	86,2	690	829	521
0 Middle school	5081	93,4	777	675	600

0	High School	9417	96,3	970	850	775
0	College	3356	99,1	1477	1407	1078
0	Graduate	253	0,6	2346	2195	1686
0	Total	44531	86,6	813	900	600
1	Below elementary school	2537	39,4	129	94	132
1	Elementary school	3599	13,8	150	135	167
1	Middle school	360	6,6	137	102	150
1	High School	362	3,7	136	107	150
1	Undergraduat	31	0,9	56	158	310
1	Graduate	0	0	0	0	0
1	Total	6889		141	119	150
$\chi^2 = 5,2; df = 5, p = 0.000$						
Variance Analysis (ANOVA)						
Change Source		Square Total	Degree of freedom	Average Squares	F test	Eta2
Inter-group		2,7E+21	1	2,7E+21	3827 ****	0,069
Intra-group		3,62E+22	51418	7,05E+17	-	-
Total		3,89E+22	51419	-	-	-

As can be seen from the table, there is an inverse relationship between the level of education and poverty. As the level education increases, poverty decreases in the low-income groups and the society in absolute terms.

Table 8

Line of Work, Relative Poverty and Total Monthly Income (2003-2006)

Income (2005-2006)						
Line of Work		Number of Subjects	%	Average	Std. Dev.	Med.
0	Senior Managers	5016	98	1516	1926	1057
0	Professional	2218	99,3	1315	1152	1020
0	Assistant Professional	1675	98,9	1171	1122	900
0	Office and Consumer Services	1571	99,1	862	433	750
0	Service and Sales People	3215	94,2	708	409	630
0	Agriculture and Livestock	5735	78,1	729	675	552
0	Artisans and Related Work	5649	92	714	482	590
0	Site and Machine Operators	4027	96,9	766	464	650
0	Nonqualified Work	3510	80,6	577	313	500
0	Total	32616	90,5	903	1005	684
1	Senior Managers	102	2	141	574	200
1	Professional	15	0,7	109	231	150
1	Assistant Professional	19	1,1	176	74	176
1	Office and Consumer Services	4	,9	03	5	24
1	Service and Sales People	99	,8	03	6	00
1	Agriculture and Livestock	1606	21,9	168	77	172
1	Artisans and Related Work	488	8	187	72	200
1	Site and Machine Operators	127	3,1	188	132	200
1	Nonqualified Work	843	19,4	189	68	197
1	Total	3413	9,5	178	125	186
$\chi^2 = 2,8; df = 8, p = 0.000$						
Variance Analysis (ANOVA)						
Change Source		Square	Degree of	Average	F	Eta2

	Total	freedom	Squares	test	
Inter-group	1,62E+21	1	1,62E+21	1770 ****	0,047
Intra-group	3,3E+22	36027	9,17E+17	-	-
Total	3,47E+22	36028	-	-	-

The lines of work where relative poverty is the most widespread are agriculture and livestock (21.9 percent), nonqualified work (19.4 percent), artisans and related work (8 percent), service and sales people (5.8 percent). According to the F-test, there are meaningful differences among lines of work. Among all lines of work, the total average relative poverty for the 4 years is 9.5 percent.

Results and Advice

According to the results of this study, compared to other groups, relative poverty in Turkey is more widespread among the less educated, daily workers, temporary workers, in the private sector, among workers who are in the agriculture sector and nonqualified work, among people who are 60 years and older, and among females. In the income distribution of Turkey in general, this group also constitutes the poorest 10-13 percent of the population. We would be wise to keep in mind that statistical indicators do not reflect the real picture because the informal economy is quite big. The result of the analysis shows that the people do not fall into poverty because they are lazy or inapt. Not getting enough education, not being able to work in a job for a long time, the elderly not being covered social security systems, being a widow woman, working in the agriculture sector or being a nonremunerative family worker are factors that cause people to become poor. It is also seen that of the 6,889 out of 51,420 household heads who are below the poverty line, 3,414 (49.6 percent) are working at a job and 3,475 (50.4 percent) are not. During the months when the surveys were carried out, 709 (20.4 percent) of the 3,475 were looking for a job during the past 4 weeks. Of the remaining 2,766 who were not looking for a job, 12 had found a job, 27 were students, 724 were housewives, 173 were retired, 25 had other sources of income, 1,084 were too old to work, 60 were disabled, 346 were sick, 91 were season workers, 91 were not working for family or personal reasons and 133 were not working for other reasons. These results show that 77 percent of the relatively poor who are not working are in that situation because they were students, housewives, retired, too old to work, disabled or season workers.

Like all countries, part of responsibility for poor people being not having the minimum income to live a decent life falls on the state and the society at large. State support is necessary but along with the people who are really in need of support, there are also people who are able to work but don't and there are people who really don't deserve support. Some of the people who earn a little more than what they could get from the state as support leave their work to get qualified for support. It is the responsibility of the state and the society to prevent these kinds of cases. Supporting the less gifted and the less fortunate ones with an effective supervision is one of the primary duties of the state and the society.

Another point worth mentioning is the unequal distribution of income in Turkey. 55 percent of income in Turkey is taken by the first 20 percent of the population and the last 20 percent of the population takes 5 percent of all income but for a developing country like Turkey, economic growth, more and better employment opportunities and a better functioning social security system have more of a priority than a better distribution of income. Turkey is still in need of better policies against poverty. According to the State Planning Organization (DPT), the minimum social support amount

should be 40 percent of the gross national income per capita and this amount should be adjusted to the marriage status of people and the number of children that they have. Also, groups who are not employable like the elderly, the disabled and those who are in need of help should be given unconditional support and the state agencies for supporting the poor should be under one central institution. A temporary relief from social security benefit contributions and taxes should be given to the employers who generate additional employment.

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Tuncay Guloglu and.Kemal Aydın

THE SOCIO-ECONOMIC ANALYSIS OF RELATIVE POVERTY IN TURKEY

Summary

This study focuses on the relative poverty in Turkey. The main aim of this paper is to analyze socio-economic situation of relative poverty in Turkey. According to the results of this study, compared to other groups, relative poverty in Turkey is more widespread among the less educated, daily workers, temporary workers, in the private sector, among workers who are in the agriculture sector and nonqualified work, among people who are 60 years and older, and among females. The unequal distribution of income in Turkey calls for considering the social and security policies and systems of this country.

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GLOBAL INSURANCE INDUSTRY

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Abstract

This paper examines the worldwide insurance industry, and how it recently has become a globalized industry; within this examination we look at what types of business strategies companies use in response to global competition and how their HR practice correspond to these strategies. This paper also looks at the outcomes of the strategies used in the industry and what the future hold for the global insurance industry.

Keywords: insurance, globalization, global economy.

Introduction

There are many definitions regarding insurance. In the simplest terms, one of them, insurance is a form of risk-management, which spreads the risk of many people exchange for small payments from each individual. Insurance also transfers some type of risk such as accident, theft, natural disaster, illness, etc.

Insurance also is defined as a policy from a large financial institution that offers a person, company, or other entity reimbursement or financial protection against possible future losses or damages (<http://www.economywatch.com>).

Historically insurance industry has a long history. Insurance policies were put in practice in ancient Greece and Rome. Recently, on the other hand, private insurance companies and private insurance applications are very common all over the world. An important point of that the industry is developing in not only the developed countries but also developing countries.

Insurance systems are necessary for all economies in order to function effectively. It helps protect people and corporations from unexpected events ruining their lives or business and allows these to operate without fear of disasters. The insurance industry is unique within service industry. It provides goods in the form of monetary reimbursement. No actual good or service changes hands other than the promise of money in the case of loss. Insurance companies provide their insurance products or types risk covered, to various companies and individuals in all parts of the world. For many years, the worldwide insurance industry has been a global industry because of trade agreements and the internet. In addition, they have led to the globalization of the insurance industry.

There are three main areas of insurance industry. These are:

1. Life Insurance: Insurance guaranteeing a specific sum of money to a designated beneficiary upon

the death of the insured, or to the insured if he or she lives beyond a certain age.

2. Health Insurance: Insurance against expenses incurred through illness of the insured.

3. Liability Insurance: The miscellaneous category. This insures property such as automobiles, property and professional or business mishaps (www.investopedia.com).

Property insurance manages risk on personal property, while casualty insurance manages risk for damage to property and bodily injury. Because of this close relationship between property insurance and casualty insurance, most insurance policies wish group property and casualty insurance together. Property insurance and casualty insurance make up the branch insurance known as non-life. Other types of non-life insurance are auto, marine, fire, and theft insurance. Life insurance pays benefit on a person's death, living certain period, disability, and injury (Skipper, 1997: 4-6). Injury insurance under the life insurance is usually referred to as accident and health insurance. Within type of insurance products, the insurance industry is divided into two major segments-personal lines insurance, covering individuals, and commercial lines insurance, covering business.

The insurance industry extensively uses middlemen to sell its products. The contact between the middleman and the customer can occur in two ways: either an individual or company will seek the help of a broker or an agent, or an agent or broker will 'cold call' customers to see if they need help. After the connection has been made, the middleman will take their clients' historical information to the underwriters at various insurance companies. These underwriters will evaluate the risks and liabilities of the customer and will decide on with a premium for the customer to pay, which covers the losses of the customer. The use of the middleman allows customers to have options as to what insurance company they want protecting them. There is limited direct selling from insurance companies to individuals. However, there

is still an important relationship between the insurance carriers and their customers, as the carrier services the account by evaluating and paying out claims for the duration of the contract after the effective date of policy. This service can have a huge impact on a customer's decision to stay with the carrier or to switch when their policy runs out.

The insurance industry is constantly increasing in size. The total premium volume rose by 2.7% in real terms to USD 4, 339 billion. However, this amount was USD 2,941 in 2003.

Table 1

Real Premium Growth 2010

Countries	Life (%)	Non-Life (%)	Total (%)
Industrialized Countries	1,8	1,0	1,4
Emerging Market	13	8,5	11
World	3,2	2,1	2,7

Source: Stalb Daniel and Bevere Lucia. 2011. Sigma World Insurance 2010. Switzerland: Swiss Reinsurance Company.

Table 1 above shows real premium growth in the world. According to the table, growth rate in emerging market countries is higher than others. Global insurance premiums increased by 3,2% in 2010. Asian emerging markets and a number of large continental European markets contributed to most growth (Stalb, Bevere, 2011:1).

Global patterns

Insurance is a service that is essential to the developments of all economies. Every country in the world has some sort of insurance industry to help both businesses and individuals manage risks. However, the amount of insurance around the world varies from region to region. The major geographic areas for insurance are North America, Europe, and Asia. These regions accounted for nearly 96% of all the insurance premiums in the world. The less developed countries in Latin America, Africa, and Oceania only account for a little more than 4% of the world's insurance premiums. The reason for this is that insurance is directly related to GDP. It makes sense that the most developed areas have the most insurance. Not only is the world's insurance industry mainly focused in the richest areas, but also it is concentrated in the largest economies. For instance, the U.S. and Japan account for over 52% of the worldwide market and the top 10 countries account for 83% of the insurance market. Even with the recent trade liberalization, these figures are similar to what the market looked like in 1997 (Skipper, 1997:8). This reflects the fact that insurance has been growing in both the developing countries and the developed countries.

Trade and globalization

Until the 1990's, the insurance industry was more national than global since many governments used regulations and other non-tariff barriers to protect their

own insurance companies from foreign competition. There was no framework to help liberalize the trade in the insurance industry and hence globalization was not occurring. This changed in 1995 when the WTO implemented the General Agreement on Trade in Services (GATS). This agreement set the framework for ways to liberalize trade in all services. Later, in 1997 the WTO drew up the Financial Services Agreement (FSA) which further liberalized the insurance markets. The FSA was especially important since it had binding commitments from more than 100 countries, about 95% of WTO countries, to grant the right of establishment of foreign corporations in their countries and an agreement to avoid discrimination with the government's interactions with financial services (Skipper, 1997: 1). These agreements set up an important model for future negotiations in international trade, and investment in financial services established a new standard of openness for the way government treat foreign companies. This resulted in the future removal of barriers to trade and investment in financial services (Taylor, 2000: 475).

Is more liberation needed?

Even though many barriers to trade in the insurance industry have been destroyed since 1997, some suggest that there is a lot more that needs to be done for there to be a system of free trade in the industry. The insurance industry is highly regulated in most countries. Each country has its own different regulations which make it hard for companies to work on a global scale. Further, these regulations are not transparent which makes it more difficult for foreign companies to set up subsidiaries. Additionally, barriers to entry and favouritism by government still exist in some countries. For example, the Brazilian government denies foreign marine cargo insurers the ability to compete for that business (House, 2005). There are many examples of other developing countries whose situation are similar to Brazil. To try to fix these problems, some believe that there are needs to be an extension onto the current WTO agreements. Max Taylor, in his article "The WTO' Financial Services Agreement and the Imperative of Further Liberalization of Trade in Insurance and Reinsurance" argues that further negotiations need to address the issues of market access for foreign companies, equal treatment of domestic and foreign companies, an allowance for cross-border services (insurance for more than one country), and fewer, more transparent regulations (Taylor, 2000: 476). Overall, GATS and FSA have made great progress, but some think that many regulations are still in place that inhibit trade and need to be dealt with to create a fully global insurance industry.

Business environment

Over time, the insurance industry has become increasingly competitive and thus it has become increasingly harder for companies to succeed. The domestic insurance companies are facing competition from foreign companies as the industry becomes more

globalized, and competition from other financial service companies like banks and mutual fund companies, which are allowed to compete in the market through the Financial Service Modernization Act (Benson, 2000:3). The increased competition has led to consolidation in market and an impetus to differentiate oneself from the rest. This is difficult since the major part of the product that insurance companies offer, an insurance policy, is fairly standard and hard to differentiate from competitors' policies. The only differentiation in policies comes from the inclusion of nonstandard coverages. Instead, companies have to focus on other aspects of their company and product to be successful in market. This section will attempt to answer this question of what business strategies companies use to try to grow and succeed in this environment.

Business strategy and practices

Strategic model

Almost all of the insurance industry follows the professional services model, whose primary goal is the provision of quality service. There are numerous tenets of this production model that encompass both business strategy and human resource practices. From a business strategy standpoint, the goal of building long-term personal relationships of trust between professional services depends on informal relationship among professionals that serves as a basis for learning, problem solving, and sharing of contextually specific tacit knowledge. Customer service and sales executives are dedicated to serving particular business clients and providing a complete range of high quality services. The services of these executives are valuable, rare, and hard to imitate, thus fostering the negotiating power and flexibility that comes from long-term relations (Batt and Moynihan, 2002: 14-18).

Operating within the framework of the professional services model

Throughout the insurance industry there are effective strategies to maximize employees' relationship potential with customers. The top companies in the worldwide insurance industry appear to closely follow the professional services model. AXA Group's strategy is to meet the challenge of operational excellence in the areas of product innovation, underwriting and claims management, distribution, quality service, and productivity. There is a strong commitment to aligning business practices with company's core values: team spirit, integrity, innovation, pragmatism, and professionalism. AXA strives to consistently deliver efficient local service and solution adapted to each individual customer, while adhering to the highest standard of professional conduct (AXA Corporate Home Page, 2005). AXA integrates their values with their business practices to provide a complete range of high quality services.

Nippon Life, the largest insurance company in Japan, believes that policyholder interests should be at the forefront. In 1959, Nippon Life established a corporate

philosophy has endured, and all employees are required to carry a booklet that contains its tenets. Since establishment, Nippon Life has devoted utmost efforts to honour its mission of protecting the financial security of the people. Every member of Nippon Life is asked to ensure that customers come first (Nippon Life Corporate Homepage, 2005). One of the key ways Nippon Life upholds this tenet is through roundtable conferences of both company representative and customers in which the customers are free to voice their opinions make suggestions about the company or its services. These suggestions are then incorporated into the company's business strategy. For Nippon, this is the best way to maximize customers' interests. Nippon Life also believes that "face to face" consulting service by exclusive career agents is the "optimal measure to meet the respective needs of their customers" (Nippon Life Corporate Homepage, 2005). There are over 50,000 exclusive career agents in every neighbourhood throughout Japan that ensure that each customer is best served by his or her own agent in the neighbourhood (Nippon Life Corporate Homepage, 2005). To respond to customer needs for after-sales service and to disseminate information, Nippon is initiating direct to customer services through the Internet, telephones, ATMs, and cash dispensers. Nippon also utilizes call centers to answer customer queries about the coverage and suitability of their insurance policies. All these services and more create value to the consumer which differentiates Nippon from others.

Not only have large insurance companies made a commitment to service, but so have small individual agents. For example, Bob Farra, a personal-lines insurance producer for Meschter Insurance Group, said that "he has found that responsiveness, rapport and a commitment to service are keys to getting and keeping client's business" (Farra, 2001: 49). In addition, Meschter Insurance uses customer service representatives to maintain accounts and do annual checkups services which Farra describes to be excellent customer service (Farra, 2001:52). Small agents try to build and maintain the relationships that exist in professional services model, just as do large insurance carriers.

It is clear across these major insurance companies as well as with individual agents that the professional services model's focus on the provision of high quality services resounds throughout the industry. Companies have chosen to stay away from the standardization of their services like Combined Insurance did in the past and have instead focused on increasing the value they deliver to customers. Each of AXA, Nippon life, Aon and Mescher operates in distinctly different countries (France, Japan, and United States), but the idea of quality customer service is universal in the insurance industry. However, the universal concept of quality in the insurance industry does not mean that these insurance companies are all the same. There is still a lot of differentiation in terms of how companies deliver the quality service. For example, look at the call centers of the industry.

Among financial service companies and subcontractors, 60% of their call centers cite service

differentiation as its most important strategy (Batt, Doelgast, and Kwon, 2004: 6). While these call centers focus on service, they do it by focusing on providing specialized services that other companies do not offer. A great example of this is Geico, who offers 24 hours customer support. This service is not like many others and has led to Geico having the highest customer satisfaction levels among companies (American Customer Satisfaction Index, 2005). In the insurance industry, most companies focus on service, but the way that companies differentiate themselves in providing these services leads to success.

Revitalization of insurance through online sales

A new way of doing business has emerged with the advent of the Internet. Some companies have substituted the personal selling process with online sales. By using the Internet, companies can use a strategy of low prices, which appeals to a segment of consumers who do not put value on relationships with agents and brokers, but instead put value on low price, access to information a simple process, and convenience (Hoeg, 2000: 112). This strategy is very different from the professional services model that the traditional insurance companies use, and replaces the niche that Combined Insurance occupied before its transformation. In 2002, online sales accounted for 19% of personal lines premiums and are projected to grow to over 30% by 2005. Even though there is growth in this segment, the amount of growth is limited to the simple lines of insurance like auto which do not need much service. Online selling is a key trend to watch in the coming years. It could continue to grow, but as the experience of Combined Insurance shows the growth will probably slow down.

Branding and Marketing Strategies

In the insurance industry, where many are trying to do the same thing of providing quality service, branding and marketing offers another way to differentiate oneself. According to Becky Malkerson of Allianz Life Insurance Company of North America, there is a real correlation between brand awareness and growth and sales (Green, 2004:66-72).

There are different ways to get this desired effect. Some try to market to brokers and agents while others market directly to consumers. When a consumer buy most types of insurance policies, like life insurance, they want to know that the company will be around in twenty or fifty years to cover their policy. The perception of quality and financial strength is imperative in the differentiation between companies. There are many competitors out there, but not all of them are smart competitors. Some overextend themselves and their financial viability suffers. Thus, financial ratings are extremely useful to differentiate between companies.

Companies also differentiate themselves by the features built into their various insurance policies, such as additional coverages not usually presented in a particular type of policy, as well as different guarantees and bonuses, such as a minimum benefits paid guarantee.

Differences in kinds of coverage claim servicing, customer service, and financial strength are communicated to consumers, primarily through agents and through the media.

Companies like Allianz have begun advertising directly to consumers; their goal is to have customers come into an independent agent's office and ask for the company by name (Green, 2004: 66-72). MetLife also directs its advertising to customers, namely with its company-imprinted blimps at sporting events. On the other hand, most other companies like Hartford Life and MassMutual Individual Insurance Group concentrate on supporting producers so that they can be successful (Green, 2004: 66-72). Their belief is that consumers need advice to choose the products that will best suit them, and well-educated producers will help achieve this goal readily. Consumers are so undated with marketing that they actively resist it, and will often follow the advice of a trusted insurance agent, regardless of familiarity with the insurance company who wrote the actual policy (Green, 2004: 66-72).

The tough competitive environment that companies face in the insurance industry makes it hard to succeed. Past strategies of using low prices to win business have not to work very effectively as most consumers show preference for relationships and quality. This has led to the professional services model being implemented in most of the insurance companies and agencies in the industry.

Within this model, there has been differentiation in the way that companies provide the relationship and quality service that consumers are looking for. In addition; companies also try to differentiate themselves through branding and marketing. However, recently there has been a new trend in online sales, which uses a similar strategy that the Combined Insurance used to employ. As time goes on, the pressure that online sales puts on the traditional insurance companies will probably cause some changes in how those companies operate.

Conclusion

Public policy is the major source of solutions to problems, and especially is essential to the prevention of problems. There is not any union to help workers, and there are not any consumer organizations other than those who provide information on companies. The insurance industry is one of the most regulated industries, but regulation is done at the state level. Governments are very concerned with keeping the insurance industry highly regulated to protect consumers as much as possible.

Insurance carriers are always assessing new risks and offering policies to meet changing circumstances. The aftermath of September 11 is the principal cause of decreased profitability and the large number of underwriting losses.

New technology is one of the most important issues for driving change in the insurance industry. The increasing use of internet-based claims filing and processing is reducing the amount of time it takes for an adjuster to complete a claim, thereby increasing the

number of claims that one adjuster can handle. It is also reducing labour needs somewhat, as claims processing clerks that took claims information over the phone are now being displaced. However, as long as more insurance policies are being sold to accommodate a growing population, there will be a need for adjusters, appraisers, examiners, and investigators. Despite recent gains in productivity resulting from technological advantages, these jobs are not easily automated. Another big area in which technology is having an impact is online sales. This new trend is putting price pressures on the traditional insurance companies and could have a bigger effect in the coming years as the trend continues.

Some of the biggest changes that can occur in the next 10 years are how much globalization occurs in the

market. As foreign markets continue to be liberalized due to the trade agreements of the WTO, you can expect companies translating their business models to these new markets. The companies will have to see if the professional service model will work in foreign countries; if they do not the question will be will they change the way they do business or shy away from globalizing their company.

The future of the insurance industry is promising since there will always be a need for insurance. However, during next 2 decades the industry could experience in terms of technology, customers, and needs. In addition, global competition could be the biggest challenge for this industry.

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GLOBAL INSURANCE INDUSTRY

Summary

The paper examines global insurance industry and how it recently has become a globalized industry; within this perspective the authors explore the types of business strategies companies use in response to global competition and how their HR practice correspond to these strategies. The analysis of research literature allows to conclude that despite the rapid growth and application of information technologies in the insurance industry, there will be a need for adjusters, appraisers, examiners, and investigators in this industry. The future of the global insurance industry is related to the online sales.

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LABOUR MARKET SEGMENTATION IN THE CONTEXT OF MODERN THEORIES

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Abstract

The article discusses labour market segmentation in the context of modern theories. The research aims at distinguishing main labour market segmentation theories formed in the second half of the 20th century and at presenting thorough regulations, adapted to labour market segments. Having put scientific literature on the subject into a system, the following theories have been analysed: Labour Market Segmentation Theory, Dual Labour Market Theory, Internal and External Labour Market Theories, Human Capital Theory, Labour Competition Theory, Labour Search Theory, Labour Market Theory, Labour Economics Theory, Alternative Roles Theory, Discrimination Theory, Professional Segregation Theory; they all tend to explain the formation of different segments and their functioning in the best possible way. The researchers' works had a great impact on labour market segmentation analysis directions emphasizing the formation of different segments in labour market, theoretical background for the factors conditioning their functioning and checking their empirical assumptions. Basic theories, explaining labour market segmentation expand as well as compliment the idea of labour market segmentation, i.e. labour market split into different segments. The application of these theories allows to describe and also to go deeper insights into labour market segmentation formation theories and offers an opportunity to explain the reasons for participation of different segments in it.

Keywords: labour market segmentation, theories.

Introduction

Research relevance and scientific problem. Economics related theories, labour market segmentation among them, drew more attention in the second half of the previous century, and the idea of non-competing groups was developed and included into labour market segmentation theory.

An impulse for the evolving of such a theory was given by the interest of researchers in labour market segmentation because neoclassical economic theory of the 20th century was able neither to explain nor to solve social problems in American society (poverty of certain groups, unemployment, salary inequality, discrimination cases in gender, education, wages and also psychological dissatisfaction). Such conditions encouraged the formation of social reforms and also economists to seek for alternatives connected with work and work places creation in labour market. One of the work alternatives was the perspective of segmented labour market. In this context new labour market theories evolved and developed (Jakštienė, 2010).

The research analysis theories, explaining labour market segmentation, make it possible to evaluate different approaches of researchers trying to identify the reasons as well as consequences of segmentation. No doubt that arising labour market problems due to participation of different segments in it require theoretical arguments, able to explain the general situation in labour market. In this regard scientific approach is of high importance because theoretic insights constitute a background for empirical research contents. Having evaluated all these factors the problem can be worded in

the following way: *which theoretical arguments best reveal assumptions of labour market segmentation?*

The problems of labour market division into different segments have been widely analysed by researchers and scientists since the second half of the 20th c. as they have been trying to solve the most important problems in labour market, those connected with social issues.

Scientific literature (Becker, 1957; Doeringer, Piore, 1971; Thurow, 1975; Wilkinson, 1981; Mortensen, Pissarides, 1994; Muysken, Weel, 2000; Büchel, Pollmann-Schult, 2001; Sousa-Poza, 2000; Wolbers, 2002; Žalimas, 2004; Ceges, Ingenito, Vila, 2004; Bispo, 2007; Yashiv, 2007; Juščius, 2008; Mazin, 2009; Makovskay, 2008; Lubik, 2009; Cheremukhin, 2010 and others) presents a number of theories as well as their interpretations, related to labour market segmentation.

Originality of theoretical research. The article classifies and presents researchers' approaches to labour market segmentation, it also presents the analysis of labour market segmentation theories, and finally in empirical research proposes their practical application areas.

Research *object* – labour market segmentation in the context of modern theories.

Research *aim* – to theoretically analyse and summarize labour market segmentation in the context of modern theories.

Tasks:

1. To reveal the essence of labour market segmentation taking into account the attitudes of different researchers to labour market groups.

2. To systematize and present basic theories, explaining labour market segmentation.

3. To reveal practical application of labour market explaining theories in research.

Theoretical research *methodology* is based on systematic and comparative scientific literature analysis by Lithuanian as well as foreign researchers in the field.

Essence of labour market segmentation

In modern scientific economic literature the term labour market segmentation is widely used and quoted. The first researchers P. B. Doeringer and M. J. Piore in 1971 on the basis of empirical research in US labour market, managed to add the term *labour market segmentation* to economic terms, used at that time.

Analysis of labour market segmentation draws a lot of attention. Having in mind that labour market segmentation is a multidimensional phenomenon, it is being analysed from different aspects. Both, researchers and scientists while explaining labour market split into segments emphasize a few essential aspects; on their basis approaches of different researchers can be classified into four groups. i.e. researchers:

1. emphasizing the influence of economic, social and political factors on labour market segmentation (Matiušaitytė, 2005; Grip, Sieben, Jaarsveld, 2006; Lamotte, Zubiri-Rey, 2008);
2. presenting labour market segmentation as social division of employees according to their professions and qualifications (Gazier, Petit, 2007; M. Gray, T. Kurihara, L. Hommen, J. Feldman, 2007; Fields, 2009);
3. emphasizing individual characteristics and skills of employees (Grip, Sieben, Jaarsveld, 2006; Lamotte, Zubiri-Rey, 2008; V. Doellgast, R. Batt, O. H. Sørensen, 2009; Lamotte, Zubiri-Rey, 2008; Martinkus, Stoškus, Beržinskienė, 2009; Gary S. Fields, 2009);
4. motivating division according to demographic data (Browne, 2006; Nordman, Rakotomanana, Robilliard, 2009).

Essential in labour market segmentation is the fact that it is divided into heterogeneous market segments, in which those market participants take place, who are distinguished by homogeneous and common only to this segment features. These groups share common and relevant only to this group behavioral characteristics, but not individual ones. It could be said that labour market consists of smaller heterogeneous markets, distinguished by homogeneous characteristics.

Evaluating labour market functioning from segmentationalistic point-of-view, it should be said that dominating approach of labour market segmentation for a very long time (up to the beginning of the 20th c.) was based on the principal of homogeneity (where social problems were completely ignored and very limited influence was attached to human capital). Then the approach was changed by basically new concepts, attitudes, and tendencies meant to distinguish basic behavioral differences of both employees and employers. In this context it can be noticed that heterogeneous

features had a great influence and eventually positive impact on further segmentation of labour market.

Noteworthy that labour market split is determined by different workforce characteristics, social, economical, political and other factors, so labour market itself together with its division is analysed integrally as social system because of divergent segmented labour market functioning conditions: wages, work places, education and qualification, career opportunities, staff inclusion into problem solving in an organization as well as ideas and suggestions, and finally staff participation in management.

Relation of labour market segmentation and modern theories

Abundance of scientific references reveals that the phenomenon of labour market segmentation draws considerable interest of both researchers and practitioners in applying as well as justifying practical application of theories, connected with labour segmentation, and their importance in different problems of labour market segments.

Figure 1 shows the main modern labour market segmentation explanatory theories, formed in the second half of the 20th c. Later, each of them is explained in more detail.

Labour Market Segmentation Theory

Labour Market Segmentation Theory contents is oriented towards labour market division into employees' subgroups. In the second half of the 20th c. labour market was perceived and treated as the one, consisting of different employees subgroups hardly having any possibilities of transition from one subgroup to another. It can be noted that labour market segmentation strives to explain the proportion of wages, which can be different in different subgroups. An example of such segmentation is dual labour market theory (Wilkinson, 1981).

Scientific research references present *Split Labour Market Theory* which is closely connected with the above mentioned theory, however, it draws more attention to employee behaviour in the labour market. Split labour market theory statements first of all appeared in the context of sociology. In 1970 an American professor E. Bonacich, using theoretical ideas and scientific research tried to explain the ratio of racial and ethnic problems with labour market (Scott, McKail, 2008). Acc. to the sociologist, ethnic antagonism appears because of labour market split, where the representatives compete for jobs, and the wages in these groups are lower than in other groups. Ethnic antagonism is 'created specially' because of competition, arising due to labour price differences. That is why labour price differences are essentially determined by the factors of sociological and political nature (Castles, Vasta, 2000).

This theory can be related with empirical research, analysing workforce segments and workforce price problems, rising in different groups due to employee behavior and individual characteristics. All these factors offer an opportunity to explain the emerging reasons

regarding different interests of different segments in the labour market.

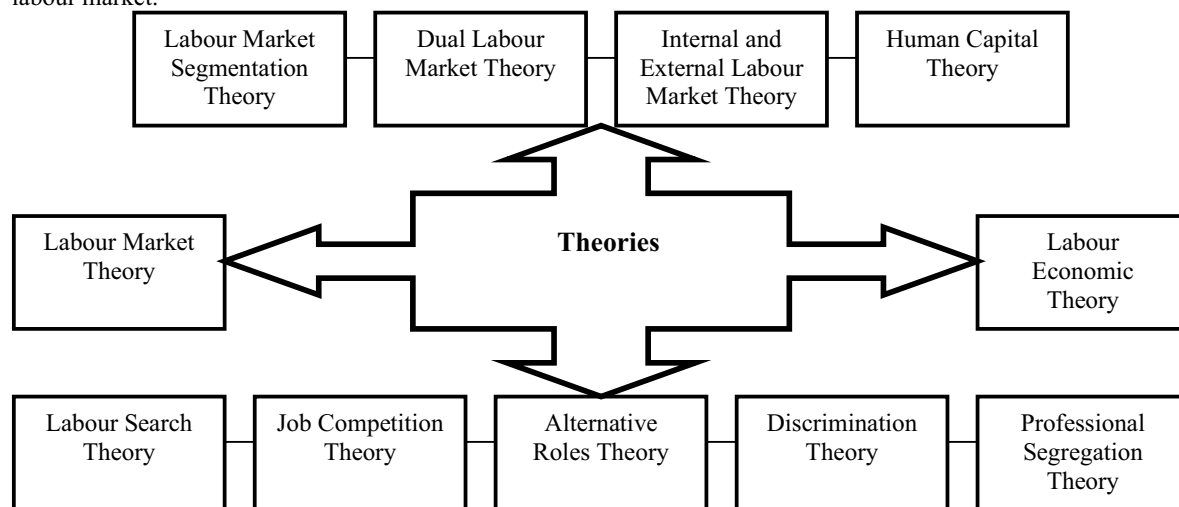


Figure 1. Main modern labour market segmentation explanatory theories

Dual Labour Market Theory

Dual Labour Market Theory is one of the most widely spread and known theories in economics. Such famous researchers as P. B. Doeringer and M. J. Piore in empirical research, conducted in 1971 based the idea and pointed out main theoretic feature stating that in labour market does exist dichotomy. Market split is based on horizontal segmentation (Fine, 1998, pg. 251) identifying primary and secondary labour market.

Primary labour market, according to the authors, is distinguished by high wages, good and safe working conditions, including modern technologies, stable working places, career opportunities, employee inclusion into organization management and decision making, higher education and qualification, deep professional knowledge and experience. Secondary labour market is described in the opposite way: low wages dominate, poorer working conditions, large employee turnover, frequent unemployment, limited career opportunities, low qualification needs, and out-dated technologies.

It is worthy to mention that labour market segmentation research, conducted in the second half of the 20th c. revealed the fact that employees in primary labour market segment are motivated, and forced to make constant investment into human capital improvement, while for those from the secondary segment think that investment into human capital practically is unimportant. At the same time employers are demotivated to invest into training or retraining of their changing employees (Vietorisz, Harrison, 1973, pg. 372).

Horizontal segmentation has a number of drawbacks (Matiušaitytė, 2005, pg. 16), with emphasis on „problematic demand division and its basis on how demand division is attached to organizations“. Though M. J. Piore divided labour market into two segments in 1971, accordingly, the researcher said that it is impossible to divide the market into two clear segments because they are interrelated. Due to this reason, a problem arises on

economical – social level, where it becomes impossible to identify economic – social layers of employees in referring them to a separate labour market segment because of a few influential factors, such as variety of economic activities and employee mobility between these segments (career opportunities, qualification improvement, and retraining). The problem analysis allows to confirm that in such segmentation the emphasis is put namely on unilateral labour market segmentation (from demand side); it is also noticed that such problems as unemployment and discrimination do not get thorough attention nor analysis.

Russian researcher A. L. Mazin (2009) expanded the dual P. B. Doeringer and M. J. Piore's (1971) labour market concept and came up with a modern interpretation of its characteristics. Basic dual labour market differences are presented in table 1.

Table 1

Differences of primary and secondary labour market (made after A. L. Mazin, 2009)

<i>Primary labour market</i>	<i>Secondary labour market</i>
Stabile work and employee safety approach	Great employee turnover and employment unstability
High wages level (depends on job title, work experience, qualification and responsibility)	Low wages (depend on work experience, discipline), working norms developed
Good working conditions	Poor working conditions
Creative job; employees are included into organization management	Routine jobs
Career and promotion opportunities	Low career and promotion opportunities
Use of modern technologies, requiring high employee qualification	Production technologies are primitive and out-dated
Respect to employee rights	Manager's authority
Bonuses, additional premium,	Basic wages or salary

profit division	
Guarantees of employment perspectives	High employee turnover
Convenient working days and hours	Tense working schedule, often incomplete working day or week, seasonal or temporary work
Wellfare and payments	Low social security
100 percent pay for sick leaves and vacation period	Economizing on account of employees
Pension guarantees	
Training and retraining (during working time) at organization's expenses	Poor and temporary instructing, most often in working places
Membership in trade unions	No trade unions at all

Such-like research allows to state that in labour market because of different characteristics of employees there are essential differences between primary and secondary labour markets. Such research can be related to employment research analysing career, training and qualification possibilities, wages, application of modern technologies and employee inclusion into organization management.

Internal and External Labour Market Theories

Internal and External Labour Market Theories belong to vertical segmentation, the former referring to determinants that potentially prevail across all sectors of the economy, such as differentiation by gender and skill – the latter refers to the structuring within particular sectors of the economy (Fine, 1998, pg. 251). Main representatives of the theory are outstanding institutionalists Dunlop, 1957 and C. Kerr. The former made the research in the market in 1954. C. Kerr (1954) determined that company management is related to the market through the relations of wages, workforce and training. According to researchers, in institutional or interior markets professional structure, wages, job satisfaction, possibilities to participate in trainings, getting or refusing a job are most often decided by bureaucratic sets of rules (Gimble, 1991; Paliulytė, 2009). Doeringer and Piore (1971) defined internal market as „...administrative unit, such as a plant, where a collection of administrative rules and procedures decide on work appraisement and are meant to separate traditional economic theory of external labour market where pricing, distribution and training are directly controlled by economic variables“.

In modern economic studies the authors, as A. L. Mazin (2009) and N. Makovskay (2008) define internal labour market as the system of working relations in an organization, where wages and employee activities are being limited by administrative rules and procedures and also can be characterized by advantages expressed from both positions, i.e. employer's and employee's. While external labour market includes employees who do not belong to internal labour market. According to E. P. Lazear and P. Oyer (2004), market is controlled with regard to competition rules (wages regulate labour market processes) and in this market employee mobility among

institutions and wages are decided following certain common market processes in such cases when enterprises have no influence on wages decision.

On the one hand, internal labour market offers employment in an organization not for everybody wishing to work in it, but only for those who meet certain requirements, so the entrance into this market becomes limited. It should be noted that employment opportunities of certain groups of people in this market is different from internal labour market and is also limited. On the other hand, both internal and external labour markets are interrelated in certain working positions, i.e. employees in external market directly compete with each other for working places but not with employees, who belong to internal market.

However, due to institutional rules regarding labour division and appraisal (e.g. career, training possibilities and internal wages structure) internal market workforce makes use of certain rights and privileges, unaccessible to those in external market. Work stability is one of the main features of internal labour market. Having in mind more favourable internal market conditions, compared to external market, employees in internal market have got exceptional chances for motivation. Consequently these employees are more motivated to increase their working capital and also reduce external mobility.

Certain discrepancies have been noticed in scientific literature regarding existence as well as treatment of internal labour market. It has been stated that labour market is in existence as such, so there is no internal labour market at all. „Theoretically they are among us, but nobody definitely knows how they look like“, (Glebbeck, 1993, pg. 44). In the researcher's opinion there is no uniform approach to internal market understanding. In some studies an organization or an enterprise or its part is named as internal market, in others internal labour market includes more than one organization, in one more group – an organization, as a whole of all related institutions or even as a separate branch of activity is treated like a dominant within all internal labour market.

While conducting the research on wages in these markets the attention should be paid to the fact that in internal labour market there is a set of administrative rules, while in external labour market wages are regulated and set by competition in the market.

It is possible to apply internal labour market theory when analysing such labour market participants, who are seeking employment or/and willing to exchange it and to include such participants, who are in temporal employment or possess termless working contracts.

Internal labour market should be related to the research, which analyses a whole of labour relations in an organization with its administrative rules, also to analyse employee motivation and mobility, as well as career and training opportunities.

Job Competition Theory

Job Competition Theory aims at explaining employees' position competitiveness in labour market. Job

competition theory (Thurow, 1975) shows that wages, first of all are connected with post characteristics, but not with individual employee features (Wolbers, 2002).

Other researchers (Antonietti, Van Zon, 2008) notice that if employees lack certain working skills (no experience at present working position) they may be granted an opportunity to get training and after it improve their working skills at work. According to the researchers, this is the main reason to cause discrepancies between employee abilities and skills, necessary to perform a concrete work qualitatively. The researchers claim that in order to stop the gap between abilities and skills additional expenses are required for training.

F. Büchel, M. Pollmann-Schult (2001) offer more arguments saying that such a model is based on an assumption that wages in certain professions hardly change depending on the changes in supply and demand occurring in labour market. Because of this reason employee education has no influence at all on determining wages.

In literature, explaining job competition, so-called Thurow line model is met; in it there are two lines in existence: working places and individuals. *Firstly*, positions in a working line are divided according to the skills, necessary to perform them. *Secondly*, individuals, competing for the position also form a line, which is determined by their qualification. Formation of different segments, determined by this point-of-view, is based on the assumption that employers differently estimate expenditure, necessary for the training (Muysken, Weel, 2000). Essentially line model means that employers, concerned with profit increase give a priority to those, who would need lower expenses to get necessary qualification. On such consideration, employers form lines of working places and individuals, waiting for a job.

In many aspects theoretical Doeringer and Piore's, as well as other dualistic theories are similar to job competition theoretical insights because both theories emphasize insignificance of employees human capital characteristics in determining wages, especially talking about secondary employees. Considering the statements of both theories it can be said that a position, impossible to get for anyone, is determined by demand, i.e. it is determined by the need. In this case such employee characteristics, as education and experience, deserve attention during employment process.

Other researchers (Dekker, De Grip, Heijke, 1995) in this context point out that employees get to the internal market with much higher qualifications than a concrete position requires. Such researcher groups, as J.-G. M. Ceges, A. G.-A. Ingenito, L. E.Vila (2004) in their insights on competence match in labour market claim that young graduates with higher education competencies not in all cases determine career opportunities, and not all of them are necessary to complete certain concrete tasks. The research results clarified that young graduates' work wages have no influence on competencies, acquired in studies. The researchers consider that labour market from both points-of-view human capital theory (supply) and job competition theory (demand) does not define relations between higher school graduates' competencies and the ones, necessary to get a job.

The theory can be practically applied if to link research directions with employee competition in labour market on two levels: demand as well as supply, adding employers evaluation of working places and searching for relations between human capital characteristics and wages in different segments.

Labour Search Theory

An American economist G. Stigler, 1962, is the first researcher to have applied this theory in labour markets. The labour search model pioneered by Mortensen and Pissarides (1994, 1998), the MP model, has attracted considerable attention recently because of its intuitive explanation of equilibrium unemployment (Cheremukhin, 2010). However, R. Shimer (2009), a calibrated stochastic steady state version of the model with only productivity shocks is incapable of quantitatively explaining the behavior of unemployment and vacancies over the business cycle. Even under an alternative calibration proposed by M. Hagedorn and I. Manovskii (2008) additional exogenous shocks¹ that are correlated with productivity shocks are required to the data (Lubik, 2009).

While researching labour search problems, behavioral issues of unemployed in search process are emphasized. After D. Beržinskienė (2009), traditionally their behavior is based on the attitude, applying standard job supply theoretical model. The author claims that Keeley, Robins, Spiegelman, West (1978) critically evaluated this model, drawing attention to the fact that standard job search model is inadequate in job search process because the unemployed are also influenced by exterior circumstances.

In later research Blau, Robins (1990); Boeri (1999); Eriksson, Gottfries (2000) came up with special dynamic models, allowing to evaluate unemployed behavior in labour market „under unspecified and limited information conditions“. The advantage of these models is the fact that they are based on statistical interpretations of game theory and decision making consequences (Miller, 1984; Narendranathan. Nickeli, 1985; Mortensen, 1986; Wright, 1987; Wolpin, 1987; Van den Berg, 1990; Mortensen, Pissarides, 1999, as quoted from Beržinskienė, 2009). The author also says that the very essence of the latter models lies in the fact that unemployed, maximizing his expectations uses „stop“ strategy (mathematical equilibrium moment), she also adds that unemployed makes the decision to take the job only when offered wages are higher/or equal to its critical value (reserved remuneration) (Philips, 1978). Acc. to D. Beržinskienė (2009), „practical implemetation of these modules is limited by excessive and based on expectations reserved wages size. It could be explained in such a way that some persons agree to do the same job for much lower wages than other persons having the same education and qualification. One of the shortcomings of the theory lies in the fact that because of the lack of statistical data it is extremely complicated to conduct a research on the behavior of unemployed“.

Some other researchers, as (Yashiv, 2007; Lubik, 2009; Cheremukhin, 2010) in their theoretical studies

present Labour Search and Matching Model, which is applied in macroeconomical analysis, trying to answer four basic questions: how is unemployment, job vacancies, and employment determined as equilibrium phenomena?; What determines workers flows and transition rates from one labour market to another?; How are wages determined?; What role does labour market dynamics play to explain business cycles and growth?. Acc. to the reserchers, the model has developed against the background of difficulties with the use of the neoclassical, frictionless model of the labour market in macroeconomics. Its success includes the modelling of labour market outcomes as equilibrium phenomena, the reasonable fit of the data, and – when inserted into business cycle models – improved performance of more general macroeconomic models.

Another group of scientists, such as S. Bentolila, C. Michelacci, J. Suarez (2010) confirm that social relations are helpful in finding a job, however they point out that in some cases social relations generate discrepancies between professional skills and efficiency superiority; due to them there may decrease workforce quality which will definitely lead to a general enterprise efficiency. The research on labour search through contacts in the US and Europe proves that social relations reduce unemployment period from one to three months; however social relations are connected with lower wages (not below 2,5 percent).

Labour search theory can be related to the empirical research which aims at explaining behavior and

search methods of both unemployed (seeking for employment) and employers (searching for employees). Only the methods allowing to reduce unemployment period and at the same time able to offer references for faster integration into the labour market, as well as reducing search expenditure of both employers and employees are considered.

Labour Market Discrimination Theory

The term „discrimination“ originates from a Latin word „discriminare“, „discriminatio“ meaning to disjoin, also it may mean to apply disjoining or discriminate , i.e. not to give equal rights, separate, or treat differently, to behave worse than with others (Tarptautinių žodžių žodynas, 1985; Dictionary.com Unabridged, 2011). Discrimination is understood as limitation of human rights or their violation (Dabartinės lietuvių kalbos žodynas, 2011). From sociological aspect discrimination is treated as person's or groups of persons opportunity restrictions, which are available to other persons or their groups (Introduction to sociology, 2009).

G. Becker's 1957 an American economist's invented discrimination theory strives to explain the behavior of employers, who have got some discrimination practice. The distinguishing feature of discrimination is a variety of forms it can acquire in labour market (Table 2).

Table 2

Display of discrimination forms (A. Sousa-Poza, 2000; D. Žalimas, 2004)

<i>Form display</i>	<i>Discrimination form</i>	<i>Description</i>
Discrimination forms display before entering labour market	Direct	Persons, because of their divergent beliefs, disability, age or sexual orientation, racial or ethnic origin or religion are treated differently in the same circumstances. An example of direct discrimination: an advert about a vacancy with a note: not for the disabled.
	Indirect	Persons, because of their racial or ethnic origin, religion or beliefs, disability, age or sexual orientation get into unfavourable situations, except the cases, which are foreseen in the law. An example of indirect discrimination could be the employer's demand for all applicants to take a language exam, even if the language skills are unnecessary for a concrete work. The exam may push out the persons, who are demanded to know a language, other than mother tongue.
Discrimination forms display in the labour market	Remuneration size	Remuneration for the same efficiency at work may be different.
	Personal characteristics	Employees may be discriminated in the labour market because of different personal characteristics (gender, race, age, religion, nationality, or education).
	Working place	Employee's hiring, firing, or career because of belonging to a certain social class, or membership in an organization or political views.
Other discrimination forms	Negative	Restriction of personal or group rights or deprivation of them (change of legal status) without objectively justifiable ground.
	Positive	Legal norms are differently applied for persons, or their groups possessing the same characteristics in order to achieve positive, important for the society goals. Positive discrimination increases persons or their groups, unable to guarantee their rights, such as disabled, children or national minorities, legal security.

Empirical research to ground the theory showed that the expression of discrimination in labour market is strong because of divergent personal characteristics in working places as well as in remuneration processes. Application of discrimination theory is possible if to analyse groups of discrimination experiencing people

(youth, women, close-to retirement people or disabled) in labour market according to segmentation characteristics (economical, demographic, social, geographic, behavioral, psychological, etc.), discrimination causes and effects and also to employer's behavior in regard to people, experiencing discrimination.

Profession Segregation Theory

The goal of the theory is to explain uneven workforce division on professional level between different labour market segments: men, women, ethnic, racial or religious groups. As M. Dejevsky (2008), noticed, gender discrimination on professional level increases. The term segregation originates from a Latin word *segregatio*, that means disconnection. So, it can be stated that this theory is closely connected with discrimination theory, which demonstrates isolation of persons or their groups, compared to others, in labour market. So, professional segregation exists in such sectors as nursing, retailing, etc., where there is a large concentration of women. With reference to the theory, it is possible to analyse the situation of different segments (most discriminated) on a professional level and also to compare results with regard to other segments in labour market, to analyse professional division of labour market segments in different activities and sectors according to segmentation criteria.

Alternative Roles Theory

Its main idea is that in labour market there are such persons, who having lost a job, can take alternative roles and live on another income sources. Its main representatives K. Offe and K. Hinrichs (1977), conducted research on most vulnerable employees situation in labour market and also tried to find out the causes why these people are in the secondary labour market (receive lower wages, have fewer career or promotion opportunities, higher turnover takes place). The researchers presented arguments why these groups of people having lost jobs, may take alternative roles: young people can study, attend courses, women or housewives, mothers or elderly persons can be supported by the state, disabled may be socially supported, foreigners can go back to their native countries and so on.

In case of unemployment the persons can have other means of income (young people – scholarships or parents' financial support, women – social benefits for their children, or husband's support, elderly people – social welfare or pensions, disabled – disability benefit and so on). However, as the researchers noticed, the cases being more complicated in unemployment with persons, who participate in primary labour market because they do not have any roles and having lost a job, they become unemployed (Matiušaitytė, 2005, pg. 17).

This theory can be connected with the research, where ways (alternatives) are searched by employees having lost their jobs (in primary labour market) with the intention to reduce searching period and expenditure; representatives of the secondary labour market to look for possible ways to get into primary labour market and in this way to decrease amount of benefits for socially supported people.

Human Capital Theory

One of the most connected with labour market processes is human capital theory. Labour market dualism was based on this idea. In the second half of the 20th c. such Nobel prize Laureates as T. W. Schultz (1961, 1962), G. S. Becker (1962, 1964) and J. Mincer (1962, 1974) emphasized existence of dualism in their researches. According to them dualism means that persons doing the same job in different sectors have to get different wages (Smith, 2003, cited from Jakštienė, 2010b, pg. 56). For segmented labour market theorists, human capital theory may explain a significant amount of variation in earnings in the primary sector. However, in the secondary sector they assert that wages are largely independent of human capital. Thus, the segmented labour market model was formulated to challenge the „orthodox“, i.e. human capital, model (Fichtenbaum, 2006).

Within macroeconomics human capital is like a potential of educated and qualified people; within micro economics it is people's potential of experience and technical skills, together with mental ones. They both demonstrate the level of knowledge and skills to do the job and successfully integrate into the labour market (Beržinskienė, 2005). The application of the theory has got a lot of advantages in investment into employees analysis, defining relations of primary and secondary sectors and their wages, and human capital.

An alternative to human capital theory is *Screening Hypothesis* confirming that education acknowledges employee's skills to do the job well or an employee gets an opportunity to be trained on the working place

Labour Market Theory and Labour Economics Theory

Labour Market Theory aims at analysis of functioning, market structure and composition. It can be stated here that the application of theoretical principals may also be beneficial while analysing the structure of labour market segments, defining their formation assumptions and functioning conditions. *Labour Economics Theory* mostly concentrates on globalization processes and influence of technical progress on labour market itself. It could be concluded that both theories do make influence on labour market segmentation as they both analyse problems, rising from formation of different segments and their functioning in labour market.

Conclusions

Both researchers and investigators while analysing problems connected with labour market segmentation put emphasis on the variety of approaches on the problem, as this is relevant and highly important in modern economic development of a country. Among all the approaches certain consistency is noticeable: emphasis is put on labour market segmentation, oriented towards divergent labour market segmentation characteristics, conditioned by relations of workforce different characteristics and

external factors, and also by dynamic changes in labour market.

Abundance or modern theories, developed in the second half of the previous century manifests that labour market segmentation could be explained by applying a number of theories, able to help and reveal the problem itself of the phenomenon. In concluding it can be highlighted that due to formation of different segments in labour market different attitudes on people exist. Formation of different segments in labour market only proves that these segments behave and act in labour market under different conditions. This could be based by theories, explaining labour market segmentation: Labour Market Segmentation theory, Dual Labour Market theory, Internal and External Labour Market theory, Human Capital theory, Job Competition theory, Job Search theory, Alternative Roles theory, Discrimination theory, Professional Segregation theory, Labour Market theory, and Labour Economics theory.

It may be concluded that empirical research, based on scientific arguments of the above mentioned theories allows to understand peculiarities of labour market segmentation formation as well as their functioning in it. No doubt, practical application of the above mentioned theories acquire wide perspectives in dealing with problematic issues connected with labour market segment formation and participation in labour market processes.

Theoretical analysis highlighted main aspects of labour market segmentation and theoretical relations in concluding that motivated by this reasoning we build on and extend the work of Pissarides (1990) on job matching and unemployment by including two types of workers, skilled and unskilled, thereby creating a dual labour market and by integrating the supply-side approaches of Schultz (1961) and Becker (1962) on human capital formation and the demand side frameworks developed by Spence (1973) and Thurow (1975) on screening and job competition, respectively.

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LABOUR MARKET SEGMENTATION IN THE CONTEXT OF MODERN THEORIES

Summary

The article discusses labour market segmentation in the context of modern theories. The research aims at distinguishing main labour market segmentation theories formed in the second half of the 20th century and at presenting thorough regulations, adapted to labour market segments. Having put scientific literature on the subject into a system, the following theories have been analysed: Labour Market Segmentation Theory, Dual Labour Market Theory, Internal and External Labour Market Theories, Human Capital Theory, Labour Competition Theory, Labour Search Theory, Labour Market Theory, Labour Economics Theory, Alternative Roles Theory, Discrimination Theory, Professional Segregation Theory.

Economics related theories, labour market segmentation among them, drew more attention in the second half of the previous century, and the idea of non-competing groups was developed and included into labour market segmentation theory. The research analysis theories, explaining labour market segmentation, make it possible to evaluate different approaches of researchers trying to identify the reasons as well as consequences of segmentation. No doubt that arising labour market problems due to participation of different segments in it require theoretical arguments, able to explain the general situation in labour market. In this regard scientific approach is of high importance because theoretic insights constitute a background for empirical research contents. Having evaluated all these factors the problem can be worded in the following way: *which theoretical arguments best reveal assumptions of labour market segmentation?*

Originality of theoretical research. The article classifies and presents researchers' approaches to labour market segmentation, it also presents the analysis of labour market segmentation theories, and finally in empirical research proposes their practical application areas. Research *object* – labour

market segmentation in the context of modern theories. Research *aim* – to theoretically analyse and summarize labour market segmentation in the context of modern theories. Tasks: 1) to reveal the essence of labour market segmentation taking into account the attitudes of different researchers to labour market groups; 2) to systematize and present basic theories, explaining labour market segmentation; 3) to reveal practical application of labour market explaining theories in research. Theoretical research *methodology* is based on systematic and comparative scientific literature analysis by Lithuanian as well as foreign researchers in the field. Analysis of labour market segmentation draws a lot of attention. Having in mind that labour market segmentation is a multidimensional phenomenon, it is being analysed from different aspects. Both, researchers and scientists while explaining labour market split into segments emphasize a few essential aspects; on their basis approaches of different researchers can be classified into four groups. i.e. researchers: 1) emphasizing the influence of economic, social and political factors on labour market segmentation (Matiušaitytė, 2005; Grip, Sieben, Jaarsveld, 2006; Lamotte, Zubiri-Rey, 2008); 2) presenting labour market segmentation as social division of employees according to their professions and qualifications (Gazier, Petit, 2007; M. Gray, T. Kurihara, L. Hommen, J. Feldman, 2007; Fields, 2009); 3) emphasizing individual characteristics and skills of employees (Grip, Sieben, Jaarsveld, 2006; Lamotte, Zubiri-Rey, 2008; V. Doellgast, R. Batt, O. H. Sørensen, 2009; Lamotte, Zubiri-Rey, 2008; Martinkus, Stoškus, Beržinskienė, 2009; Gary S. Fields, 2009); 4) motivating division according to demographic data (Browne, 2006; Nordman, Rakotomanana, Robilliard, 2009).

Essential in labour market segmentation is the fact that it is divided into heterogeneous market segments, in which those market participants take place, who are distinguished by homogeneous and common only to this segment features. These groups share common and relevant only to this group behavioral characteristics, but not individual ones. It could be said that labour market consists of smaller heterogeneous markets, distinguished by homogeneous characteristics. Evaluating labour market functioning from segmentationalistic point-of-view, it should be said that dominating approach of labour market segmentation for a very long time (up to the beginning of the 20th c.) was based on the principal of homogeneity (where social problems were completely ignored and very limited influence was attached to human capital). Then the approach was changed by basically new concepts, attitudes, and tendencies meant to distinguish basic behavioral differences of both employees and employers. In this context it can be noticed that heterogeneous features had a great influence and eventually positive impact on further segmentation of labour market. Noteworthy that labour market split is determined by different workforce characteristics, social, economical, political and other factors, so labour market itself together with its division is analysed integrally as social system because of divergent segmented labour market functioning conditions: wages, work places, education and qualification, career opportunities, staff inclusion into problem solving in an organization as well as ideas and suggestions, and finally staff participation in management.

Abundance of modern theories, developed in the second half of the previous century manifests that labour market segmentation could be explained by applying a number of theories, able to help and reveal the problem itself of the phenomenon. In concluding it can be highlighted that due to formation of different segments in labour market different attitudes on people exist. Formation of different segments in labour market only proves that these segments behave and act in labour market under different conditions. It may be concluded that empirical research, based on scientific arguments of the above mentioned theories allows to understand peculiarities of labour market segmentation formation as well as their functioning in it. No doubt, practical application of the above mentioned theories acquire wide perspectives in dealing with problematic issues connected with labour market segment formation and participation in labour market processes.

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METHODOLOGICAL APPROACHES TO PUBLIC RELATIONS' EFFECTIVENESS EVALUATION

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Abstract

This article analyses the scientific insights defining the public relations' effectiveness and reflecting the variety of scientific research approaches as well as enabling the identification of the main features describing the PR effectiveness. The key focus is on critical analysis of PR effectiveness evaluation models. Based on the findings, pre-conditions for development of instruments of this kind are established. The key ones among them include complex nature, links with business and/or company performance, flexibility of application and dynamism. The article aims at substantiating this statement through theoretical analysis.

Keywords: public relations, effectiveness of public relations, effectiveness evaluation, models for the evaluation of PR effectiveness.

Introduction

Discussions are becoming more frequent that in the constantly changing environment effective development of public relations (hereinafter – PR) is one of the key factors of success for the companies.

While educating the society and shaping the public opinion, PR ensure the correct interpretation of the company's actions and decisions. Moreover, while maintaining the relationships with the society and being aware of its opinion on issues of relevance to the company, the companies can successfully anticipate the trends in the surrounding environment and identify in a timely manner the problems related with micro- and macro-environment. Consequently, they can duly adapt to the changing environment in accordance with the expectations prevailing in the society or change the environment in the direction favorable both to the society and the company. Timely response to environmental changes reinforces the company stability and has positive impact on business effectiveness (L. Hon, 1997; D. Wright, 1997; J. Grunig et al., 2002; D. Wilcox et al., 2003; W. Lindenmann et al., 2003; J. K. Springston and R. Lariscy, 2005). Possibilities offered by PR bespeak of the necessity for suitable and constant development.

One of the conditions to ensure suitable PR development is the evaluation of the effectiveness of this activity. Complex nature of PR effectiveness evaluation from the beginning of the program to the end allows making timely corrective decisions, thus avoiding irrational PR decisions and facilitating the PR process management. On the other hand, PE effectiveness evaluation enables ensuring the accountability of this activity and provides the opportunity to link the PR results with the overall objectives of the company. The laid arguments bespeak of the significance of PR effectiveness evaluation when creating the value for the company and ensuring the key pre-requisites for successful

Scientific literature contains numerous recommendations for PR effectiveness evaluation (L. Hon, 1998; S.M. Cutlip et al., 2000; A. Gregory, 2001, W. Lindenmann et al., 2003; L. Kazokienė, J. Stravinskienė, 2011). Scientific works of J. Grunig et al. (2000), D. Smith (2005), D. Phillips (2006) are also noteworthy.

Complicated process of PR effectiveness evaluation raises discussions on this issue and opens the opportunities for the variety of approaches to PR effectiveness evaluation research. This is one of the reasons for the existence of broad spectrum of tools for PR effectiveness evaluation.

The variety of evaluation tools and different possibilities for their adaptation determine the need to define the methodological approaches to their application.

Object of article: PR effectiveness evaluation.

The **aim of article** is to reveal the methodological approaches to PR effectiveness evaluation.

Tasks of article:

1. To reveal the variety of scientific approaches to the PR effectiveness examination.

2. To analyze the predominant models for PR effectiveness evaluation and to determine the pre-conditions for the development of tools of this kind based on their advantages.

Methods applied: comparative analysis of scientific literature sources and its summing-up.

PR effectiveness concept

Under the influence of scientific researches performed, PR effectiveness concept has been developing in different directions, resulting in the multitude of different interpretations of PR effectiveness and its evaluation conceptions. It determined ambiguous recommendations of scientists on the issue of PR effectiveness evaluation. These causes impel to perform a more comprehensive analysis of PR effectiveness

conceptions. In order to suitably understand the PR effectiveness and to distinguish its key features, it is advisable to commence the analysis of PR effectiveness conceptions from the generic expression of effectiveness. This approach is adopted on the assumption that the beginnings of PR effectiveness evaluation refer to the evaluation in the general context. In general meaning, effectiveness is explained as the ratio of results and costs to attain them or the adequacy degree of these for the company. The presented conceptions of effectiveness illustrate that when defining it one needs to take the results into account.

When analyzing the effectiveness of specific activities, including PR, the objectives of the activity need to be taken into account and the variety of effectiveness conception interpretations as well as different approaches need to be recognized.

For instance, P. Lesly (1986) analyzes the PR effectiveness from *the company management and prevention point of view*. He states that prevention of negative consequences is the ultimate expression of PR effectiveness. Intangible results of PR such as avoidance of crisis, boycott, imposing of prohibitions – create the highest value for the company. Although the attitude of the author is non-stereotypic and interesting, it is, however, worthwhile to sustain the opinion of L. Hon (1998) that it is possible only to presume the existence of links between the PR decisions and intangible results. It is complicated to accurately establish the PR effectiveness from the prevention point of view.

D. Ross (1972), D. Dinesh and E. Palmer (1998), S. Harrison (2000), A. Gregory (2001), J. Blythe (2003) follow *the management by objectives theory* (MBO). Authors described the PR effectiveness as the *attainment level of set objectives or tasks*. P. Kitchen (1997) and T. Watson (1997) expand this attitude by emphasizing the attainment level of economically substantiated PR objectives.

L. Hon (1997) based upon *comparative analysis of PR effectiveness conception interpretations by scientists and practitioners*. She listed several possible levels of PR effectiveness:

PR effectiveness at individual level. On this level, the effectiveness of PR specialists is established, which may be associated with the competence of PR specialists or compliance of the acts of PR specialists with the expectations of the company manager.

PR effectiveness at program level. In this case, an assumption is made that PR programs, which yielded the expected results (sometimes unexpected favorable results, too), are effective.

PR effectiveness at organizational level. PR effectiveness on this level is associated with the contribution of PR objectives to overall company objectives.

PR effectiveness at societal level. In this case, the PR outcome may evolve into “liberalism of interests” of different societal groups (L. Hon, 1997 p. 6) or general (to a certain extent) decision-making in social, political and economic fields.

The elaboration of PR effectiveness by L. Hon (1997) presents a comprehensive systematic comprehension of PR effectiveness.

L. Grunig and J. Grunig (2000) follow *the company performance effectiveness theory*. According to the authors, *PR effectiveness should describe the usefulness of PR to the company when seeking for strategic objectives of the company*. It can be stated that the authors follow the management by objectives theory; however, different from R. D. Ross (1972) or D. Dinesh and E. Palmer (1998), they link the PR effectiveness to the company's strategic objectives. This attitude is valuable due to the fact that PR are illustrated as a strategic management function, which is not a purpose in itself. This implies that after invoking the theory of excellence developed by J. Grunig the presented attitude becomes clearer, seeing that it allows establishing what makes the companies' operations effective. The theory of excellence postulates a belief that companies attain their objectives because these are valuable to the company and its environment. By setting mutually beneficial objectives, a company mitigates the antagonism of the society with regard to its actions, maintains and develops the mutual trust-based relationships with strategic audiences. As a result, companies find it easier to adapt to external environment and to influence it.

The laid observations allow the formation of the insight that relationships are the main constituent enabling to link the PR actions and PR effectiveness of companies.

According to L. Kazokienė and J. Stravinskienė (2009), PR effectiveness is described as *the value of PR decisions to the company, expressed through the effectiveness of PR programs (comparing the set objective and the attained result) and the progress in company's relationships with strategic audiences*. This conception of PR effectiveness names the key features of PR effectiveness, provides the evaluation method and merges the effectiveness of different levels – programs as well as that of the company. In this case it is worthwhile to merge the effectiveness of several levels, because the PR activity includes the entirety of PR programs being implemented. The PR effectiveness conception consolidates the key descriptors of PR effectiveness listed by the scientists.

It is noteworthy that the proposed explanation adheres by the provision that relationship management perspectives may comprise the grounds for theory and practice of PR; company's relationships with strategic audiences, therefore, can be one of the long-term objectives of the company. In this case, the change of relationships due to PR actions, enabling to generate added value for the company, links the PR decisions and overall objectives of the company.

The analysis of PR effectiveness conceptions allows stating that PR effectiveness is a complex element that can be analyzed on several levels. The revealing of PR effectiveness is inseparable from the role of PR when striving for overall objectives of the company.

Critical analysis of models for PR effectiveness evaluation

Under the influence of the rapidly developing PR, the paradigm of PR effectiveness has been progressively changing. PR effectiveness studies carried out during the earlier period (before 1990) were in many cases focused on the evaluation of PR program impact or fragmented evaluation, for instance, oriented to causalities. PR effectiveness evaluation studies of later period (from 1990) became increasingly more process-oriented.

One of the best-known models that is easy to adapt is the PII (Preparation, Implementation, Impact) model for PR program effectiveness evaluation recommended by S. M. Cutlip et al. (2000) (T. Watson, P. Noble, 2007, p. 82). The key point of the PII model is described by the evaluation of different criteria in stages of input, implementation and impact, distinguished by the PR process. Ambiguous interpretation of the PII model determines the flexibility of its application. When this model is applied in different PR programs or by different PR specialists, it could serve as a test or checklist to plan the PR or program evaluation (P. Kitchen, 1997). It should be emphasized that this model is based on the chain reaction of the results of different PR process stages. Detailed presentation of individual evaluation stages describes the specific changes and, in the opinion of P. Kitchen (1997), J. Henderson (2005), T. Watson and P. Noble (2007), determines the value of the PII model.

Evaluation in the input stage allows validating the suitability of the information obtained and the initial research when analyzing the situation. Evaluation in the implementation stage enables validating the suitability of PR tactics and efforts of PR specialists. Compared to the first two stages, evaluation in the impact stage is the most complicated as it includes specific evaluation, e.g., the share of those who changes their beliefs, as well as the broad and difficult-to-understand evaluation – changes in the social sphere. J. Henderson (2005) raised the issue of social and cultural changes' evaluation validity in the overall context of the model. In her opinion, not every PR program and not every company seeks for social and cultural changes.

From a methodological point of view, the Pyramid model recommended by J. Macnamara is more comprehensive (T. Watson, P. Noble, 2007, p. 85). It depicts the PR evaluation process from the processing of large volume of information, choice of communication material presentation options to the evaluation of the attainment of the set objective (T. Watson and P. Noble, 2007).

The Pyramid model explicitly distinguishes between the stages of data input and evaluation, and results evaluation. This model analyzes communication as a multi-step process and illustrates the need for different evaluation methods. Although the Pyramid model anticipates an implicit responsive reaction, however, additional value of this model can be identified when consistently explaining the research methods that shape and sum-up the results.

PII and Pyramid models are of complex nature; however, they do not include an integrated link with the

created effect and lack dynamic responsive reaction. PII and Pyramid models are perceived as static, step-by-step processes revealing the completion of PR program or activity. Considering the fact that PR is a constantly developed activity PRE (Planning, Research, Evaluation) procedural model is rather more advantageous (T. Watson, P. Noble, 2007, p. 90). According to A. Gregory (2001), specific evaluation of PR program in PRE model is designed in the planning context of PR program. This is a repetitive cyclical process, foreseeing continuous development of PR. The insights of A. Gregory (2001) lead to the decision that this model corresponds to the specifics of PR and clearly illustrates the importance of complex evaluation of PR effectiveness, when the final evaluation stage directs towards new PR ambitions.

A. Gregory (2001) presents the PR evaluation model based on objectives, which merges two attitudes: PR evaluation as a planning cycle (corresponds to the PRE model) and PR decision evaluation starting with the preparatory actions (corresponds to the PII model). It is not necessary to analyze the entire planning cycle each time, but periodical analysis or review of PR programs may be helpful when substantial internal or external changes occur. This model allows for an assumption that PR program objectives support the overall objectives of the company.

A. Gregory (2001) draws attention to the fact that this model contains no methodological indications, which are imperative in evaluation studies. This implies that the model accepts any evaluation method. The PR evaluation model based on objectives can be explained as impact research of PR program examined concurrently with PR activities and constituting a part of PR activity on different PR effectiveness levels (individual, local, organizational and societal), which in a certain sense correspond to the PR effectiveness elaboration in levels stipulated by L. Hon (1997).

T. Watson and P. Noble (2007) recommend the PR effectiveness models, which they link with the communications strategies identified by J. Grunig: press agencies, public information or one-way symmetries, two-way asymmetries, two-way symmetries. T. Watson presents a Short-Term Model for PR evaluation that ignores the feedback. Short-Term Model for PR evaluation of T. Watson corresponds to press agency, public information or one-way symmetry model of J. Grunig (T. Watson, 2001, p. 267). The other model recommended by T. Watson, that is the Continuing Model for PR evaluation, is consistent with the two-way symmetric and two-way asymmetric approaches of J. Grunig. It accentuates the feedback monitoring and message modification and it is, therefore, characterized by a repetitive loop process. The Short-Term Model and the Continuing Model for PR evaluation can be applied within the evaluation framework of all PR activities. The Short-Term Model for PR evaluation does not allow establishing the PR impact, but represents a counterfort for further stages of PR evaluation. It is noteworthy that this model, like PII, is more oriented towards the evaluation of the work with the media and bypasses the evaluation of other means of communication used in the PR. In other words, there is a lack of more versatile

evaluation approach illustrating the tactical decisions. According to M. Fairchild (2002), the Short-Term Model and the Continuing Model for PR evaluation lack clarity from methodological point of view. They do not provide an explanation how to obtain a universal response using one method of evaluation, which is not possible considering the variety of PR objectives. These models do not describe in detail the PR program evaluation stages and do not reveal the expedience of PR efforts when striving for overall objectives of the company.

L. Kazokienė, J. Stravinskienė (2011) suggest a structural model for the evaluation of PR effectiveness, which is based upon a systemic approach by merging the PR program effectiveness evaluation comparing the set objective and the attained result and the evaluation of progress in company's relationships with strategic audiences (Figure 1).

The suggested model proposes four evaluation stages. The first evaluation of PR input stage is oriented to the set objective clarity evaluation. Clear and integral objectives of the program evaluation represent the first and important pre-condition for further work (L. Kazokienė, 2010). When evaluating the PR effectiveness and applying the principles of management by objectives, the set objective and the obtained result are being compared. In this case, the need for PR objectives formulated clearly and measurably becomes evident. Clearly formulated PR objectives allow carrying out revisionary and final comparisons of results obtained.

In PR implementation stage, tactical actions should be evaluated, which are associated with the communication message and its dissemination. Evaluation actions to be carried out in this stage allow improving the style of messages conveyed and facilitate the understanding of the message (Bissland, 1990; S. M. Cutlip et al., 2000; F. Seitel, 2001), provide initial information about the understandability of the message for the target audience and enable improving the technical skills of the specialists. In this stage, the evaluation of verisimilitude of message and attractiveness of media are the key, because their influence to the PR outcomes is the highest (L. Kazokienė, J. Stravinskienė, 2011).

The third is the interim evaluation stage. The need for it is based on the need for self-control. The aim of the interim evaluation stage is to provide information on the suitability of measures selected in the action plan for attainment of the planned result and to evaluate the possibilities to attain the planned results on time. Should unfavorable results be obtained after the interim evaluation, the action plan ought to be modified and measures of little effect ought to be replaced by others. In this stage, the object of evaluation depends on the choice of the company.

The multiplicity of PR results is one of the reasons raising the need for differentiation of results. The provision to distinguish between PR outputs, outtakes and

outcomes is emphasized in general principles for PR effectiveness evaluation (W. Lindenmann et al., 2003). The impact stage of structural model for PR effectiveness evaluation provides a clear differentiation of PR outputs, outtakes and outcomes.

The evaluation of PR outputs helps avoiding the errors in execution methods of the PR program. When evaluating the PR outputs, resources and methods used are revealed, suitability of communication technique is substantiated (J. Macnamara, 1999), potential audience is defined (S. M. Cutlip et al., 2000) and information on the productivity of PR specialists and scope of creative work is obtained (D. Wilcox et al., 2003).

This kind of evaluation promotes the initiative of PR specialists and represents a tangible criterion for the evaluation of their activities (L. Kazokienė, J. Stravinskienė, 2011). The evaluation of PR outtakes allows identifying the target audiences reached by the communication message and their response to the information being provided (R. Smith, 2005).

PR outcomes are treated as the key objects of evaluation, seeing as they are the cause of PR efforts. The evaluation of PR outcomes is more complicated than that of PR outputs or outtakes. The last ones are associated with the monitoring and calculation of the appropriate data. In the meantime, the evaluation of PR outcomes includes the analysis of the consistence of the attained PR results with the set objective.

In consideration of the PR specifics – the necessity for continuous development – the structural model for PR effectiveness evaluation provides for the formative and summarizing feedback.

The function of the formative feedback is to ensure timely transfer of information about the possibilities to attain the set objectives on time. The summarizing feedback provides information on the attainment of PR outcomes and allows making the decisions on the direction of further PR programs.

The proposed model contains implicit links between the PR and organizational effectiveness. These are explained by the significance of relationships, proved by the theory of excellence.

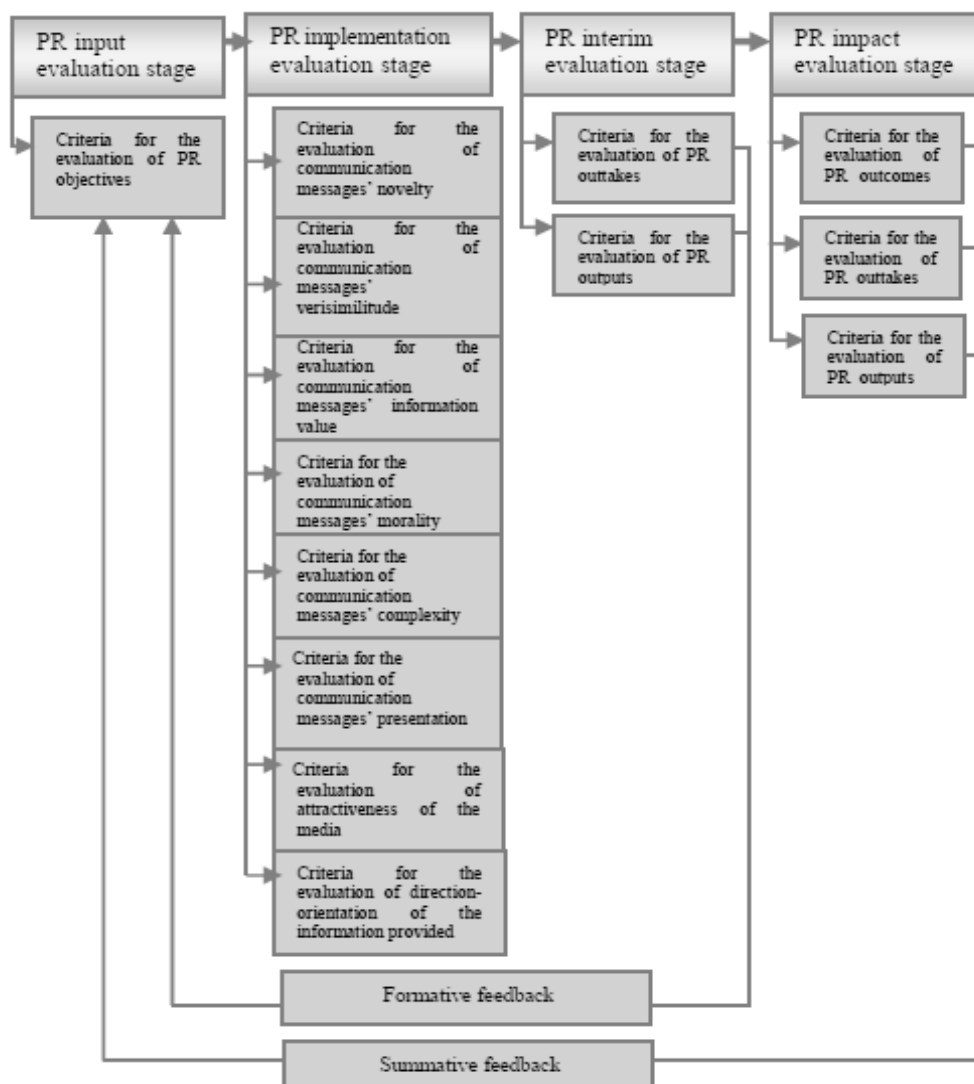


Figure 1. Model for the evaluation of PR effectiveness (L. Kazokienė, J. Stravinskienė, 2011)

The conducted analysis of models for PR effectiveness evaluation shows the following key advantages:

- *complex nature* of model. In other words, individual stages of evaluation that encompass the inter-related elements are presented in detail. The division of evaluation into stages enables disintegrating the complicated process, facilitates the management of communications and determines a higher result of PR (L. Hon, 1998; W. Lindenmann et al., 2003). Furthermore, an opportunity is presented to control the process being implemented and to detect the possible risks or mistakes on time.

- *links with the business and/or organizational outcomes.* If the PR effectiveness evaluation is to be presented as an isolated process, the trust in PR activities will decrease. In the meantime, the linking of PR decisions with the company's performance creates the opportunity to integrate the PR achievements into the company as a whole. Consequently, clearer

understanding about generated PR values is presented and the expediency of efforts is substantiated.

- *flexibility (versatility) of application.* This implies that the model can be used in companies engaging in different activities: production, sales, services etc. When defining the limits for application of a specific model, empirical validation is important. Considering the fact that the key functions of PR in different activities are the same, but help attaining different objectives, which are in general context described as the objectives of knowledge or opinion formation, or maintenance of relationships, we can make an assumption concerning the versatility of model application. It is important to emphasize that the application of model requires a clear understanding of the situation.

- *dynamism.* It is illustrated by continuous development of PR. In the analyzed models, it was depicted through a closed cycle (PRE model) or feedback while anticipating the possibility to use the results of PR

effectiveness evaluation in the planning of new PR programs.

Based on the identified advantages of analyzed models for PR effectiveness evaluation, the authors suggest that the PR effectiveness evaluation models should be of complex nature and enabling the control of the transpiring process, integrating the PR achievements into the company as a whole, flexible and dynamic.

Conclusions

1. After carrying out the analysis of PR effectiveness interpretations, the key features of PR effectiveness were identified. According to them, PR effectiveness was described as a compound element providing for the method of evaluation and linking the PR decisions with the company's performance. The compound element implies that the PR effectiveness can be analyzed on different levels: individual, program, organizational and societal. The provision of the method of evaluation refers to the indication of a clear direction for PR effectiveness evaluation. The linking of PR decisions and company's performance means the highlighting of the role of PR as an independent management function in the company.

2. Critical analysis of models for PR effectiveness evaluation enabled identifying the pre-conditions for the development of effectiveness evaluation models.

When reducing the probability of irrational PR decisions and ensuring a systematic and consistent implementation of PR programs, it is essential to provide in the process of PR effectiveness evaluation for a complex evaluation encompassing the inter-related elements.

Contemplation of direct or implicit links between the PR results and company's performance is vital for the promotion of trust in PR activities and substantiation of decisions made.

While acknowledging that there is no universal solution equally suitable for any case or situation, the application flexibility of PR effectiveness evaluation models becomes an important prerogative when testing the communication programs in companies engaging in different activities.

Considering the specifics of PR activities and treating them as continuously-developed activities, the effectiveness evaluation should be dynamic, provide the possibilities for responsive reaction and maintaining the relationship with the effect being created.

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Lina Kazokienė

METHODOLOGICAL APPROACHES TO PUBLIC RELATIONS' EFFECTIVENESS EVALUATION

Summary

The possibilities to invoke the public relations (PR) instruments to educate the society and to form its opinion as well as to observe on time the problems associated with the company's surroundings reinforce the significance of this activity for successful development of companies. Because of this, consistent development of PR becomes an important task for the companies. One of the preconditions for the implementation of this task refers to PR effectiveness evaluation that reduces the risk of irrational decisions and facilitates the control of multi-plan communication programs, while being of complex nature and encompassing the evaluation of PR decisions from the beginning of programs to their completion. Numerous scientific recommendations are proposed on the issue of PR effectiveness evaluation. The scientific works of L. Hon (1998), J. Grunig et al., (2000), S. M. Cutlip et al., (2000), A. Gregory (2001), W. Lindenmann et al. (2003), D. Smith (2005), D. Phillips (2006) are well known. However, it needs to be acknowledged that ambiguous interpretations of PR effectiveness and complex nature of PR effectiveness evaluation raise the discussions on the adaptation in specific situations and use of tools for PR effectiveness evaluation.

Object of article: PR effectiveness evaluation.

The aim of article is to reveal the methodological approaches to PR effectiveness evaluation.

Tasks of article:

1. To reveal the variety of scientific approaches to the PR effectiveness examination. 2. To analyze the predominant models for PR effectiveness evaluation and to determine the pre-conditions for the development of tools of this kind based on their advantages.

Methods applied: comparative analysis of scientific literature sources and its summing-up.

Seeking for the set objective, the article first of all analyzes the PR effectiveness concept and chronologically introduces to the predominant scientific approaches. One of them belongs to P. Lesly (1986), who approached the PR effectiveness from the company management and prevention perspective. The contribution of PR to the company from prevention point of view (avoidance of strikes, boycotts etc) is consequentially recognized; however its evaluation and clear definition of the outcome is practically unfeasible. L. Hon (1997) based on the comparative analysis of PR effectiveness conception interpretations of scientists and practitioners and specified four levels of PR effectiveness, i.e., individual, program, organizational and societal, thus clearly illustrating the multifacetedness of this object. Perhaps the largest number of scientists form the approach to PR effectiveness based upon the general conception of effectiveness (D. Ross, 1972; D. Dinesh and E. Palmer, 1998; S. Harrison, 2000; A. Gregory, 2001; J. Blythe, 2003). Integrating the company performance effectiveness theory into the prevailing approach, L. Grunig and J. Grunig (2000) illustrated PR as a strategic function of management, which is not a purpose in itself and should be linked with overall results of companies. This approach is further developed by L. Kazokienė and J. Stravinskienė (2009). In the PR effectiveness conception proposed by them, the possibility to link the PR decisions with overall results of companies is described as identification of progress in company's relationships with strategic audiences.

After analyzing the variety of scientific approaches on the subject on PR effectiveness, the article consistently introduces the following models of PR effectiveness evaluation:

- PII (Preparation, Implementation, Impact) model for evaluation of PR program effectiveness, recommended by S. M. Cutlip et al. (2000),
- Pyramid model recommended by Macnamara,
- Model for PR evaluation based on objectives, proposed by Gregory (2001),
- Short-Term and Continuous model for the PR effectiveness evaluation prepared respectively by T. Watson and P. Noble (2007),
- Structural model for PR effectiveness evaluation developed by L. Kazokienė, J. Stravinskienė (2011).

After carrying out a critical analysis of the models and identifying their advantages and shortcomings, methodological approaches to the PR effectiveness evaluation were formed:

- Complex evaluation involving the inter-related elements is needed in the PR effectiveness evaluation process to ensure a systemic implementation of PR programs.
- Contemplation of the links between the results of PR and company's performance is needed when substantiating the PR decisions.
- Application flexibility of PR effectiveness evaluation models becomes an important prerogative for the testing of communication programs in companies engaging in different activities.
- The necessity for continuous PR development raises the need for the dynamism in its effectiveness evaluation, while providing the possibilities for responsive reaction and feedback.

The listed insights can be invoked when preparing the recommendations for improvement of PR effectiveness evaluation instruments, oriented to the market needs.

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ENTREPRENEURIAL GROWTH IN FINNISH SMES – A QUALITATIVE EXPLORATION INTO THE BUSINESS PRACTITIONER'S PERCEPTION

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Abstract

This paper investigates the various ways in which Finnish entrepreneurs perceive company growth. The data include an MBA alumni survey, a Linked In sub-group and semi-structured interviews with entrepreneurs. The method is a mix of quantitative and qualitative thematic content analysis, providing an understanding of growth embedded in entrepreneurs' own experience. This was found to be holistically framed, with a discourse far removed from the abstractions of economics and commerce as conventionally conceived. Rather the entrepreneurs had a strong sense of collective responsibility to their group and issues of personal development figured highly. The early results underline a model of entrepreneurship as culturally embedded.

Keywords: entrepreneurship, Finland, growth, collective, culture, embedded.

Introduction

In both the literature and in policy terms, recognition of the value of alternative definitional approaches to economic and commercial growth is increasingly evident. This ranges from a large body of work on multiple forms of capital in ecological economics frameworks (e.g. Daly and Cobb, 1989), through Jackson's more recently popular Prosperity Without Growth (2009). Intellectual inquiries such as that by President Sarkozy in France (Stiglitz et al, 2009) also point to high-level political concern about conventional concepts of growth in the context of current global credit shortages.

As Leitch, Hill and Neergaard (2010) highlight, there is a lack of well-founded knowledge about causes, effects and processes of company growth. Growth is a complex systemic phenomenon (McKelvie & Wiklund 2010) and it has been suggested that firm growth is not a purely random process (Rantala 2006). To date, existing growth firm research has focused on focused on three levels: national (see for instance van Stel, Carree, Thurik (2005), Stel & Carree (2004) using GEM and OECD data; Rantala (2006) using Finnish data; Beugelsdijk & Smeets (2008) for a theoretical paper on entrepreneurial culture and economic growth), regional (see for instance Audretsch & Fritsch 2002), industry and firm level investigations. At industry and firm level research has investigated small business managers' growth motivation (see for instance Delmar & Wiklund 2008, Wiklund, Davidsson, Delmar 2006), the possibility of relating entrepreneurial types to different ways of growing (Minniti & Lévesque 2010, Witmeur, Diambeidou & Clynckemaillie 2010), different growth modes (McKelvie & Wiklund 2010), firm size expectations of nascent

entrepreneurs (Delmar & Davidsson 2006), the link between entrepreneurial orientation and performance (Wiklund 2006), factors affection growth (Brush, Ceru & Blackburn 2009), barriers to entrepreneurial growth (Doern 2009, Parry 2010) and stages theories and entrepreneurial growth (Levie & Lichtenstein 2010).

Arguably, growth is socially constructed: hence different definitions of growth exist as a result of diversity of contexts, situations at inter-and intra-group level, which as Leitch, Hill and Neergaard (2010) argue, "constrains shared understanding". In short, the different stakeholders who engage in growth dialogue do not necessarily share the same language, as observed by Gibb (2000), who suggested that business owners, policy makers, academics and other stakeholders have different beliefs, values, assumptions and perceptions of the world, which they express in a very different language, and which arguably explains the difficulties in communicating about growth.

Macpherson & Holt (2007) and Leitch, Hill & Neergaard (2010) underlined, however, the need for methodologies such as ethnography to get close to practice may hint at a potential gap between the practitioner's reality of growth definitions and perceptions in contrast to the academic reality. McKelvie & Wiklund (2010), for instance, call for in-depth longitudinal case studies exploring growth processes focusing on how growing firms utilize and combine different growth mechanisms and Gartner (2007) and Van de Ven & Engelman (2004) emphasize the need for in-depth methods such as narratives and case studies to "better capture the in-depth thinking of entrepreneurs and decision-makers" (McKelvie & Wiklund 2010).

With this in mind, this paper focuses on understandings of entrepreneurial growth in the Finnish context. Finding this to be holistically framed, it follows Achtenhagen, Naldi & Melin (2010) who offer the critique that the entrepreneur and the businessperson, while being the “enactors of business growth”, are not given the pivotal role they merit in defining growth and helping to devise policies to support growth. Taking this criticism on board this paper aims to fill a gap in the literature of entrepreneurial cognition by seeking the Finnish practitioner’s perception of growth. The objectives are to contribute to:

- Establishing the Finnish entrepreneur and the Finnish businessperson’s perception of growth, their definition of growth and their motivation for growth to promote a better understanding of the practitioner’s point of view;
- Identifying different cultural influences on growth within the Finnish context
- Stimulating new ways of thinking about growth.

Research design

Theoretical framing and research design are inherently connected in this study. In this research we conduct multi-perspectival analyses, including surveys, in-depth case studies and round-table with entrepreneurs. Such multi-perspectival analysis permits, as Tellis (1997) comments, not only consideration of the voice and perspective of one actor but also the voices of relevant groups of actors and the interactions between them. This approach allows the researcher to explore a phenomenon from a variety of perspectives.

There have been three phases to the research process. Phase I comprised: a) a survey conducted among MBA alumni about their perceptions of growth and b) a postcard survey sent out to a small sample of Finnish entrepreneurs using social media (Linkedin subgroup). Phase II contained: a) a roundtable organized by one of the authors about entrepreneurial growth of Finnish entrepreneurs and b) semi-structured interviews as part of case study research. It is presently envisaged to seek the different stakeholders such as business support organisations’ views on growth in Phase III. The data would then be contents-analysed to establish themes, compare and contrast across the cases and facilitate conceptual development, using AtlasTi as software support to quantify qualitative data. Figure 1 summarises the research process.

With this model in mind, it is necessary to draw on a number of relevant literatures to in order to build a theory of entrepreneurial growth that is grounded in the perceptions of entrepreneurs themselves. Ontologically we implicitly take a light social constructivist approach to growth definition and an interpretivist approach to our data. That is, while acknowledging that econometric definitions and concepts of growth have their merits for particular purposes, particularly at aggregated levels and in terms of providing numerical indicators, we assume that there are other, equally relevant and valid approaches to defining growth.

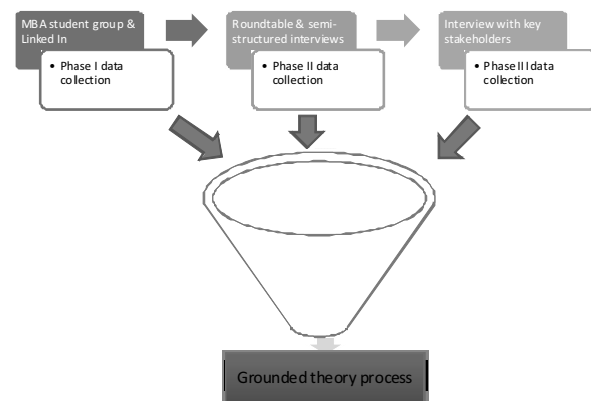


Figure 1. The research process

Indeed, due to the nature of entrepreneurship and growth, both being multi-faceted, complex and socially constructed, there is a need for more diverse, ontological and epistemological positioning (Neergaard and Ulhøi, 2007).

Research design and theoretical framing

The research design uses a grounded theory approach (Glaser and Strauss, 1967), particularly the variant that makes use of previous literature and a structured approach to sense-making (Strauss 1987, Strauss & Corbin 1998). Data collection and analysis are treated as interrelated processes (Miles & Huberman, 1994) involving a mix of strategies such as pattern seeking, clustering and the use of organising matrices to assist with both (Ghauri, 2004). As with much qualitative and semi-qualitative research, authenticity is more of a priority than absolute replicability (Hammersely & Atkinson 1983) and the end-target is theory grounded in real data, providing “theory-observation congruence or compatibility” (Corbin & Strauss 1990, p. 7). Here our objective is a characterisation of the cognitive frames of Finnish SME entrepreneurs, informed by empirics on the same. Below we summarily review the main literatures relevant to the analytic framework developed subsequently.

In this study we have combined qualitative and quantitative content analysis techniques, using both keyword searches of the interview transcripts and checking of the original texts for meaning. As Short et al (2009) observe of computer-aided text analysis, the user needs to attend closely to issues of validity and reliability within and between studies (ibid). For this reason we combine automated word counts with consideration and checking of textual meanings. While word incidence can provide insights into text content and discourse, highlighting similarities and differences between texts, it should never be used in a decontextualised way. Moreover we combined induction and deduction iteratively as we progressed towards a model of Finnish entrepreneurial cognition, specifically in relation to growth. Such a movement is common in research practice

(ibid) and is a typical characteristic of grounded theory approaches.

Literature review and positioning

Below we summarily review the main literatures relevant to the analytic framework that we develop subsequently.

Quantitative vs qualitative approaches to defining growth

As shown in Figures 2a & 2b, an extensive literature review has highlighted a three- fold breakdown of the extant research, involving a quantitative emphasis and qualitative-quantitative divide. A third emerging category consists of theoretical explorations related to growth.

A significant part of the growth literature has applied quantitative methodologies focusing on outcome-based quantitative indicators such as employment, sales/turnover, profitability (see for instance Davidsson, Delmar & Wiklund (2006), Delmar & Wiklund (2008), Witmeur, Diambeidou & Clynckemaillie 2010). In general, such work does not take into account qualitative differences among types of growth, nor the differing perceptions of growth that exist amongst diverse stakeholder groupings.

Entrepreneurial growth literature map:

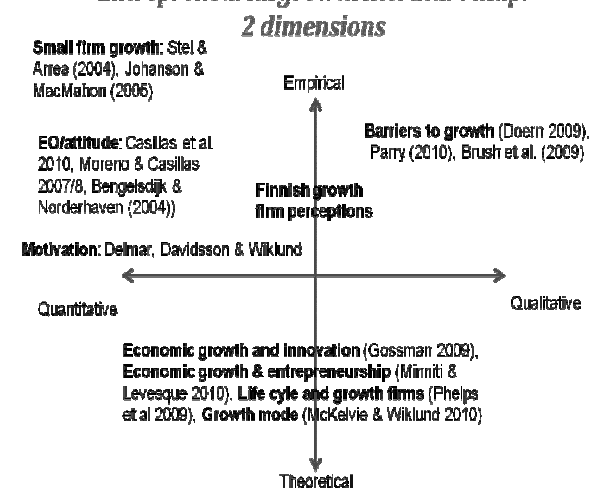


Figure 2a. The entrepreneurship cognition literature (two dimensions)

Much of the quantitative growth firm literature is dispersed, a view also shared by McKelvie & Wiklund(2010), in the way that different aspects of growth are considered by a small number of researcher. As such, in a quantitative study focussing on small entrepreneurial businesses Satyajit (2008) modelled small firm growth strategies; Stel & Arrea (2004) explored the relationship between small business ownership and sectoral growth in a 21 country study. The research was of a quantitative nature. Johansen & MacMahon (2005) explored growth from a gender-specific perspective with growth measured as employee numbers, sales, assets.

A more recent strand of literature has focussed on entrepreneurial orientation/entrepreneurial attitude and

SME growth. Such research has primarily been developed by Moreno & Casillas who hypothesised that growth comes from strategic behaviour and is influenced by entrepreneurial strategic management style; international and external factors are explored as moderators in a quantitative study.

Growth literature classification map:

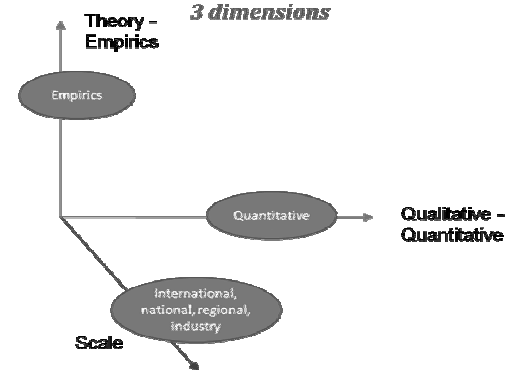


Figure 2b. The entrepreneurship cognition literature (three dimensions)

In further work Casillas, Moreno & Barbero (2010) explored the relationship between entrepreneurial orientation (EC), growth and family firms. They authors used multiple regression to explore link between EO and different growth variables. Bengelsdijk & Nornderhaven (2004) contributed to this particular branch of the growth literature with a 54 regions study about entrepreneurial attitude and economic growth. The research was of statistical nature using regression and structural equation modelling to explore the different variables impacting growth.

Theoretical papers have explored aspects of entrepreneurial innovation and economic growth (see for instance Grossman 2009), entrepreneurship and economic growth (Minniti & Levesque (2010), the relationship between life cycles and growth firms (Phelps, Adams & Bessant, McKelvie & Wiklund (2010) who argue that researchers need to address the question of how to grow before discussing how much growth is desirable.

The number of studies exploring growth firms in the Finnish context is limited: exceptions are Rautala (2006) with an extensive, pre-dominantly quantitative exploration of Finnish small business and Syrjä, Puumalainen & Kangasharju (2000) who contributed to the literature with a statistical analysis of the Finnish small business.

To date, qualitative research in growth is limited with Doern (2009) and Parry (2010) as well as Brush, Ceru & Blackburn (2009) being the exception. Doern (2009) investigated barriers to SME growth and how these may influence growth intentions and behaviours in transition countries. Focus was on owner managers in Russia and in-depth semi-structured interviews were held with 10 owner managers of Russian SMEs, representatives of SME support organisations as well as ministry officials and consultants. The findings suggested that the owner-manager's sense-making of barriers influenced their growth intentions and behaviour.

In comparison, Parry used discourse analysis within a social constructionist framework to explore growth barriers in micro-level firms. The focal point of the study were 20 micro-level artisan businesses. The author concluded that there is a need to understand the relationship between business activities and the identity of the owner managers, i.e. “the complex interrelationship between micro-firm management practices and participants’ lived business reality” (p. 393). Taking a case study approach exploring 19 New England-based firms Brush, Ceru & Blackburn (2009) found that fast growth companies have different rates and patterns of growth and in particular three key factors, management, marketing and money, influenced company growth.

Overall the literature review has shown a lack of qualitative research exploring the link between entrepreneurial perception and the understanding of growth in small business.

Entrepreneurial cognition in growth research

Cognition is a relatively new domain in entrepreneurship with researchers such as Baron (1998, 1999, 2004) underlining the need to explore entrepreneurial processes from a cognitive perspective. Much of the existing research, which has mainly been of a theoretical nature, has focussed primarily on three key questions in Entrepreneurship: Why do some individuals and not others become entrepreneurs?, Why do some individuals but not others recognise opportunities? and Why are some entrepreneurs more successful than others? Baron (2004), for instance, has pointed out the possible application and potential benefits of cognitive theories such as prospect theory, cognitive bias and regulatory focus theory as perspectives upon which to base future research exploring these questions.

The review of the growth literature has highlighted a gap in the existing literature considering the cognitive perspective of entrepreneurs. We argue that this approach will open up new ways of understanding entrepreneurial perception of growth and company development in general, but in particular with view to this study in the Finnish context.

Results: an emergent entrepreneurially-grounded model of growth

The analysis has highlighted that in existing research growth has been defined according to parameters and definitions chosen by academic researchers, without seeking the entrepreneurial and business person’s perception of growth. Hence such research neglects the practitioner’s view point. Given the most recent debate about the importance of ‘engaged scholarship’ where the academic is expected to engage in dialogue with the practitioner and use such connections to the benefit of the academic world, existing growth research neglects an important, yet essential dimension. The literature review has also revealed the paucity of context-specific, qualitative growth firm research and in particular not much research has been published in Anglo-Saxon

journals on entrepreneurial growth firms in Finland. This largely neglects the important consideration of growth as a cultural phenomenon. Different types of growth have been identified in the literature and different growth regimes have been suggested, the majority of which are, though, based on traditional financial indicators, largely neglecting more qualitative aspects such as intellectual and reputational growth. Different stakeholders understand growth differently. Yet we have found very little evidence in our literature review that extant research has examined the growth perceptions of different stakeholders such as business support organizations.

Different models of growth perception have emerged from the analysis of the MBA survey and the linkedin group entrepreneur survey. Figure 3 gives the findings from the MBA survey; Figure 4 the results from the linkedin group.

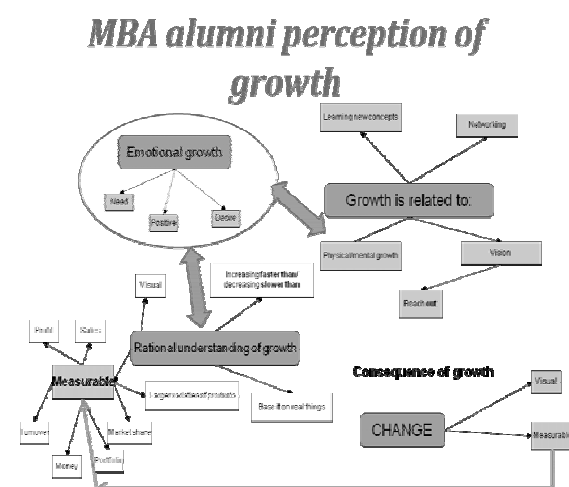


Figure 3. Finnish MBA practitioner perceptions of growth

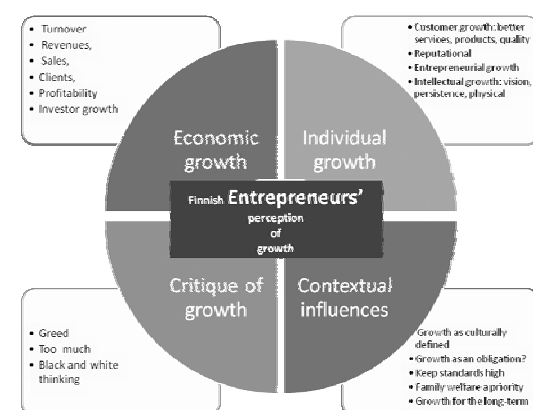


Figure 4. Finnish Linked In entrepreneur conceptions of growth

As Figure 3 shows for the MBA practitioner, some of which were also entrepreneurs, growth is a multi-dimensional concept. The analysis showed that these practitioners view growth as a holistic concept, including both quantitative, i.e. measurable components such as profit, sales, turnover, money, portfolio and market share and a larger variety of products, but also qualitative aspects. The latter refers in particular to the emotional,

mental and physical side of growth, growth as learning, the relationship between growth and networking and the importance of a vision for growth. Hence it is suggested that the rational understanding of growth is being contrasted/compared with a much softer, qualitative perspective. As potential consequences of growth change was mentioned, which could be a) visual and b) measurable.

In comparison, the analysis of the Linked In entrepreneur group produced the following findings. Similar to the MBA practitioner's perception the entrepreneurs saw growth both in quantitative and qualitative terms. Quantitative terminology comprised financial indicators such as turnover, revenues, sales, clients, profitability and investor growth. The qualitative terminology suggested customer growth in terms of better products, services, entrepreneurial growth, reputational growth and intellectual growth. The entrepreneurial group also voiced criticism regarding the growth concept, mentioning greed, black and white thinking and the idea of 'too much'. 'Habitus', a concept defined in the early work of the French sociologist Bourdieu emerged as an important aspect from the analysis suggesting that the growth perception is culturally bounded. As a result, it was suggested that growth in the Finnish context may not be desirable, but done if a must. Instead, keeping the welfare standard and in particular for the family was considered a priority. Long-term growth was preferred.

Figure 5 below identifies clusters of theoretically-relevant keywords, drawn from the second empirical phase of the semi-structured interviews with Finnish entrepreneurs, using Atlas TI. The simple count of word incidence delivered by this tool provides a surprisingly useful insight into the language used in particular texts. Absence is as important as presence in this context; by indicating relative incidence of the same keywords, Figure 5 helps to reveal theoretically relevant themes and commonalities between the two groups. Moreover, through this process a lexicon of Finnish entrepreneurship begins to emerge.

Quantitative analysis: Entrepreneurship growth dimensions: keyword occurrences

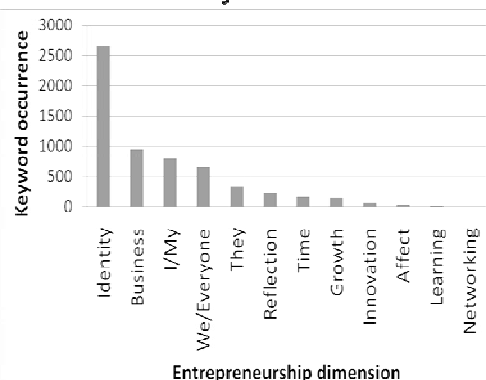


Figure 5. Multi-dimensional associations of 'growth': keyword analysis of interviews

Rather than finding 'standard' dictionary conceptual clusters relating to terms such as entrepreneurship and

growth, as assembled for example by Fellbaum (2005) for the purpose of text analysis, in the Finnish case we observe a very different picture.

Further analysis using AtlasTi has highlighted that entrepreneurs and business practitioners under-emphasised the economic/statistical dimension of growth. The business terminology used by the entrepreneurs is practically devoid of financial indicators. Rather, there is a focus on collective dimension of their discourse: we but not I. Figure 6a combines the incidence of 'I' and 'my' in an 'I composite'; Figure 6b combines several terms relating to what might be termed the close collective (I, my, we, us etc) and compares this with terms relating to the other. Figure 7 maps the identity polarities graphically. This emphasis on the collective, the group, is a key theme for further analysis and reflection: in particular, it can be hypothesised that this is a feature that may not be found in more individualistic societies. Similarly, it may perhaps be found more strongly in cultures with a stronger level of group identity.

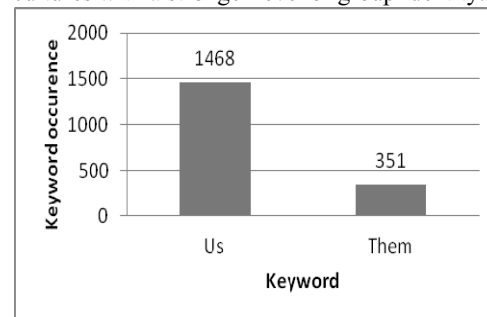


Figure 6b. The balance of the close collective with the other

Identity: Collectivity and polarity occurrences



Figure 7 Mapping the identity polarities

Conclusion

Using multi-level and multi-method analysis of qualitative data relating to Finnish entrepreneurs' own perceptions of company growth, we are working towards a model of growth as culturally embedded. To the ethnographically and phenomenologically-minded researcher, this will come as no surprise. Nonetheless, early results underline the gap between the practitioner's

growth perceptions, which are far from being quantitatively-focussed, and the more conventional quantitative understanding of growth, which finds its application in research, but also small business and entrepreneurship policy. Arguably, this creates a tension between the reality of the practitioner and the reality of the policymaker. In terms of further work, we plan to

elaborate the culturally embedded model of growth with more specificity and consider the implications of the findings for the appropriateness of existing policy approaches, particularly regarding policy intended to encourage, motivate and support entrepreneurship.

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Rita Klapper, Paul Upham, Lauri Tuomi

ENTREPRENEURIAL GROWTH IN FINNISH SMES – A QUALITATIVE EXPLORATION INTO THE BUSINESS PRACTITIONER’S PERCEPTION

Summary

As Leitch, Hill and Neergaard (2010) highlight, there is a lack of well-founded knowledge about causes, effects and processes of growth. Growth is a systemic problem and hence very complex. As a result, growth is not one but several phenomena (McKelvie & Wiklund 2010) and it has been suggested that firm growth is not a purely random process (Rantala 2006). To date, existing growth firm research has focused on focused on three levels: national (see for instance van Stel, Carree, Thurik (2005), Stel & Carree (2004) using GEM and OECD data; Rantala (2006) using Finnish data; Beugelsdijk & Smeets (2008) for a theoretical paper on entrepreneurial culture and economic growth), regional (see for instance Audretsch & Fritsch 2002), industry and firm level investigations. At industry and firm level research has investigated small business managers’ growth motivation (see for instance Delmar & Wiklund 2008, Wiklund, Davidsson, Delmar 2006), the possibility to relate entrepreneurial types to different ways of growing (Minniti & Lévesque 2010, Witmeur, Diambeidou & Clyncemallie 2010), different growth modes (McKelvie & Wiklund 2010), firm size expectations of nascent entrepreneurs (Delmar & Davidsson 2006), the link between entrepreneurial orientation and performance (Wiklund 2006), factors affecting growth (Brush, Ceru & Blackburn 2009), barriers to entrepreneurial growth (Doern 2009, Parry 2010) and stages theories and entrepreneurial growth (Levie & Lichtenstein 2010).

Arguably, growth is socially constructed, hence different definitions of growth exist as a result of diversity of contexts, situations at inter- and intra-group level, which as Leitch, Hill and Neergaard (2010) argue, “constrains shared understanding”. In short, the different stakeholders who engage in growth dialogue do not necessarily share the same language, as already pointed out by Gibb (2000) who suggested that business owners, policy makers, academics and other stakeholders have different beliefs, values, assumptions and perceptions of the world which they express in a very different language, which arguably explains the difficulties in communicating about growth.

Macpherson & Holt (2007) and Leitch, Hill & Neergaard (2010) underlined, however, the need for methodologies such as ethnography to get close to practice, which may hint to a potential gap between the practitioner’s reality of growth definitions and perceptions in contrast to the academic reality. McKelvie & Wiklund (2010), for instance, ask for in-depth longitudinal case studies exploring growth processes focusing on how growing firms utilize and combine different growth mechanisms and Gartner (2007) and Van de Ven & Engelman (2004) emphasize the need for in-depth methods such as narratives and case studies to “better capture the in-depth thinking of entrepreneurs and decision-makers” (McKelvie & Wiklund 2010).

This research follows Achtenhagen, Naldi & Melin (2010) who criticize that the entrepreneur and the businessperson who are the “enactors of business growth” are not given the pivotal role they merit in defining growth and helping to devise policies to support growth. Taking this criticism on board this research aims to fill a gap in the extant literature by seeking the practitioner’s perception of growth.

A research study was designed in line with the following objectives: a) to establish the entrepreneur and the businessperson’s perception of growth, their definition of growth and their motivation for growth to promote a better understanding of the practitioner’s point of view; b) to suggest new ways of thinking about growth; c) to establish the different growth trajectories of the firm (past, present and future); d) to investigate the barriers and facilitators to growth; e) to develop policy recommendations to support growth companies; f) to explore the relationship between practitioner’s growth definitions, his/her motivation for growth and the growth trajectories realized.

Methodology. Due to the nature of entrepreneurship and growth, they are both multi-faceted, complex and socially constructed there is a need for more diverse, ontological and epistemological positioning as argued by Neergaard and Ulhoi (2007). In line with this reasoning we adopted an interpretative approach, consisting of three phases comprising a number of different elements. Phase I comprised a) a survey conducted among MBA alumni about their perceptions of growth and b) a postcard survey sent out to a small sample of Finnish entrepreneurs using social media (LinkedIn subgroup). Phase II contained a) a roundtable organized by one of the authors about entrepreneurial growth of Finnish entrepreneurs and b) semi-structured interviews as part of case study research. It is presently envisaged to seek the different stakeholders such as business support organisations’

views on growth in Phase III. The qualitative surveys and the semi-structured interviews and round-table are contents-analysed using qualitative data analysis software, where and whenever possible.

Initial findings. The literature review has underlined a number of important issues. First, the majority of extant research has applied quantitative methodologies focusing on outcome-based quantitative indicators such as employment, sales/turnover, profitability (see for instance Witmeur, Diambeidou & Clynkemaillie (2010)). This may be understood as a major constraint in understanding growth as such research does not take into account the uniqueness of growth and the different perceptions of growth that exist amongst diverse stakeholder groupings.

Second, the analysis has highlighted that in existing research growth has been defined according to parameters and definitions chosen by academic researchers, without seeking the entrepreneurial and business person's perception of growth. Hence such research neglects the practitioner's view point. Given the most recent debate about the importance of 'engaged scholarship' where the academic is expected to engage in dialogue with the practitioner and use such connections to the benefit of the academic world, existing growth research neglects an important, yet essential dimension.

Third, the literature review has revealed the paucity of context-specific, qualitative growth firm research and in particular not much research has been published in Anglo-Saxon journals on entrepreneurial growth firms in Finland. This largely neglects the important consideration of growth as a cultural phenomenon. Fourth, different types of growth have been identified in the literature and different growth regimes have been suggested, the majority of which are, though, based on traditional financial indicators, largely neglecting more qualitative aspects such as intellectual and reputational growth. Fifth, different stakeholders understand growth differently. Yet we have found very little evidence in our literature review that extant research has examined the growth perceptions of different stakeholders such as business support organizations.

Conclusion. The initial results of this research project have underlined the gap between the practitioner's growth perceptions, which are not necessarily quantitative, and the general quantitative understanding of growth, which finds its application in research, but also small business and entrepreneurship policy. Arguably, this creates a tension field between the reality of the practitioner and the reality of the policymaker, and throws doubt on the appropriateness of existing policy approaches.

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THE POWER OF TRADE UNIONS IN INDUSTRIAL RELATIONS: THE CASE OF LITHUANIA

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Abstract

While the trade unions of different countries as the collective participants of labour relations experience the period of decline or transformation, the research focus on the traditional elements of trade unions' power as such the structure of the sector, membership, collective negotiation has been strengthened. The trade unions in Lithuania, on the general, have been underinvestigated. Therefore, the aim is to characterize them according to the traditional measures of power in industrial relations in terms of sector's structure, membership, collective negotiations and strikes.

Keywords: trade unions, power of trade unions, industrial relations.

Introduction

The academic discourse on the contemporary trade unions has been penetrated by the obvious problem of this sector decline that originates in the 8th decade of XX century (Addison et al., 2010, p. 2). Therefore, the researchers submit a number of evaluations on the existing situation, the reasons, the ways of rebirth, the search of possibilities and the forecast for future.

First of all, while discussing the tendencies of contemporary trade unions' power and influence changes in industrial relations (further IR), it is worth differentiating between the approaches related to the situation in Western trade unions and the ones in Central and Eastern Europe (further CEE). This attitude is determined by the different evolution of trade unions in West countries and CEE countries and the differences in recent situation. The development of trade unions in CEE countries has been influenced both by the factors discussed in Western trade unions' examples and by the unique factors that are characteristic for the certain region. The concepts of coherent development of role and influence changes in Western trade unions have been focusing on the problems of declining membership, ideology, power sources, behaviour, the development and application of new strategies, i.e. the possibilities for rebirth. In the light of radical political, economic, social transformations the discourse on trade unions in CEE countries emphasizes the questions on identity in local society, on the reasons of weaknesses and the sector's developmental issues instead of rebirth possibilities.

Thus, the initial positions in the debate on trade unions in the contemporary world are essentially different: the recent situation in West Europe is conceptualized with the *strengthening approach* (despite their decline, the Western trade unions have remained as

the important social actors), while the cases of CEE countries are considered from *weakness approach* (Bohle, Greskovits, 2006, p. 5) (in post-communist period trade unions were developed as weak actors), since they experience the lack of resources and relevant status in the society. It is argued that after the failure of communist regime the sector of trade unions run low in absolutely all the spheres: membership, importance in the workplace, collective solidarity, sectoral diversity, business responsibility and political influence (Ost, 2009).

The Lithuanian trade unions have not received the attention of researchers. They are described by the expert opinions and the main reason of their weakness is considered to be poor membership. The empirical data, however, proves that in a number of countries the low number of trade union members does not determine the weak influence; in other words, the low membership, the influence of trade unions, their "visibility" and the successful goal attainment are not necessarily intercorrelated measures (Damesin, Denis, 2005).

The article is based on the explorative (descriptive) research approach which determines the main aim of discussing the power theories: to validate the measures of Lithuanian trade unions' description.

The object of the article: trade unions.

The aim of the article is to characterize the Lithuanian trade unions in terms of their power in industrial relations.

The objectives of the article:

1. to discuss the systems of industrial relations;
2. to define the trade unions' power concepts and measures;
3. to characterize the Lithuanian trade unions in terms of their power in industrial relations.

The methods applied: research literature analysis, secondary analysis of data, document analysis, semi-structured interview.

Systems of IR and trade unions

The appearance of the term “industrial relations” is related to the end of XIX century and widely defines the sphere of research interests in labour relations. R. B. Kaufman (2010, p. 1) names the most historically important interdependent variables of industrial relations: labour relations and the problems that accompany these relations.

As Weiler (2005, p. 13-15) states, IR concept embraces the following elements defined by different authors: the control process of labour relations and interests’ regulation; the network of institutionalized relations among actors, organizations and institutions; collective relations; different actors (employees and representatives/ employers and representatives) and places of action; different levels of industrial relations and their interaction; the legal and institutional systems and public policy; collaboration and conflict relations; the industrial relations as social, economic, cultural and political relations; the diversity of national models and their peculiarities; new over-national industrial relations.

C. Jensen (2008, p. 1), M. Rigby, R. Smith, T. Lawlor (2005) define two models of labour market organization that, according to a number of researchers, are extremely different and characterized by opposition: liberal and corporative systems of IR. The liberal system of labour relations is characterized by the low regulation of labour market, the decentralized and low regulation level interaction between employees and employers. The corporative (so called social democratic) system is defined by the high level of relation regulation between labour market participants, employee security and high level of state welfare maintenance.

The IR systems in Europe are characterized by the certain level of variations, but in general the four types of systems could be discerned (Jensen, 2006, p. 10-12):

1. North Europe. The main representatives of this model are Denmark, Sweden, Norway and Germany. It is described by the extremely strong organizations of labour market and strong institutions for controlling relations among the labour market organizations. Usually the system is characterized by the high density of trade unions’ membership.

2. The British system is characterized by the weak institutional and legal foundation. The individual basis of relations between employer and employee prevails, and the tendencies of collective bargaining in trade unions are obvious. This system is represented by Great Britain and partly by Ireland.

3. South Europe IR system is defined by the weak organizations in labour market and the low density of membership. On the other hand, the weakness of French, Spanish and Portuguese trade unions in terms of power is evaluated with the certain exception, because despite the small pool of members, the trade unions maintain their guaranteed rights in workplaces and in the relations with management members.

4. IR systems of Eastern Europe. It is declared that IR in post-communist, post-socialist countries experienced the transitive period, new systems of IR are in the developmental stage and the trade unions make their efforts to strengthen their position in labour market.

The discussion on IR systems in CEE countries has to take into account that many post-communist countries had experienced the dramatic transformations in economics with the emergence of new market economy and decline of command planning economy (Korkut, 2006, p. 3). The transformation of CEE countries’ communism into capitalism has been named as the natural experiment which is observed by the scientists. It is argued that the majority of CEE countries adopted more or less successful version of neoliberalism and the coordination there did not exist (Crowley, 2004, p. 3; Crowley, Stanojevic, 2011, p. 21). Tripartite agreements in the mentioned countries do not represent the empowering neo-corporatism, but serve as the symbolic protection of neoliberal transformations (Ost, 2009, p. 4). The neoliberal restructuring destroyed the living standards of employees; there was a rapid growth of small and medium business sector that was characterized by unorganized labour force. The whole post-communist decade in CEE countries was marked by the humiliation and marginalization of employees and trade unions (Cook, 2010, p. 5). While analyzing the IR framework in CEE countries, D. Bohle and B. Greskovits (2007, p. 3-4) emphasize the unique situation in the Baltic countries where employees’ rights were poorly articulated as compared to the Central Europe where the pressure of electors in the context of specific nationalism ensures more rights and better social security. Exactly in the Baltic countries the neoliberalism reform was without compromise and radical. This situation was obviously unfavourable for the trade unions and marked by the tendencies of weak collective bargaining, ignorance and avoidance of regular tripartite negotiation, the marginalization of trade unions in the public policy decisions (Ost, 2009, p. 18). Therefore, the environmental aspect of Lithuanian trade unions questions the power of the collective actor and its future in the social, economic and political relations.

Trade unions’ power in IR

The issues of contemporary trade unions, such as membership, organization activities and structure of the sector, performance effectiveness, collective bargaining, are closely related to the concept of power in social and economic relations. Different scholars in the comparative research on countries’ trade unions rely on quite similar measures of trade unions. The concept of trade union power could be considered as central, because their power is one of the most popular, even if it is not well defined and lacks the clear terms in the vocabulary of researchers who investigate the situation of trade unions’ sector (Kelly, 2002, p. 5). It is worth mentioning the theoretical attitudes on power resources presented by Korpi and Shalev (the explanations of variations in Western democratic countries caused by the distribution of power resources) and Jena.

According to W. Korpi, the power resources are particular features and traits of an actor with the help of which he is able to award or punish other actors (Korpi, 1985, p. 3). In the theory of power resources W. Korpi and M. Shalev (1979) focus on the labour power. As the authors state, the organized labour together with the labour party in government is able to force businesses to cooperate in stimulating the economic growth and employment. So, trade unions change the classical type of conflict “zero-sum game” into the type “positive-sum game” with the positive result for both employers and employees and reject the aggressive industrial actions (Brandl, Traxler, 2009, p. 2). Korpi, in general, differentiates among three wide categories of socio-economic classes: employers, hired employees and employees with the private practice. Even if these categories are heterogeneous inside, they define the possibilities and limitations of the actors, resources and risks (Nijhuis, 2009, p. 4). According to the power resources, the changes of distribution have huge influence on social processes and social change (Korpi, 1985, p. 11). The main statements of power resources theory (Kellermann, 2005, p. 3-4):

- a single employee has no possibilities for punishment or award, if there is no organization to represent his interests (trade unions, political parties);
- in this situation the capital owners control almost all power resources in economics;
- the consolidated employees, aiming for the bigger equality, may carry out the collective political, economic actions.

K. Dörre, H. Holst, O. Nachtwey (2009, p. 3-7) claim that the power of trade unions rely on the efforts of reward receivers to manage the inter-competition (for the certain period, in certain industry fields or territories) in attaining the goals based on shared values and interests. According to Jena’s power resources, the researchers discern:

- structural power that is related to “blue and white collar” workers’ status in the economic system. On the one hand, the power is based on the negotiation power of the strained situation in labour market; on the other hand, the power may originate from production power that is influenced by the certain strategic position of reward receivers in the value chain. This is often manifested in a spontaneous form of disturbances at workplace, sudden dissatisfaction, situational violence, non-formal sabotage and absenteeism in the production process. Power may be exerted without the trade unions and formal organizations.
- organizational power that emerges as a result of combination of forces in the forming process of political organizations and trade unions. It is obtained only during the strategically planned collective actions and formal organization. This type of power may expand or even substitute for the structural power, but it cannot replace the latter totally. The existence of power could hardly be possible without professional representatives, the rewarded or voluntary functionaries.
- institutional power that is typical for advanced capitalism. The institutions are made of rules and

resources. They act and structure the actors’ interactions, interpretations and strategies. The institutions support the previously negotiated social compromises that cause the future economic cycles; even if the social relations of power were changed (some of them are maintained in a form of laws). In that way, the structural and organizational powers are being incorporated into the social institutions. It is assumed that the opposition forces recognize the institutional power unless the organizational power is strong enough. The institutional power may compensate the deficit of unions’ representation, but it may increase the risk for preserving the activity strategies. This lephargic state caused by institutionalization may gradually become inadequate for the existing conditions and circumstances.

As J. Kelly (2002, p. 10) states, power could be measured in four ways: 1) by using the descriptive variables (the density of union, the coverage by collective agreements, the frequency of strikes); 2) by describing the structural determinants and correlates (the product markets, the strategic positions of work groups in production process, the degree of labour substitution, the types of wage systems, the systems of management control, employers’ strategies, the structure of union organization, the width and depth of collective bargaining); 3) by analyzing results of collective bargaining; 4) by applying the subjective variables (the employees’ resolution to act and strike). Each of these ways has received the critique because of the analitical limitations.

The analysis of possibilities for measuring trade unions’ power in IR revealed that different authors present different sets of measures:

- *The measures for trade unions’ power:*

1. the density of trade unions; the coverage by collective agreements, the frequency of strikes (Kelly, 2002, p. 10).

2. the membership of trade unions: density, distribution among the sectors, power in workplace; structure, political attitudes, abilities to mobilize (Jensen, 2005, p.4-5).

- *The measure of organized labour power:* the membership of trade unions; the main events of IR and political development that affect the organized labour in industry sectors; unemployment level; the preferences of voting in elections, the role of labour parties in government (Crouch, 1993, p. 298);

Taking into account the lack of the research on Lithuanian trade unions, IR related data and databases, the power of Lithuanian trade unions in IR has to be described by considering the aspects of structure, membership, collective bargaining and strikes.

The power of Lithuanian trade unions in IR: situation and perspective

The analysis of Lithuanian trade unions’ power is based on the interview of the leaders of centres and independent unions, the webpage information of the trade unions, the reports on the activities of trade unions, official agreements, international research (European Social

Survey), databases, the webpages of the international organizations related to labour relations, media reports, the databases of Indicators of Statistics Department and databases of Register of legal entities.

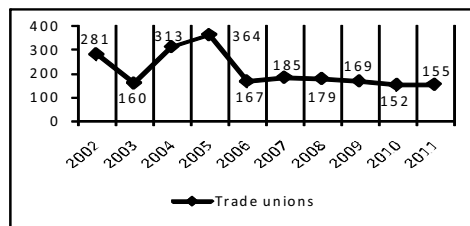


Figure 1. The change in trade unions; number, 2002-2011 (Rodiklių duomenų bazė. Lietuvos statistikos departamentas, 2011)

Lithuania has 155 trade unions in power. Since 2002 till 2005 the number of trade unions has increased; however the period of 2005-2011 indicated their decline in numbers about 57 percent (see Figure 1).

It is quite complicated to describe the structure of Lithuanian trade unions according to their distribution in the services/production and public/business sectors, because this kind of information is not submitted in the official databases. The preliminary overview could be done by using the data of Register of legal entities (2010) and the webpages of some trade unions. There is no precise classification in parallel to foreign countries' examples that clearly defines the public /state sector and business sector. In this case, the public/state sector includes the organizations with the legal status of state institutions, municipality organizations and public organizations. The business sector is characterized by the joint stock companies, companies with limited responsibilities and others (notice: this group includes the former state and municipal enterprises with the special purpose, despite the fact, that 100 percent of stocks belong to state institutions). This is determined by the reorganization of these enterprises into joint stock companies or companies with limited responsibilities as the profit organizations which are attributed to the business sector. The following defects of Register of legal entities database are detected: the inadequate search possibilities; a lot of records of trade unions that have been already bankrupted, liquidated, reorganized or checked out from the Register of legal entities. It is likely that those trade unions are nominal, but not really existing. However, we should assume that their number is included in the data presented to the society and the organizations concerned (see Figure 2).

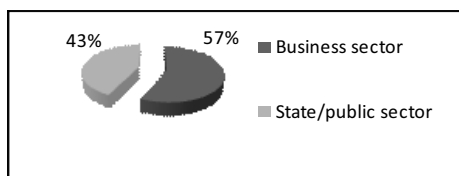


Figure 2. The distribution of trade unions' number in the public sector and business (Juridinių asmenų registras, 2010)

The trade unions in the sectors of services and production are presented (see Figure 3), according to the International classification of goods and services under the Nice Agreement, Ninth Edition, (2006).

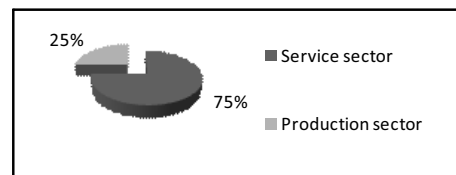


Figure 3. The distribution of trade unions' number in the sectors of services and production (Juridinių asmenų registras, 2010)

The analysis of the webpage information of the most active trade unions ("Solidarity", "The Joint trade unions; The Lithuanian confederation of trade unions; The National association of officers' trade unions; Lithuanian trade unions of education employees; The Lithuanian labour federation) revealed the composition of trade union organizations, according to their belonging to the sectors of services/production and state/business sectors. The results indicate that:

- the trade unions' number in services sector is four times bigger than in other sectors;
- 29 trade unions out of 41 belong to business sector (LPS „Solidarumas“ nariai, 2011; Tikra Jungtinė profesinė sąjunga. Kontaktai pagal šaką, 2011; LDF šakiniai susivienijimai, 2011; Nacionalinis profesinių sąjungų pareigūnų susivienijimas, 2011; Lietuvos švietimo darbuotojų profesinė sąjunga, 2011; LPSK nariai, 2011).

It should be noted that the distribution of small, independent trade unions is not included in the sectors mentioned. However, the comparison of the data from the Register of legal entities and the information from trade unions' websites indicate that the results do not contradict each other. The sector is divided into two separate parts, so called national centers: Lithuanian Labour Federation and Lithuanian Trade Union "Solidarity", the biggest Lithuanian confederation of trade unions (further LPSK). The relationship among trade unions is not well developed and the country's trade union sector is not considered to be united, because of the different reasons:

- The independent trade unions are not satisfied with the exceptional position of national centres and their financing from the state budget. It is argued that the equality principle of trade unions is violated and the social dialogue (the declared type of cooperation among the labour relation participants), importance of which is declared by the national centres, is formal and doubtful because of the mentioned financial centres' dependence on the partner in social dialogue – the authorities. The national centres are blamed for the activity imitation and signing the agreements harmful for all the employed people. The National Agreement signed in 2009 and run till December 31st, 2010 could serve as the example.
- The mutual trust has not been fostered by the fact that trade unions were named as national republic centres,

i.e. the only representatives of employees at this specific level.

- The leaders of trade unions, trade unions activity strategies, performance organization, situation insight and behaviour are very different.

The analysis of trade unions websites highlighted that only The National association of officers' trade unions (further NPPSS) submits the public reports on membership dynamics and spread, activities performed, the legal services, representations in courts, information on income and expenses, works planned in future, future vision, etc. The leader of this association told during the interview that NPPSS suggested making amendments in the Trade Union Law for bringing more transparency in the activities of trade unions. In his opinion, the trade unions at the national level representing employees (or recognized by the other participants of labour relations) and so called national unions have to publicly declare their activities, the number of members, the territory spread and submit the financial reports if they get support from the State budget. As the interviewed leader explained, this opinion stormed a big dissatisfaction of the national centres unions.

It is quite complicated to unambiguously interpret the relationship between the trade unions and the government. It is worth mentioning the case of the behaviour of the biggest trade union and the declared attitude of the "right" government at the end of 2010 till the beginning of 2011. LPSK aimed to organize the meeting against the governmental policy. In December 2010 the Union asked Vilnius City Municipality for permission to organize this meeting on the 16th of January, 2011 near the Lithuanian Republic Parliament and Government buildings. On the 29th of December, 2010 the permission was not issued with the argumentation that the similar events of the former meeting two years ago could occur again (the riot was caused by the actions of persons unrelated to trade unions). The representatives of different levels of authorities tried to degrade the trade unions and to impede the organization of this meeting both by acting and by giving comments in public. The efforts to organize the meeting continued for about two months and were unsuccessful: the date was postponed; the trade unions were forced to meet in the place approved and favourable for the Municipality. More than that, the choice for Saturday was inefficient since on this day-off the Lithuanian Republic Parliament and Government do not work, so the requirements went to "the walls".

In the interview the representatives of national centres declared that their relationships with the representatives of employers are quite favourable and much better as compared to their relations with Government. However, their opinion about employers' attitude to employees was opposite: the employers disregard their employees; the social and economic rights of employees are totally violated; the activities of trade unions in some organizations are blocked. From this perspective the situation is treated as extremely ill. Thus, according to the opinions of centres' leaders, the employees' situation (especially in private sector) is poor, and the relationships with the employers' representatives,

who ensure the welfare of employees, are quite favourable. This kind of position taken by national centres may mean the arguable strive to maintain their institutional power, while the main mission to protect employees' rights is pushed aside.

The leader of one independent trade union gave comments on the behavior of employers and national centres' representatives in the Tripartite Council. This Council is the highest level institution in Lithuanian social dialogue, which solves the social, economic and labour problems on the mutual agreements (Lietuvos Respublikos Trišalė Taryba, 2010). The Council's activities are run by employers and trade unions (the mentioned national trade unions' centres) and representatives of government. According to the leader of independent trade union, the representatives of employers are always well prepared: they analyse the issues before the discussion, the research is carried out in advance from their point of view and with the help of labour relations specialists. Meanwhile, the trade unions representatives have no economic competence in the issues discussed; the trade unions do not order or carry out the research that is essential for employees. Therefore, their negotiation power is weak and as the result the negotiation process does not ensure the parity of both parties. According to his opinion, it would be very useful to invite into the negotiation the specialists of different labour relations spheres, i.e. economists, lawyers, managers, and not only formal leaders of trade unions.

The relationships between employers and trade unions as well as the power balance in IR could be illustrated by the lowest minimal wage in Europe. Only Bulgaria and Romania are behind Lithuania. The national minimum wage in Lithuania is set by the agreement between the employers and trade unions; however, the agreement comes into power after the law or government's decree is issued (Visser, 2011).

The level of membership in Lithuania is considered to be the lowest in Europe. The density of membership, according to various measures, varies from 8 (the data of European social research) till 20 percent (the opinion of one leader of national centre). The biggest problem of analysis is poor data on membership; so, the comparison with other data has to be critical enough. For example, according to the data of Statistics Department, the number of trade unions' members increased by 3,2 percent, and the income from membership (the membership fee is 1 percent of the net wage) increased by 9,9 percent.

The data discrepancies are interesting, because, according to the pilot interview in November, 2009 with the leaders of national centres, the membership fee was named as the main reason of leaving the trade unions. Another point is that the comparison of 2008 and 2009 revealed the decrease of the average number of employed persons by 11 percent. During the same period the number of unemployed, fired from work, increased by 300 percent. The average net wage also decreased. The evaluation at the end of 2008 and 2009 indicate that net wage in state sector decreased by 8 percent, and in private sector it decreased by 6,4 percent. In general, the average

neto wage in national economy (without the individual enterprises) decreased by 7 percent (see Table 1).

Table 1

The change of membership fee in trade unions and employment of population, 2008-2009 (Rodiklių duomenų bazė. Statistikos departamentas, 2011)

Year	2008	2009	Change, percent.
The number of trade unions' members	111 700	115 400	3,2
The membership fee, in Litas	10 000 000	1 110 0000	9,9
Average number of workers employed	1 301 565	1 154 500	-11,3
Average neto wage (without individual enterprises), in Litas	1 773,1	1 647,5	-7,1
Unemployed (fired)*	22 200	96 200	333

*Note: The number of fired persons per year is submitted, and not the total number of unemployed.

The characteristics of Lithuanian trade unions' members are described according to the data of European social research (ESS4, pagrindinio ir papildomo klausimyno duomenys, Lietuva, 2009 m. spalio - 2010 m. sausis: DDI dokumentas, 2010). As a fact, the absolute number of members is very small. The data were filtered according to the trade union members employed; so, the member database consists only of 108 persons. Nevertheless, it is assumed that the research data with some bias reflect the main tendencies since other data on members' social and demographic characteristics are not available in Lithuania.

The main social and demographic characteristics of the trade unions' members:

- The average age of trade unions' members is 48 years. The minimal age is 21 and the maximum is 71 years. 75 percent of members are older than 40 years, and 50 percent of members are older than 50 years;
- About 56 percent of members are women;
- 74 percent of members work in the organizations with 100 employees;
- 30 percent of trade unions' members work in private enterprises;
- 25 percent of them have higher education diploma;
- 69 percent of members live in cities, suburbs, towns and small towns; more than 30 percent live in villages;
- Almost 40 percent of members are neutral in respect to left-right ideology. About 44 percent of members agree with the left ideology, and 16 percent maintain the right ideology.

The level of coverage by collective agreements in the research literature is treated as the indicator of trade unions' effectiveness. The experts claim that the collective agreements in Lithuania may cover about 15 percent of all Lithuanian employees. The collective agreements on the corporate level are dominant

(Lithuania: Industrial relations profile, 2009, Visser, 2011).

There are no accessible data about the distribution of collective agreements in the different sectors and according to the territories. The evaluation of trade union sector's effectiveness could rely on the information about the level of coverage by collective agreements in different European countries in the website (2010) of the European Trade Union Institute (ETUI). For example, the membership in France and Spain makes up to 8 and 16 percent, and the coverage by collective agreements is accordingly 98 (the collective agreements on corporate and industry's levels) and 70 percent (the national and regional levels of industries dominate). The membership in Latvia and Poland makes up to 34 and 30 percent (in both cases the corporate level agreements dominate). In general, the coverage in Europe is about 60 percent (see Figure 4). It should be mentioned that the situation in Lithuania is described by the data of 2007. On the other hand, the consequences of global economic crisis in 2008, the drastic rise of unemployment in Lithuania, obviously, caused the decline of membership, while the collective agreement coverage was not significantly changed. As J. Kelly (2002, p. 10) states, with the rise of unemployment, the density of trade unions decreases (the ratio of trade unions' members and people employed), and the power of trade unions becomes weaker, as well as the possibilities for creating the favourable conditions for employees and collective agreements.

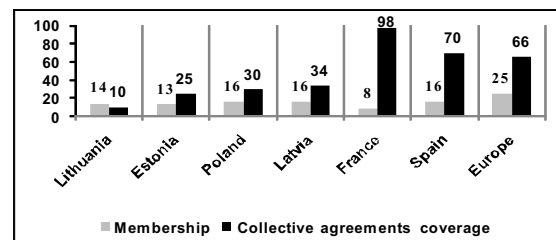


Figure 4. The ratio of trade unions' membership and collective agreement coverage in some European countries, percent (A service of the European Trade Union Institute, 2010)

LPSK report (2010) for the period of 2006-2010 states that the collective agreement coverage in Lithuania reached up to 28 percent. Nevertheless, the effectiveness of trade unions in Lithuania has been considered as one of the lowest in Europe.

The strikes as the measure of trade unions' power have been treated in a different ways by the researchers. According to J. Kelly (2002, p. 10), trade unions may strike when they are weak, while the strong trade unions may not use them. The strikes emerge in the controversy interaction between the parties and they may represent the power of employers and not the trade unions. On the other hand, it is claimed that mass strikes force the economic and political elite of the country to recognize the possibilities of trade unions to destroy the existing economic and social situation. This kind of activeness and the show of "muscles" attract new members. The decline of membership is related to the decline of strike

size and frequency (Friedman, 2008, p. 67-68). K. Vandaele (2011, p. 22-24) states that the trade unions of CEE countries have no traditions of fighting. On one hand, the poor membership does not encourage the forming of these traditions; on the other hand, trade unions lack the self-confidence. The dominance of trade unions in service sector, the decentralization of collective negotiation, the weak national tripartite institutions that have not become strong macro-corporate structures are considered to be the main reasons for the low frequency of strikes. It was expected that the recent economic crisis and the failures of neoliberal ideology stimulate the industrial actions. These hopes have failed. For example in Lithuania, at the beginning the dissatisfaction emerged with an explosive power and then quickly run out of steam, because the authorities used a number of means to suppress this dissatisfaction and to neutralize the potential sources of opposition. These actions, accordingly, encouraged the mass emigration, but not the collective industrial actions (Vandaele, 2011, p. 24).

During the period of 2000-2009 the warning meetings and strikes were organized by the employees of only 4 economic activity spheres (see Table 2).

Table 2

Strikes in Lithuania, 2000-2009 (Rodiklių duomenų bazė. Statistikos departamentas, 2011)

Sector \ Year	2000	2001	2005	2007	2008	2009
Manufacturing	0	2	0	0	0	0
Transportation, logistics	2	0	0	0	0	4
Education	33	3	0	65	97	0
The activities of recreation and arts	0	0	1	0	0	0

The employees in transportation and logistics organized 2 strikes in 2000. 639 employees took part in them. The Statistics Department does not submit the data of employees in this sphere in 2000; therefore, it is complicated to calculate what percent of all people employed in this sector participated in the mentioned strikes. Two strikes were organized in the manufacturing sphere in 2001 and the warning meetings (there are no data on the participant numbers). Four strikes took place in 2009 and 451 employee in transportation and logistics participated (it makes 0,6 percent of all the employed in this sector).

The most outstanding in the statistics of strikes is the sector of education. In 2007-2008 the strikes were organized only by education sector employees (primary and secondary education levels). In 2007 it made about 4 percent and in 2008 it was about 5 percent of all employed in this sector (Statistics Department, 2011).

It should be mentioned that there was no general strike during the period in Lithuania's independence; and after 2001 only the employees of service sector went to strikes.

Conclusions

1. In general two clear models of labour market organization, i.e. capitalist models of industrial relations have emerged in the world: liberal and corporative models. The formation of IR in the Baltic countries is characterized by especially unfavourable atmosphere for the trade unions. The exceptional features of this region emerged because the economic and social systems were radically developed in the neoliberal direction; meanwhile the corporate model institutions were artificially established (and not historically formed). The latter institutions do not function in this environment or function in irrelevant way.

2. From the perspectives of power theories the distribution of power in IR system and the social processes could be changed only by the consolidated efforts of employees. The transformation of structural power into the organizational (unions) power and its institutionalization do not necessarily mean the acknowledgement of relations of opposite party (employers or, in some cases, authorities). The comprehensive acknowledgement is only possible with the well-developed organizational power.

3. The Lithuanian sector of trade unions is divided into the trade unions independent and dependent to the national centres. They lack solidarity on the main issues of IR; the dominance of trade unions of service sector is obvious (this sector is made of small and medium enterprises). The relationships with authorities and the organizations of employers reveal their unfavourable position in terms of power; despite the participation of national trade unions in the tripartite structures. The trade unions encounter the problems of attracting the youth with the higher education and the employees in private sector. Only 40 percent of employees agree with the left ideology. The low level of collective agreement coverage indicates the exceptional ineffectiveness of trade union sector as compared to the situation of other countries. The minimal wage in Lithuania is one of the lowest in Europe; however, the strikes and collective actions are rare and not numerous in participants. The data on trade unions lack the accuracy and they are often contradictory. This situation enables only in approximately characterize the trade unions in terms of their power in IR. On one hand, the empirical results and researchers' statements assume that the trade unions have little or no power; their existence is formal and they are unable to carry out the main function: to represent and protect the interests of employees. Thus, the trade unions are not going to be an influential participant in IR. Instead, they remain as the bureaucratic organization on their own. On the other hand, the diversity of the sector, different leaders and their behaviour, the missed chance or purposively unused strategies for attracting new members, forming the societal opinion and encouraging the collective actions could be possibly treated as the sources of changing the existing situation in the future.

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Asta Krašenkienė

THE POWER OF TRADE UNIONS IN INDUSTRIAL RELATIONS: THE CASE OF LITHUANIA

Summary

While discussing the tendencies of contemporary trade unions' power and influence changes in industrial relations (further IR), it is worth differentiating between the approaches related to the situation in Western trade unions and the ones in Central and Eastern Europe (further CEE). This attitude is determined by the different evolution of trade unions in West countries and CEE countries and the differences in recent situation. The initial positions in the debate on trade unions in the contemporary world are essentially different: the recent situation in West Europe is conceptualized with the *strengthening approach*, while the cases of CEE countries are considered from *weakness approach*, since they experience the lack of resources and relevant status in the society. The Lithuanian trade unions have not received the attention of researchers. They are described by the expert opinions and the main reason of their weakness is considered to be poor membership. The object of the article is trade unions. The aim of the article is to characterize the Lithuanian trade unions in terms of their power in industrial relations by discussing the systems of industrial relations, by defining the trade unions' power concepts and measures and, according to these measures, characterizing the Lithuanian trade union sector. The article is based on the explorative (descriptive) research approach by applying research literature analysis, secondary analysis of data, document analysis, semi-structured interview. The analysis of Lithuanian trade unions' power is based on the interview of the leaders of centres and independent unions, the webpage information of the trade unions, the reports on the activities of trade unions, official agreements, international research (European Social Survey), databases, the webpages of the international organizations related to labour relations, media reports, the databases of Indicators of Statistics Department and databases of Register of legal entities. The research literature discerns two models of organizing the labour relations: liberal (characterized by the low regulation of labour market and the decentralized and low regulation level interaction between employees and employers) and corporative (characterized by the high level of relation regulation between labour market participants, employee security and high level of state welfare maintainance) systems of IR. The IR systems in Europe are characterized by the certain level of variations, but in general the four types of systems could be discerned: North Europe, The British system, South Europe, East Europe. The transformation of CEE countries' communism into capitalism has been named as the natural experiment which is observed by the scientists. It is argued that the majority of CEE countries adopted more or less successful version of neoliberalism and the coordination there did not exist. Exactly in the Baltic countries the neoliberalism reform was without compromise and radical. From the perspectives of power theories the distribution of power in IR system and the social processes could be changed only by the organized efforts of employees. The comprehensive acknowledgement is only possible with the well-developed organizational power. Different scholars in the comparative research on countries' trade unions rely on quite similar measures of trade unions. Most often power is measured in four ways: 1) by using the descriptive variables (the density of union, the coverage by collective agreements, the frequency of strikes); 2) by describing the structural determinants and correlates (the product markets, the strategic positions of work groups in production process, the degree of labour substitution, the types of wage systems, the systems of management control, employers' strategies, the structure of union organization, the width and depth of collective bargaining); 3) by analyzing results of collective bargaining; 4) by applying the subjective variables (the employees' resolution to act and strike). Each of these ways has received the critique because of the analytical limitations. The power of Lithuanian trade unions in IR is described by considering the aspects of structure, membership, collective bargaining and strikes. The institutionalization of IR in Lithuania as if carries out the function of trade unions' representation in certain structures, but in reality causes the inactiveness. The research results indicate that the Lithuanian sector of trade unions is divided into the trade unions independent and dependent to the national centres. They lack solidarity on the main issues of IR; the dominance of trade unions of service sector is obvious (this sector is made of small and medium organizations). The relationships with authorities and the organizations of employers reveal their unfavourable position in terms of power; despite the participation of national trade unions in the tripartite structures. The membership level in Lithuania is the lowest one in Europe. The biggest problem of analysis is the poor data on membership that are inadequate and inaccurate as compared to other data. The density of membership, according to different evaluations, vary from 8 till 20 percent. The trade unions encounter the problems of attracting the youth with the higher education and the employees in private sector. The low level of collective agreement coverage indicates the exceptional ineffectiveness of trade union sector as compared to the situation of other countries. The minimal wage in Lithuania is one of the lowest in Europe; however, the strikes and collective actions are rare and not numerous in participants. On one hand, the empirical results and researchers' statements assume that the trade unions have little or no power; their existence is formal and they are unable to carry out the main function: to represent and protect the interests of employees. Thus, the trade unions are not going to be an influential participant in IR. Instead, they remain as the bureaucratic organization on their own. On the other hand, the diversity of the sector, different leaders and their behaviour, the missed chance or purposively unused strategies for attracting new members, forming the societal opinion and encouraging the collective actions could be possibly treated as the sources of changing the existing situation in the future.

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BIOMETRIC SOLUTIONS IN THE POLISH BANKING SECTOR – CHANCES AND THREATS

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Abstract

The use of biometric technology is one of the newest solutions in the Polish banking sector, but all over the world financial institutions have been utilizing biometrics at ATMs and for online banking for many years. In Poland several banks are currently working on the implementation of biometric technologies. These activities are supported by the Polish Bank Association together with its Biometrics Group. In Poland, the cooperative banks are the first one and most advanced in this respect with part of its ATMs equipped with this technology. The aim of this article is to present biometric solutions, on one hand, as safe and effective solutions applied in the management of ATM, bank branch and internet transactions, and, on the other hand, as a challenge facing banks which requires organizational preparation and society's belief in the new technology.

Keywords: biometric banking, authentication, banking transactions

Introduction

The development of banking technology helps create a surplus value both for a bank and a customer. The common direction of change is raising the standards of offered services by increasing the number of types of available transactions and by improving the performance of self-service facilities together with securing the safety of executed transactions. It enforces further perfection of security methods concerning executed transactions.

Biometric solutions allowing identification based on physical and behavioural features can be considered a breakthrough in authentication of bank customers. The most important quality of these modern solutions is the impossibility of transfer of identification features and the difficulty of their falsification, due to which the safety of transactions is improved.

The purpose of this paper is pointing up biometric solutions, on one hand, as safe and effective solutions applied in the management of ATM, bank branch and internet transactions, and, on the other hand, as a challenge facing banks and international payment institutions which requires organizational preparation and society's belief in the new technology.

Methods of the research are a systematic and comparative analysis of concepts, methodologies and conclusions, published in scientific literature, as well as logical generation of conclusions. This paper summarizes opinions and findings of biometric authentication systems and summarizes personal views and opinions on selected issues in the area of biometric authentication in the banking sector with an emphasis on the Polish banking sector.

Literature review

The concept of a biometric solutions is used in the wide range of different context: economic, cultural,

historic and social spheres. That's why many authors provide different definitions of this idea.

Generally, biometric technique can be defined as an automated methodology for the recognition of a person based on behavioral or physiological characteristics such as hand geometry, handwriting, face, fingerprints, vein, voice, retina, and iris (Uludag, 2004). Other author concluded that the biometric system is a pattern recognition technology that makes personal identification of an individual by determining the authenticity of a specific physiological or behavioral characteristics possessed by the user (Welzl, 2004). The next authors, (Jain, 2003), describe differences between the physiological and behavioral biometrics. The physiological biometrics consists of for example hand geometry, facial recognition, fingerprint, iris-scan etc., while samples of behavioral characteristics include but not limited to signature-scan, keystroke-scan, voice recognition, etc.

An ideal biometrics system should be universal, unique, permanent and collectable (Soutar 2002, Uludag, 2004). Some other authors found that characteristics that satisfy all the above mentioned requirements may not be practical or feasible for a useful biometric system (Linnartz, 2003).

Among others, Schneier (1999) and Timmers (2000) noted that the integration of biometric technologies into applications was achieved using proprietary software developers' kits (SDK's). More recent studies summarized that a standardized biometric application programming interface, BioAPI, version 1.1 of the specification released in 2001 was instituted to enhance the portability of unrelated biometric technology within applications (Soutar, 2002, Jain, 2003, Adler, 2004). Also, it was determined that developers and vendors of a practical biometric system should consider other issues such as performance, acceptability and circumvention (Ross, 2005, Uludag, 2005). Time plays

very important aspect for behavioral biometrics (Shoniregun, 2003, Ratha, 2001, Putte, 2000).

Biometric authentication is highly reliable, because physical human characteristics are much more difficult to forge than security codes. These advantages make biometric techniques so useful a solution in the banking sector (Wan, 2005). There are, however, some common characteristics needed to make biometric systems in the banking sector usable.

Research on characteristics of biometric identification systems

Using biometrics for identifying human beings offers some unique advantages. Tokens, such as smart cards, magnetic stripe cards, photo ID cards, physical keys and so forth can be lost, stolen, duplicated or left at home. Passwords can be forgotten, shared or observed. Handwritten signatures can be forged. Unlike these identification mediums biometric technology allows operators to tie individuals to credentials with near certainty. Biometric authentication systems ensure fast, effective and safe access to information based on measurable, physical and behavioral features (Plaga, 2009).

The most significant difference between biometric and traditional authentication techniques lies in the reply of the biometric system to the authentication/identification request. The key idea of biometric authentication is its utilization of the characteristic features which do not change in time and are more difficult to falsify than other methods of identification (Sarma, 2010).

The fundamentals of biometrics are that they are things about a person (Sarkar, 2010):

- measurable - things that can be counted, numbered or otherwise quantified
- physiological characteristics - like height, eye color, fingerprint, DNA etc.
- behavioral characteristics - such as the way a person moves, walks, types.

Particular solutions use various physical and behavioural features (Cavoukian, 1999, Sandhu, 2009):

1. Physical features:
 - Fingerscanning,
 - Face contour – shape, position and shape of eyes and nose,
 - Hand geometry – hand shape,
 - Iris codes – radial feature pattern of iris,
 - Palm veins – palm vein pattern,
 - Finger veins – finger vein structure
 - Retina scans – scanning eye retina veins
 - DNA,
 - Ear shape,
 - Body odour,
 - Bertillonage – body height - No longer in use.
2. Behavioural features:
 - Speaker vocal verification – analysis of speaker's behavior,
 - Signature verification – dynamics and rhythm of handwriting,
 - Keystroke dynamics – speech dynamics.

Biometric systems can be used in two different modes: for identity verification or identification. Behavioural features enable only authentication whereas physical features enable both authentication and identification. There are basically two kinds of biometric systems. The first one is automated identification systems operated by professionals, the second one is just biometric authentication systems used for access control.

Despite the fact that the biometrics industry is still in its infancy, it has experienced tremendous growth in the recent past. This growth has been spurred by governments in the interests of national security. For example, biometrics is important for the 'ePass' for citizens of the European Union (EU). The EU Council Regulation on standards for security features and biometrics in EU citizens' passports defined the timeline for introducing digital face and fingerprint images in all European passports issued after October 2006 (Council of the European Union, 2004).

Generally, it is expected that vein recognition is expected to play a larger role in access control applications, eventually comprising more than 10 percent of this market. The deployment of a range of national and international biometric-based identity documents, including electronic passports, ID cards and visas, provided a great incentive to the development of biometric usage (ITUT-T, 2009).

In the near future, biometric techniques can be the solution for the current threats in the world of information security. International Biometric Group's Biometrics Market and Industry Report 2009-2014 delivers actionable data about world market size of biometrics. They are presented in Figure 1.

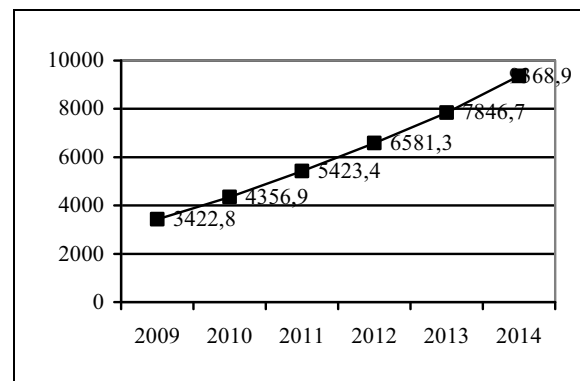


Figure 1. World Market Size of Biometrics (M\$USD) (IBG, 2008)

Global biometric revenues are projected to grow from US\$3.42 billion in 2009 to \$9.37 billion in 2014, driven in part by government identity management and border management programs. Growth of Biometric Market can be analyzed in comparison with different types of technology. Example of the figure with the forecast is given in Table 1.

Table 1
Market volume by technology (M\$USD) (IBG, 2008)

	2009	2010	2011	2012	2013	2014
finger recognition	971	1,380	1,740	2,064	2,422	2,827
AFIS/Live Scan	1,309	1,489	1,816	2,154	2,525	2,965
iris recognition	174	287	360	480	578	730
hand geometry	62	62	63	68	76	85
middleware	275	327	413	525	625	732
face recognition	390	510	675	848	1,097	1,417
voice recognition	103	109	113	136	167	189
vein recognition	83	102	132	172	199	235
others	54	85	107.5	131	154	184
Total	3,422	4,356	5,423	6,581	7,846	9,368

While each biometric identifier can handle a wide range of duties, there are specific functions more well-suited to particular biometrics. They will be discussed in next section. Just to compare, in 2007 according to other research the most frequently utilized ones were AFIS/Live scanner, the finger print and the face contour (Bioscrypt, 2007). Example of the figure is given in Figure 2.

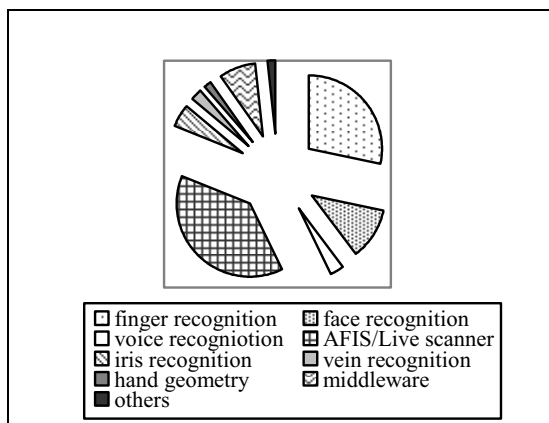


Figure 2. Percentage by Biometric Technology (IBG, 2008)

Fingerprint gained 45.9 percent of the non-AFIS biometrics market in 2009, followed by face recognition at 18.5 percent and iris recognition at 8.3 percent.

Biometric technology is characterized by such features as universality, uniqueness, permanence, measurability, convertibility, acceptability and difficulty in falsification. These features make biometric solutions applicable in the areas where authentication is indispensable, from admission to government and administration offices, military buildings, hospital wards, airports through entry to entertainment parks (e.g. Disney World), stadiums (Berry, 2001) or use of banking services.

Work on the use of biometrics in banking is considerably advanced in Japan, South America, the

USA and China. In 1997 Hitachi worked out a new biometric technique of authentication based on scanning finger veins dedicated to banks, government institutions, control and security systems, mobile devices and the internet. At the same time a pilot project of iris scanning was put into operation in ATMs in England, the USA, Japan and Germany by NCR Corps and Diebold Corp. in 1997 – 1999. As a result the first iris scanning ATMs were introduced in 1999 at German Dresdner Bank AG in Frankfurt am Main (Wincor Nixdorf, 1999) and at United Bank of Texas, the first American bank. The first bank in the world to introduce the comprehensive biometric identification of its staff and customers based on the face contour was a Swiss bank called Pictet Pictet & Cie Private Banquiers.

Junichi Hashimoto in 2006, introduced finger vein authentication. This new biometric method utilizing the vein patterns inside one's fingers for personal identification. Ding (2005), have shown the theoretical foundation and difficulties of hand vein recognition, at first. Zhao proposed a biometric technique using hand-dorsa, extracting vein structures. The next authors Watanabe et al. have shown a biometric authentication using contactless palm vein authentication device that uses blood vessel patterns as a personal identifying factor.

Finger vein pattern recognition have led to its adoption by the major Japanese financial institutions as their newest security technology. So that, one of the key prerequisites of the emergence and development of biometric identification techniques was the growing number of frauds committed by the use of payment cards (Gunn, 2010, CEC, 2008). It is corroborated by many reports and the results of a financial safety study regularly carried out by Unisys pointing up frauds of identification by the use of payment cards in the case of all the countries analyzed (Unisys, 2011).

For example, biometric technology started to develop fastest and on the largest scale in Japan since 2004 because of the high crime rate in payment card transactions (BoJ, 2006). In 2005 the Association of Japanese Banks recommended the use of biometrics as a way of improving the safety of payment systems.

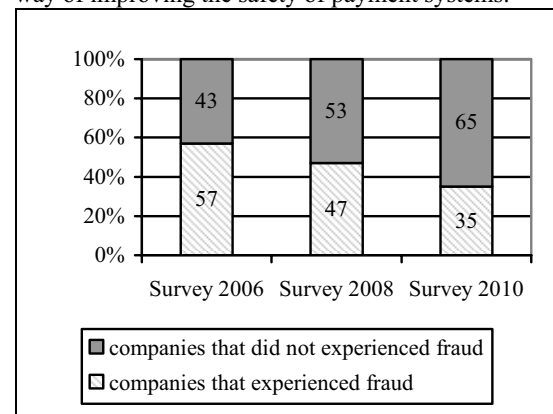


Figure 3. Percentage of companies that have experienced fraud in the past three years in Japan (KPMG, 2011)

In 2010, 35% of the respondents said that fraud has occurred in their organizations in the past three years. Although the 2010 survey shows a decrease of 12% from the 2008 survey (47%), it also shows that the frequency of fraud remains high, with fraud still occurring in nearly one out of every three companies.

The biggest Japanese companies such as Bank Mizuho, Bank of Tokyo Mitsubishi, Sumimoto-Mitsui Banking Corp. or Japan Post are implementing biometric systems in a wide range of commercial institutions. The most popular solutions in self-service systems are of those of finger vein scanning applied in over 33,000 ATMs in Japan and palm veins applied in almost 7,000 ATMs (ICT PSP, 2010).

Research results and discussion

Although a huge market with wide prospects can be attractive, there are some challenges connected with biometric solutions. There is some difficulty in pointing out which of the biometric methods is the best authentication solution at the banking sector as the choice is determined by such factors as the number of users, invasive propensity, the necessity to possess specialist knowledge as well safety and precision (IBG, 2008). The comparison of biometric techniques is included in Table 2.

Table 2
Comparison of the most popular biometric identifications methods (National Biometric Security Project, 2008, Drygajlo, 2007)

Biometric technology	Safety	Cost	Precision	Acceptability	Speed
Finger scanning	M	VL	M	H	M
Face contour	L	M	L	L	M
Hand geometry	M	M	H	M	M
Eye iris	H	H	H	H	M
Palm veins	H	L	M/H	L	M
Finger veins	H	L	H	L	H
Hand veins	H	L	M/H	L	M
Eye retina	H	H	H	L	L
Voice /speech/	L	L	H	H	H
Signature	M	M	H	M	M

Note: VL – very low, L – low, M – medium, H- high
Out of the techniques listed above

Each of these biometric characteristics creates some problems with accuracy. The first thing is the variability of biometric characteristics strongly connected with a technique applied either on genotypic or phenotypic features. The second thing is error rates. The most popular of them are defined as:

- Fail to Enrol Rate (FTE) - the probability of a person not being able to enrol in a biometric system counted as a fraction of the people who could not enrol in the system out of the whole group of people. The FTE rate includes people without fingers (for fingerprint systems), visually impaired people (for iris-based systems) etc.
- Failure to Acquire Rate (FTA) - fraction of the people who could not be identified/verified because of an insufficiently good biometric input sample.

The final result of an authentication/verification attempt is either correct acceptance or correct refusal, false acceptance (FAR) or false rejection (FRR).

The significant challenge in the biometric solution consist in the large scale of these systems. When tuned for millions-of-data subjects a system can incorrectly reject the data subject (and this affects the false-negative identification-error rate – FNIR) or incorrectly accept an impostor (and this is measured by the false-positive identification-error rate – FPIR).

The accuracy is one of the most important characteristics at the banking sector. So there are many analyses based on error rates, but not all the results are necessarily comparable.

The facial recognition algorithms were tested during the FRVT (Face Recognition Vendor Test) 2000, 2002 and FRVT 2006 tests. Iris recognition algorithms were tested in the ICEs (Iris Challenge Evaluations) of 2005 and 2006. Fingerprint algorithms were tested during the FpVTE (Fingerprint Vendor Technology Evaluation) 2003, Slapseg (Slap Fingerprint Segmentation Evaluation) 2004 and II (2008), PFT (Proprietary Fingerprint Template Evaluation) 2003 and II (2010), MINEX (Minutiae Interoperability Exchange Test) 2004 and ELFTO (Evaluation of Latent Fingerprint Technologies) 2007 tests.

In banking it is iris scanning (Daugman and Downing, 1995) and finger vein analysis that, owing to their possibly maximum precision and operational speed, are the most advanced authentication method. The finger vein analysis is solution characterized by its security and precision measured by the False Acceptance Rate (FAR) below 0.0001% (Yanagawa, 2007, Ushapriya, 2011) and the False Rejection Rate (FRR) below 0.01%. By comparison, the FAR for iris scanning is on the same level while the FRR is 0.14% (Vatsa, 2006).

Typically, it is banks that absorb many of the financial losses incurred by their customers as a result of identity theft. Therefore, in an effort to curb the growth of this type of crime, banks are highly motivated to examine the feasibility of adopting biometric identity verification methods. On the other hand, banks as most for-profit organizations are strongly cognizant of the importance of maintaining customer satisfaction. Therefore, there must be mindful of the degree to which customers will accept the introduction of any new technology. So any feasibility study for using these technologies must investigate consumer attitudes towards, and their

potential acceptance of, biometric verification as a method of establishing identity for banks.

In the context of biometrics, privacy and security are primary concerns (or costs) while perceived usefulness is a primary benefit. Trust in the banks is also a relevant factor that could impact the attitude of biometric use in this context. The concepts of privacy and security as highly interrelated was analyzed many times (Flavián, 2006, Park, 2003, McCrohan 2003).

According to Javelin Strategy & Research (2011) almost two-thirds of consumers are interested in using biometric authentication but they admit that they are worried about the intrusiveness of biometrics and loss of personal and private information. Almost half of consumers in 2011 indicated that robust identity verification methods are compelling features when choosing a new financial institution.

It is necessary to take into consideration that biometrics must not only be a means of security, but also a means to develop sales opportunities. The added value of potential sales leads will help offset the cost of biometrics. The ability to accurately access to the bank services can positively affect sales opportunities.

Sales will lead to funding and justification for biometrics initiatives under some circumstances. The level of involvement required by the consumer must be minimal for biometrics to be embraced. The biometrics solution must be transparent to the consumer, intuitive and fast. Systems that are slow to respond, or that cause a delay in the transactional process, will not be accepted. The accuracy level of the biometrics solution must be very high. The results of denying or delaying access to funds that are rightfully theirs would be disastrous to the banks image.

On the basis of international experience at the beginning of the 21st century the idea of biometric authorization appeared in Poland and it slowly became the key area of research on the perfection of authentication and identification techniques. Polish banks have been using biometric security devices at entrances to the main strong rooms for a long time now. The systems are based on taking finger prints and cameras scanning the iris of persons in authority. It is worth noting that the first iris verifying smart card was created in the Polish Biometrics NASK Laboratory in 2004.

However, it was not until the Association of Polish Banks was involved in the process in 2007 and the Biometrics Group was founded within that that contributed to the formalization of implementing biometrics in Poland. The institution directly active in the cooperation is Hitachi Ltd., offering finger vein authentication technology.

Although, it is believed that cooperative banks typically have far less total assets, available capital for business initiatives, a limited field of membership and technical expertise than do the traditional large banks, the cooperative banks were the first ones in Poland to apply biometric solutions. In March 2010 the Warsaw branch of the Polish Bank of Cooperative Societies (PBCS) and the Sub-Carpathian Cooperative Bank in Sanok installed the first biometric ATM utilizing the personal finger vein pattern. All the ATMs of the BPCS are supposed to be

equipped with this technology by the end of 2011. This initiative is being coordinated by the supplier of self-service machines Wincor Nixdorf in cooperation with Hitachi Ltd.

The great development prospects for biometric solutions in Poland are testified by research results showing that 82% of people surveyed regard biometric identification as the most effective expedient to fight payment card crime and, what is more, 78% believe this method is easier in use than a magnetic card equipped with a PIN number.

The factors that led to the decision of the implementation of the biometric identification method was the strife after providing customers innovative solutions and breaking the stereotype that cooperative banks are more traditional than commercial ones and do not use modern technologies. In response, commercial banks are expected to introduce biometric technology in the nearest future. Advanced work on biometric authentication systems is currently underway at many leading banks.

Polish banking sector face many challenges in the implementation and successful adoption of customer oriented biometrics. The first challenge is the lack of technical expertise found within many banks. There are inherent problems with distributing biometric devices outside. The problem for biometrics providers becomes how to effectively market a product designed to mitigate a risk in a declining usage environment. There is currently no centralized shared database available to banks for positive identification.

In table 3, there is a comparison between the three studied zones in terms of biometrics in banking.

Table 3
Comparison between the three studied zones in terms of biometrics in banking (ICT PSP, 2010)

	America	Asia	Europe&Middle-East
Country of application	USA, Colombia	Japan, India, Korea	UAE, Poland
Application date	2002 - 2008	Japan 2004, India 2004, Korea 2007	UAE 2007, Poland 2010
Type of technology used	1 fingerprint (contactless), 2 fingerprint	1 palm vein scans (contactless) 2 fingerprint	1 finger vein scans (contactless) 1 fingerprint
Main motivation	Security, new product to reach new customers	Simplicity, easiness to use, security, fraud reduction	Simplicity, easiness to use, reducing queuing
Deployment scale	city, state, country	state, country	city, country
Solution provider	Hawk System, AllTrust Networks NCR Corp.	Fujitsu, Real ID Technology	Hitachi, NCR Corp.
Advantages	secure, convenient, less fraud, faster, new customers, no card needed	very simple, faster, more secure and convenient	faster method, contactless, no more PIN code, more secure and convenient
Drawbacks	needs clean intact fingerprints,	targeted to people likely to have worm	maintenance by NCR could create delays, need good

	different solutions owners in 4 years, needs clean good quality fingerprints, high user reject rate	hands, compatibility problems between the different solutions, solution providers liability, reliability, need good fingerprint quality	fingerprint quality
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The wide range of commonly recognized benefits from this technology are as follows:

- raising the security of transactions as well customers' satisfaction and sense of safety,
- the possibility of offering customers an extended choice of services based on biometric identification,
- improving the process of servicing customers due to easier access to cash deposited in the bank and relieving the bank staff of their workload,
- reducing the operational costs of a bank branch,
- winning over the customers who did not use bank services because of the necessity of possessing a card and remembering the code,
- the flexibility and universality of the solution,
- the possibility of adding new functions to the card readers allowing e.g. an electronic signature.

In general, these factors contribute to the higher competitiveness of the bank and the lower cost of handling cash. They also have a positive impact on the bank's image thanks to its services which are more accessible and of higher quality.

The development of biometric technology in banking can be enhanced by activities which are not directly connected with financial services but familiarize society with modern technologies. Here we can point to the obligation of issuing biometric passports after 29 June 2009 containing biometric data in the form of a face contour and finger prints, which has been imposed on EU countries, the work on a biometric ID card or the application of biometrics during the Euro 2012 football championship.

Conclusions

Biometric market has been growing as one of the fastest emerging markets for the past few years especially due to rising need for personal security concerns, and the advent of new technologies that offered numerous future growth opportunities. Financial services sector is set to emerge as one of the most exciting markets for biometrics solutions. Diverse banking services such as telephone banking and Internet banking besides ATM banking are prone to fraud and could be effectively secured using biometrics.

Biometrics, in next few years would replace or complement authentication now based on PIN or

password. This would be a verification process which could improve secure authentication provided that the link of personal data with biometrics is secure. The first step into the era of biometric solution was made in Polish banking sector.

In March 2010, two polish cooperative banks began installing biometric ATMs, making it the first country to adopt this technology in Europe. The ATM relies on finger vein scanning technology to authenticate a customer's identity. Banking machines equipped with biometric technology provide banks with greater flexibility and efficiency in using the self-service channel. In consequence, they lead to the lower costs of handling cash, operating bank branches and servicing customers on the increasingly competitive market of banking services. The introduction of biometric technology enhances the prestige of the bank, the quality and accessibility of its services, which, in effect, helps retain the present customers and gaining new ones.

Besides the use of biometric technology creates for cooperative banks a unique chance of dynamic development. Cooperative banks in communes and districts handle payments of benefits for the people who do not have bank accounts and thanks to ATMs equipped with biometric identification systems it is possible to reduce the workload and cost connected with servicing people receiving social benefits. Social expenditure forecasts clearly predict a growth in the number of people eligible for benefits financed from the national budget and a parallel growth in the number of these payments.

The implementation of each technology requires, however, organizational and financial outlays. Equipping ATMs with finger vein readers does not raise their exploitation costs but increases averagely the price of an ATM by approximately 8–10%. The additional equipment in the form of a coin payment module indispensable by benefit payments results in a 20% price increase. Linking these sums with the volume of potential new customers serviced, this investment will, of course, be returned to the bank but after a certain time.

The influences of biometric technology on society and the risks to privacy and threat to identify will require mediation through legislation. For much of the short history of biometrics the technology developments have been in advance of ethical or legal ones. Moreover, biometric identification systems naturally have certain limits connected, for example, with the loss of authentication ability when a particular feature needed for that is damaged.

A complete systems approach that addresses a variety of security, functional, operational and cost considerations is absolutely necessary in Poland. The growth of biometric technology will place greater demand on both biometric system developers and users to work together to address a number of issues, including privacy, testing, infrastructure and standards. Finally, continued improvements in technology should bring increased performance at a lower cost.

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Iwa Kuchciak

BIOMETRIC SOLUTIONS IN THE POLISH BANKING SECTOR – CHANCES AND THREATS

Summary

Biometric authentication systems are used for verification and identification ensuring fast, effective and safe access to information based on measurable physical and behavioral features. The key advantage of biometric authentication is its utilization of the characteristic features which do not change in time and are more difficult to falsify than other methods of identification. Biometric technology is characterized by such features as universality, uniqueness, permanence, measurability, convertibility, acceptability and difficulty in falsification. These features make biometric solutions applicable in the wide range of areas.

Particular biometric solutions use various physical and behavioral features. There is some difficulty in pointing out which of the biometric methods is the best authentication solution as the choice is determined by such factors as the number of users, invasive propensity, the necessity to possess specialist knowledge as well safety and precision. In banking it is iris scanning and finger vein analysis that, owing to their possibly maximum precision and operational speed, are the most advanced authentication method.

Work on the use of biometrics in banking is considerably advanced in Japan, South America, the USA and China. Many large corporations such as NEC, Hitachi, Fujitsu are considered the leaders in the industry. In Poland biometrics is becoming the key area of research on the perfection of authentication and identification techniques. The cooperative banks were the first ones in Poland to apply biometric solutions. In March 2010 the Warsaw branch of the Polish Bank of Cooperative Societies (PBCS) and the Sub-Carpathian Cooperative Bank in Sanok installed the first biometric ATM utilizing the personal finger vein pattern.

One of the most important aspects determining the effectiveness of introducing new technologies is customers' trust in a given solution. In 2006 a study into the acceptance level of biometric methods was conducted by The Ponemon Institute as commissioned by Unisys. According to its findings 70% of people surveyed declared their support for biometric methods of authentication by such institutions of public trust as banks, for 60% of people polled biometrics was estimated as a more effective safeguard against financial crime, 75% of survey participants considered it a faster method of authentication and 82% pointed out its lack of necessity of remembering the password and PIN number as an advantage. The most acceptable solution was voice and finger biometrics, while the least acceptable – iris scanning.

The application of biometric technology in banking is determined by the improved safety of executed transactions and the strife for preventing the growing theft and skimming of cards as well as identity theft. Biometric authentication has become more and more popular in the banking not only for security but also to ensure fast, easy-to-use and less expensive authentication for a variety of applications. Banking machines equipped with biometric technology provide banks with greater flexibility and efficiency in using the self-service channel. In consequence, they lead to the lower costs of handling cash, operating bank branches and servicing customers on the increasingly competitive market of banking services. The introduction of biometric technology enhances the prestige of the bank, the quality and accessibility of its services, which, in effect, helps retain the present customers and gaining new ones. At the same time, the implementation of new technology is associated with financial outlays. These are of two kinds: financial ones resulting from the necessity of adjusting machines to biometric solutions and organizational ones owing to gathering a biometric data base and its servicing.

The development of biometric technology in banking can be enhanced by activities which are not directly connected with financial services but familiarize society with modern technologies. Here we can point to the obligation of issuing biometric passports after 29 June 2009 containing biometric data in the form of a face contour and finger prints, which has been imposed on EU countries, the work on a biometric ID card or the application of biometrics during the Euro 2012 football championship.

The aim of this article is to present biometric solutions, on the one hand, as safe and effective in the management of ATM transactions, traditions banking transactions or online banking and, on the other hand, as an organisational challenge for banks and whole financial sector. Methods of the research are a systematic and comparative analysis of concepts, methodologies and conclusions, published in scientific literature, as well as logical generation of conclusions. This paper summarizes opinions and findings of biometric authentication systems and summarizes personal views and opinions on selected issues in the area of biometric authentication in the banking sector.

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TOURISM DEVELOPMENT UNDER THE CHANGING BUSINESS ENVIRONMENT CONDITIONS

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Abstract

Changes in business environment in recent decades led to significant tourism demand and supply changes in the international tourism market. The global tourism market witnesses the increasingly intensifying processes of altering competition and customer needs. There emerges a consumer tendency to choose exotic routes (Asia, America, Pacific Ocean region); therefore, European states must endeavour to increase touristic attractiveness and secure firmer competitive positions in the world tourism market. Another trend typical of contemporary tourism is the evolution of consumer characteristics. Under the conditions of global economy customers of the tourism system become more informed and sophisticated, which enhances their ability to put pressure on tourism service enterprises. Competition is taking place not only among tourism service providers, but also among other participants in the leisure services market – entertainment business organizations, trade and leisure centres.

Keywords: tourism environment, tourism development, global tourism market.

Introduction

Various tourism business environment changes had a significant impact on a fast development of tourism. The positively significant factors underlying the fast-paced development of tourism in the second half of the 20th century are information technology development and an increase in the public mobility, which occurred as a result of the advancement of transport system: cheaper air passage, growing numbers of motorcars, and changing lifestyles. In the contemporary society the life of a human has clearly been divided into three spheres: job, home and leisure.

Taking into account the fact that the rates of growth of tourism economic indicators on a global scale evidence to market saturation when the further development of product consumption volumes represent an expansion in depth rather than in scope, and this implies a more accurate identification of consumer needs within the existing demand scope.

The object of the research – the tourism development in Lithuania.

The objective of the research – to determine the tourism development trends in Lithuania under the changing business environment conditions on the international tourism market.

The tasks of the research:

- To define the theoretical concept of the tourism environment
- To determine the tourism development trends in the international market
- To determine the indicators of the tourism development in Lithuania under changing business environment conditions

The problem of the research is associated with the tourists' changing travelling habits and priorities, which leads to the alterations in the popularity of countries and economic indicators on the international tourism market.

Methods of the research: the article is prepared by structuring and generalizing the content of studies carried out by different authors and scholars, and analysing the tourism development forecasts. Based on the theoretical concept of a tourism business environment, the analysis of the factors enhancing the country's tourism development was carried out by applying the methods of systematic, logical and critical analysis, and relating theories with the trends of international tourism development policy.

The theoretical concept of tourism business environment

Strengthening the tourism development, the two-way link to the surrounding environment elements is observable: creating and introducing the tourism product to the market, high requirements raised for the tourism environment, while the tourism environment elements in turn affect tourism product production opportunities and develop the tourism product itself. Based on the general methodological concept of the economic environment introduced by Z. Lydeka (2001), the environment affecting the touristic attractiveness of visited sites is described as a set of long-term and short-term outcomes of natural processes as well as specific actions taken by the market entities and institutions regulating their activities, where the internal and external elements of environment can be distinguished.

The internal environment, or microenvironment, is described as a personified phenomenon, assuming that all

participants of business form their own microenvironments (Mikus, 1994). The external environment is a result of direct actions of the institutions regulating the market players' activity, as well as due to the natural processes. The microenvironment is a non-personified phenomenon.

Each of the aforementioned elements is subject to influence by five elements of external environment – competitive, economic, political, cultural and technological environments (Kvartalnov, 2000).

The impact of competitive elements represents one of essential influences affecting demand. When choosing an economic product of incoming tourism in a certain country the competition elements create a selective entity. Inside a particular country they influence the choice of regions to be visited and specific distribution of consumer expenditure upon various material goods and services.

When assessing from the perspective of supply, the competition elements, first and foremost, induce selection of international tourism specialization on the worldwide scale by exploiting the advantages offered by tourism resources of a particular country (Horner, 1996). The competition elements operating on the domestic level also influence the variety of types and quality of tourism services.

The economic elements influence demand primarily through the purchase power of incoming visitors to the country which determine a tourist's expenses incurred before travel and during travel (Marikjanov, 1997). Having in mind that the tourism demand is elastic, the economic situation exerts quite a strong influence on the changes in the amount of demand and supply.

The impact of economic elements on demand is understood as an overall evaluation of the country's economic situation, which characterises whether the economic tourism sector requiring huge investment is adequately and regularly developed, and what profit margin is determined by the established price levels and taxation of economic product of incoming tourism (Kurbatov, 1997).

Technological elements exert the greatest influence on demand through the system of information supply – information update, accessibility, comprehensiveness and other qualitative properties. The influence of information on the demand of the economic product of incoming tourism is increasingly enhancing, as more people tend to travel on their own without making use of services provided by travel agencies (Vellas, 1995). More and more tourists are inclined to formulate the economic product of incoming tourism by themselves thereby achieving a bigger freedom of choice; consequently, each country participating in the international tourism exchange should develop tourism databases and reservation systems in conformity with the standards of modern knowledge society.

Information represents one of the foremost criteria of translation of the influence of technological environment on supply. Information stimulates improvement of supply and qualitative advancement (Theobald, 2005). Another area of influence of technological elements is the search for and use of new possibilities and facilities for presentation of the

economic product of incoming tourism, upgrade of the visitor service system and assurance of a relevant level of quality.

Social and cultural elements are not characterised with a strong impact upon the economic product of incoming tourism, especially in respect of organised tourism, when relations with a local population is not very intensive. Such elements receive greater relevance in the event of repeated travel to a country or non-organised tourism when relations with locals enhance and gain more intensity. Social and cultural elements make influence on demand of the economic product of incoming tourism through social similarities and differences of countries, which, in conjunction with various motives of tourist travel, may gain an important competitive advantage in relation to the product of incoming tourism in other countries (Holden, 2008). General accessibility to cultural resources eliminating all existing linguistic and other barriers is of paramount importance to incoming tourism, and especially to unorganised tourism.

Impact of social and cultural elements upon supply manifests in the capacity to utilise own country's cultural resources, traditions and other attractions for the purpose of development of incoming tourism and to create a tourist friendly hospitality environment and ambience.

Political elements exert influence on demand in an essential aspect – through the choice of a country. When choosing a destination country, the sense of security, safety and trust is very important for a tourist. The human right assurance aspect is another important factor. In the event of negative impact made by political elements, a particular country becomes unattractive for a visitor to travel and the supply of the economic product of incoming tourism is unable to change such attitude.

Another aspect of the impact of political elements on demand lies in the fact that it is not limited to a single country. Since tourists often visit more than one country in the course of their travels, the security of entire region gains in importance. Neighbourhood of a country insecure in political terms has a negative effect upon growth of tourist flows to a particular country.

Impact of political elements on supply has a wider character. This factor forms a certain level of democracy, creates and regulates the legal basis for tourist business, which, in turn, stimulates the development of tourism infrastructure and attraction of investment.

The above enumerated elements of external and internal tourism environment interact and create certain relations between incoming tourism economic product indicators of varying statistical significance which exert influence on incoming tourism economic performance (Labanauskaite, 2008).

The elements of external environment influencing the tourism development on places of interest can be divided into positive – extensive and intensive – and negative. The positive extensive elements include: the number of employees, the increase in the turnover of material resources, the construction of new tourism facilities meeting the previous technical level. The

positive intensive elements include: upgrading of staff qualifications, formation of new quality infrastructure, effective utilisation of available material resources, objects and routes. The negative elements include: economic crises, militarization of the economy, growth in foreign debt, political instability, price increase in consumer commodities, unemployment, strikes, criminogenic situation, financial instability, decrease in the individual consumption, unfavourable economic situation, strengthening of tourism formalities, reduction of foreign exchange quota (Mikus, 1994).

The abundance of negative factors affecting the strengthening of touristic attractiveness of places of interest evidence the fact that tourism is a very sensitive phenomenon for the environmental impact. Although, in recent decades the overall flow of visitors is steadily increasing worldwide, the intensity of visits to different regions and different countries is changing (Papirian, 1999). Even minor turmoil in the target travel country or another manifestation of negative external environmental factors may discourage the tourist travelling internationally to travel to this country and to choose another country instead, which offers a similar economic product of incoming tourism.

The elements of external tourism environment affecting the touristic attractiveness of places of interest are also divided into static and dynamic (Kiefl, 1994). Static elements include a combination of natural and geographic elements and largely cultural and historic elements. Dynamic elements include socio-cultural, economic, competitiveness, technological and political elements. Dynamic elements have a greater impact on the process of development of touristic attractiveness of the places of interest, because when changing, they open new opportunities of tourism product modelling, therefore, namely this group of elements is the object of analysis of this article.

The impact of all these elements on touristic attractiveness of places of interest is analysed in two directions – in respect to the tourist sending and tourists hosting country.

It was observed that within the international tourism system, in the economically weaker countries the incoming tourism outnumbers the outgoing tourism, and the revenue generated from tourism accounts for a significant part of the national revenue, therefore, many of the aforementioned countries have to develop and maintain an attractive image in the tourism market. This work is being consistently performed over the years.

Trends of Tourism Business Environment Changes

The fast development of tourism in the second half of the 20th century might further be associated with such preconditions for tourism growth, as (Vellas, 1995; Stynes, 1999, Theobold, 2005):

- overall growth of economic well-being and income of population;
- decrease in working hours and increase in availability of leisure;
- progress in the development and evolution of automobile and air transport, communication facilities and information technologies;
- urbanisation;
- priorities in the public system of intellectual values.

In order to secure considerable market share in the global tourism market, it is of paramount importance to efficiently respond to the changes in tourism business environment and tourism product consumption trends. The supply element must be accommodated to the highly changeable demand element. The results of surveys of tourism product consumption conducted on the international scale testify to rather significant changes in tourism product consumption (World Overview and Tourism Topics, 2006):

- Expenditure on all types of travel and, primarily, expenditure on transport is increasing at a faster rate in comparison with the other items of the family budget.
- Travels tend to be more frequent but shorter.
- Travel expenditure has augmented due to consumption of higher quality leisure services.
- Number of travels has increased due to the growth of intercontinental travels from Europe to Americas, Asia and Oceania.
- Intensive use of air transport due to increase in the number of convenient direct flight services.
- Reduction in travelling groups of individuals, including family groups, and, as a consequence, increasingly flexible leisure programmes are chosen.
- As a result of growing use of internet for placing orders, the time span between order placement and the date of travel itself is decreasing.
- The most active age groups involved in travel represent senior citizens and youth.
- Demand for tourism related to visiting cultural attractions and active and outdoor rest has been growing.
- The quality of environment is increasingly a dominant factor in attracting tourists, especially in rural and seaside regions.

These transformations in the global tourism market imply that tourism operators must face a rather stiff competition in the countries where tourist industry is highly important, and such competition may manifest at the following levels (Johnson, 1993):

- Competing tourism products;
- Mutually competing countries;
- Competition generated by other recreational products;
- Competition from other commodities unrelated to tourism and recreational activities.

Differentiation of the tourism market implies selection of consumer groups whose demands might be satisfied by certain tourist products. Classification of tourist demands into sectors takes into account a variety of criteria, such as (Smith, 1989):

- Generic structure of the demand for various tourism forms and various tourism and tour services;
- Temporary demand structure (e.g., seasonal or off season);
- Spatial structure of demand, i.e., classification of different areas and localities which are visited on tours;
- Socio-demographic structure of demand comprising both general economic and social factors (population income, demographic situation, etc.) as well as sociological and historical factors.

For the purpose of developing tourist business, it should be feasible to take into account the below business aspects (World Overview and Tourism Topics, 2001):

- High competition in terms of replacement and change, i.e., tourism may be replaced with another business of recreational character, or the very elements of tourism product may be changed;
- Highly elastic demand;
- Demand is influenced by a number of non-economic factors – fashion, subjective judgments, personal priorities and attitudes;
- Concentration of demand in time.

Liberalization of political-legal environment, which opened the opportunities for citizens of many countries to travel freely around the world, altered the characteristics of the place of interest related to both the touristic attractiveness and the priorities for tourist travels. When competitiveness in the tourism market gained the global nature, the regional changes reflecting the tourist priorities have emerged. The main trends of tourist travels are associated with Europe, covering around 57.8 percent of the global international incoming tourism market, and America (respectively 18.5 percent). Europe is unique in the differentiation of its tourism objects and products, cultural and historical uniqueness of each state (Tourism Development Strategy of Lithuania until 2015, 2002). One of the fastest growing global tourism markets still remains the East Asian and Pacific Ocean region, occupying 16 percent of the international tourism market. According to the forecast and vision of the World Tourism Organization for 2020 (World Tourism Organisation, 2006), the share of the European tourism market should shrink by nearly 10 percent (from 58 percent to 47 percent). Thus, the European states need to seek for new sources enhancing attractiveness and uniqueness as well as image-building measures in order to avoid stagnation in the tourism sector.

Having analysed the data provided by WTO and the international tourism conferences in 2004 and 2005

(Conference in Prague in 2004 “Travel Fashions”, rapporteur L. Cabrini), publications issued by WTO and the European Travel Commission (“Tourism Highlights 2006”, “Tourism Trends for Europe 2006”), we can generalise the factors influencing the tourism growth rate in the world and the changes in the global tourism market:

- Raising living standards and economic growth of countries;
- Raising fuel prices;
- Manifestations of terrorism;
- Safety during the travel;
- Increasing environmental concerns
- Globalisation, which makes it possible to change the place of residence in another state.
- Development of new technologies and the increasing number of Internet users.
- Change in the amount of free time and perception.
- Supply of low-cost flights.

Considering the fact that competition in the global tourism market is getting more intense, and the supply of tourism products is increasingly becoming similar, many countries, which are giving priority to the development of tourism, are seeking to strengthen their tourist attractiveness through the establishment of identity and image in the global tourism market through the event marketing measures.

During an event a potential tourist receives a sent message about the identity of the place of interest – the values which are focused on. The perceived identity is an image, representing the client’s attitude to the product. The identity is understood as the represented values, attitudes, ideas. The identity and image is distinguished by the source of origin – the identity is created by the consciousness of the sender (enterprise), while the image is formed by the consciousness of the recipient (consumer) (Keller, 1999). The image expresses the perception of separate groups about the product or brand, i.e. the way the aforementioned groups “decode” the signals which are sent by a business organisation via the communication channels. The purpose of identity is to define the value, aim and image of the brand within the enterprise.

The consumer perception differs depending on the conditions of the location and time as well as other factors. According to Behrer and Larsson (1998), the main image-building factors include: communication; physical environment; products and services; ethics; social responsibility; relationship with the local community; behaviour of the representatives of the organisation.

A proper positioning of the place of interest on the global tourism market is associated with the ability to distinguish between the brands and strengthens the position in the market and consumer’s consciousness for a particular product. The essence of it is to promote the awareness of the brand, which in the ideal case, would form a long-term consumer loyalty to tourism products of a specific locality (Farquhar, 1990).

In order to seek for a more competitive position on the global tourism market, is recommended applying three methods of differentiation of tourist attractiveness factors (Tyrell, 2006, Vanhove, 2008):

- General perspective: a higher value for the same price, reliable products for an affordable price;
- Product perspective: a better/ newer/ cheaper/ unique product;
- Consumer perspective: a better awareness of the costumer, a faster and more flexible response to their needs.

The third method of differentiation is associated with the co-operation relations between the consumer and the organisation. According to Öqvist (1999), the product differentiation strategy should include more cultural elements which need to be included in the events.

Over a certain period of time the relation between the consumer and the product may evolve to the loyalty to a brand. The loyalty is characterised by the positive attitude towards the brand, the repetitive purchases. Each place of interest seeks for a maximum customer loyalty because this ensures stability and an opportunity to occupy a bigger market share and earn more profit. In order to assess if the positioning was done correctly, the method of direct sales results is most commonly used.

The indicators of the tourism development in Lithuania under changing business environment conditions

The influence of the changes of the dynamic elements in the international tourism business environment in recent years occurred equally well received. Most negative impact on tourism development were the economic environment factors - the global financial crisis, rising inflation, declining real purchasing power of residents and doubts about the prospects for the future. The positive impact on tourism development is associated with higher requirements for environmental quality, growing popularity of sustainable tourism development concept, expanding of the geography of travel and information dissemination capabilities.

By analyzing the influence of international tourism business environment changes on the development of tourism in Lithuania, is appropriate to evaluate the Lithuanian tourism development indicators. Based upon figures of demand and supply of incoming tourism in the years 2004 - 2009, calculation of the following indicators of the impact of the economic product of incoming tourism upon the country's economic performance is made:

- share of GDP generated by incoming tourism;
- receipts earned through tourism;
- share of the economic product of incoming tourism in the country's exports;
- share of the national budget receipts generated by the economic product of incoming tourism;
- multiplier factor of receipts from the economic product of incoming tourism;

- jobs created by the economic product of incoming tourism;
- factor of variation (irregularity) of tourist flows;
- seasonal fluctuation of sales of the economic product of incoming tourism.

Having taken into account the following indicators: GDP share generated by incoming tourism, receipts earned through tourism, share of the economic product of incoming tourism in the country's exports, share of the national budget receipts generated by the economic product of incoming tourism, factor of receipts from the economic product of incoming tourism, jobs created by the economic product of incoming tourism, factor of variation (irregularity) of tourist flows and seasonal fluctuation of sales of the economic product of incoming tourism, we may arrive at the below conclusion:

- The average share of GDP generated by incoming tourism was equal to 2.66 percent each year over the analysed period 2004 to 2009. This figure was on the increase until 2007, while with the onset of the crisis it plunged and the percentage share in the last year nearly reached the 2005 level.

• Having estimated the key areas of tourism business, it was noted that the largest receipts were earned by travel agencies, tour operators and such other businesses until the very year of 2008. The receipts gained by the mentioned businesses exceed that of businesses engaged in accommodation and catering by as much as 3 to nearly 7 times, their receipts also exceeded the receipts earned by businesses providing leisure organisation services, cultural and sporting activities, respectively by 3.7 to 4.6 times. The situation changed considerably in 2009 when receipts earned from accommodation and catering businesses exceeded by approx. 2 times the receipts earned by travel agencies, tour operators and other businesses.

• Having computed the Pearson's Correlation Coefficient, it was determined that the bigger tourist flow implies higher receipts in the tourist sector, however, it was established that the duration of stay in the host country does not correlate with average receipts generated by tourism, statistical relation between these features is minute.

• It was determined that the highest expenditure is made by foreigners who come for the purpose of leisure and holiday making. The higher the percentage of such foreigners, the higher the receipts derived from incoming tourism.

• The highest multiplier factor (coefficient) was recorded in 2005 when it reached as high as 3.2, while the lowest factor was in 2007 and it reached approx. 1.3 in the latter years the multiplier factor hovered around 1.6.

• Number of jobs in the accommodation sector increased by over 13 percent in 2009 in comparison with 2004. The jobs significantly decreased under the economic crisis conditions. The rate of reduction in the number of jobs in 2008 in comparison to 2009 equalled almost 12 percent.

- The factor of variation of tourist flows fluctuated between 8.22 and 8.52 yearly throughout the period under analysis. The lowest factor was recorded in 2007 – it was approx. 8.2 percent, and the highest recorded factor was in 2008, when it reached approx. 8.5 percent.

The analysis of the economic indicators of Lithuanian tourism development shows that the quantitative changes are not very bright, so it is appropriate to evaluate the qualitative changes in the tourism development in Lithuania.

Conclusions

1. The theoretical concept of tourism environment can be distinguished by external and internal, static and dynamic elements. Dynamic elements, which include socio - cultural, political, economic, competitive, technological elements have the most impact on tourism development opportunities.

2. Globalisation of tourism and the spread of modern information technology led to the formation of the tourism development trends: the shorter time between the decision to travel and travel, longer travel distances, shorter and more frequent travel. In order to seek for a more competitive position on the global tourism market, it's recommended to apply three methods of differentiation of tourist attractiveness factors - general perspective, product perspective and consumer perspective: a better awareness of the costumer, a faster and more flexible response to their needs.
3. Changes in the tourism environment led in the last decade more to the qualitative changes in Lithuanian tourism development, while economic indicators of tourism development were essentially unchanged. The relatively low multiplier effect and high seasonal fluctuation does not enhance the positive social and economic effects of tourism development.

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TOURISM DEVELOPMENT UNDER THE CHANGING BUSINESS ENVIRONMENT CONDITIONS

Summary

Various tourism business environment changes had a significant impact on a fast development of tourism. The positively significant factors underlying the fast-paced development of tourism in the second half of the 20th century are information technology development and an increase in the public mobility, which occurred as a result of the advancement of transport system: cheaper air passage, growing numbers of motorcars, and changing lifestyles. In the contemporary society the life of a human has clearly been divided into three spheres: job, home and leisure.

Taking into account the fact that the rates of growth of tourism economic indicators on a global scale evidence to market saturation when the further development of product consumption volumes represent an expansion in depth rather than in scope, and this implies a more accurate identification of consumer needs within the existing demand scope.

The object of the research – the tourism development in Lithuania.

The objective of the research – to determine the tourism development trends in Lithuania under the changing business environment conditions on the international tourism market.

The tasks of the research:

- To define the theoretical concept of the tourism environment
- To determine the tourism development trends in the international market
- To determine the indicators of the tourism development in Lithuania under changing business environment conditions

Methods of the research: the article is prepared by structuring and generalizing the content of studies carried out by different authors and scholars, and analysing the tourism development forecasts. Based on the theoretical concept of a tourism business environment, the analysis of the factors enhancing the country's tourism development was carried out by applying the methods of systematic, logical and critical analysis, and relating theories with the trends of international tourism development policy.

Strengthening the tourism development, the two-way link to the surrounding environment elements is observable: creating and introducing the tourism product to the market, high requirements raised for the tourism environment, while the tourism environment elements in turn affect tourism product production opportunities and develop the tourism product itself. The internal environment, or microenvironment, is described as a personified phenomenon, assuming that all participants of business form their own microenvironments. The external environment is a result of direct actions of the institutions regulating the market players' activity, as well as due to the natural processes. The microenvironment is a non-personified phenomenon. Each of the aforementioned elements is subject to influence by five elements of external environment – competitive, economic, political, cultural and technological environments.

The elements of external environment influencing the tourism development on places of interest can be divided into positive – extensive and intensive – and negative. The positive extensive elements include: the number of employees, the increase in the turnover of material resources, the construction of new tourism facilities meeting the previous technical level. The positive intensive elements include: upgrading of staff qualifications, formation of new quality infrastructure, effective utilisation of available material resources, objects and routes. The negative elements include: economic crises, militarization of the economy, growth in foreign debt, political instability, price increase in consumer commodities, unemployment, strikes, criminogenic situation, financial instability, decrease in the individual consumption, unfavourable economic situation, strengthening of tourism formalities, reduction of foreign exchange quota.

The elements of external tourism environment affecting the touristic attractiveness of places of interest are also divided into static and dynamic. Static elements include a combination of natural and geographic elements and largely cultural and historic elements. Dynamic elements include socio-cultural, economic, competitiveness, technological and political elements. Dynamic elements have a greater impact on the process of development of touristic attractiveness of the places of interest, because when changing, they open new opportunities of tourism product modelling, therefore, namely this group of elements is the object of analysis of this article. The impact of all these elements on touristic attractiveness of places of interest is analysed in two directions – in respect to the tourist sending and tourists hosting country.

In order to secure considerable market share in the global tourism market, it is of paramount importance to efficiently respond to the changes in tourism business environment and tourism product consumption trends. The supply element must be accommodated to the highly changeable demand element.

Based upon figures of demand and supply of incoming tourism in the years 2004 - 2009, calculation of the following indicators of the impact of the economic product of incoming tourism upon the country's economic performance is made:

- share of GDP generated by incoming tourism;
- receipts earned through tourism;
- share of the economic product of incoming tourism in the country's exports;
- share of the national budget receipts generated by the economic product of incoming tourism;
- multiplier factor of receipts from the economic product of incoming tourism;
- jobs created by the economic product of incoming tourism;
- factor of variation (irregularity) of tourist flows;
- seasonal fluctuation of sales of the economic product of incoming tourism.

Having taken into account the following indicators: GDP share generated by incoming tourism, receipts earned through tourism, share of the economic product of incoming tourism in the country's exports, share of the national budget receipts generated by the economic product of incoming tourism, factor of receipts from the economic product of incoming tourism, jobs created by the economic product of incoming tourism, factor of variation (irregularity) of tourist flows and seasonal fluctuation of sales of the economic product of incoming tourism, we may arrive at the below conclusion:

Changes in the tourism environment led in the last decade more to the qualitative changes in Lithuanian tourism development, while economic indicators of tourism development were essentially unchanged. The relatively low multiplier effect and high irregularity of tourist flows does not enhance the positive social and economic effects of tourism development.

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ORGANIZATIONAL CULTURE MODEL: THEORETICAL BACKGROUND

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Abstract

In this paper the theoretical model of organizational culture is substantiated. The paper consists of three parts: in the first one the conception of organizational culture is examined; then in the second one types of organizational culture are presented, in the third one the broad – brush theoretical model of organizational culture, which involves levels of organizational culture, the interaction between manager and employees, organization culture importance for organization performance, different types of organizational culture is substantiated.

Keywords: organizational culture

Introduction

There are about 200 politically independent countries in the world which are opulent with different nations, characterized by traditions which were developed for long time, customs, language, ceremonies, rituals, in other words – culture. Organization can be called small formation, which has separate elements of society. According to J. Vveinhardt ir I. Nikaitė (2008), organization is a people group spoiling for joint aims. The industrial success and efficiency of this group are directly reliant on the ability of group members to evenly and rightly understand what they do and what they reach. Organization culture is being created by organization employees in the process of harmonizing values, norms, protocol and etc., which is acceptable for all organization members and affect employee's interest, satisfaction, emotional conditions, expectations and etc. According to S. P. Robbins (2003), like tribes cultures have their totems and taboo, which regulate each tribe member's behavior in respect of other tribe members and outsiders, organizations have their own culture, which rules the behavior of their members. When studying scientific literature the lack of structured systematic view to organization typologies characteristics was observed. Therefore in this paper the scientific problem which can be formulated as a question "If different organizational culture typologies can be systematized to one model" will be analyzed. The object of the paper is organizational culture. The aim of the paper is to substantiate theoretical model of organizational culture.

The conception of organizational culture

Different authors introduce several descriptions of organizational culture. 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 (Lipinskiene, Vingilyte, Kosimoglu, 2006). According to E. H. Shein (1997), organizational culture involves norms, values, behavior manners, rituals, traditions, influences structural stability, integration, and accumulated experience, maintained by joint past. This scientist states that organizational culture exists in three different levels, which involve underlying assumptions, espoused beliefs and values and artifacts. According to Mb. Z. A. Rashid, M. Sambasivan and A. A. Rahman (2004), organizational culture exists historically and is socially acceptable for its members and understandable as holistic. Besides, R. Vaitiekuskaitė (2008) emphasizes that there is no good or bad culture, organizational culture is „good”, „if it matches organization goals, strategy and objectives and helps to reach them”. Sometimes, when we want to reach organizational goals, it is necessary to change organizational culture. So, organizational culture widely ranges rights, methods and means of miscellaneous process in organization. R. Ginevičius and V. Sūdžius (2007) widely state the composition of organizational culture. According to them, organizational culture consists of organization philosophy, member attitudes to goals, methods and means of its implementation, internal and external relationships. In organization people relations, their communication can strongly affect employee's behavior, so it is natural, that scientists, describing organizational culture, spared for people interaction. G. Dubauskas (2006) noted that, if people want to work successfully together, they need to decide how to state power, status and authority in their group. It is also necessary to recognize, whereof group members can expect reward or sanction for substandard behavior. Group members should also understand, that naturally, particular employees with some will communicate closer, with another – outer, because the

phenomenon of friendship cannot be limited or interdicted.

V. Kučinskas and A. Paulauskaitė (2005) properly tender the most important features, indicating the importance of organization culture upholding and devolving, it is an abstract phenomenon, which forms the perception of organization, as exclusive and unique system of joint attitudes, which involves all organization proceeding; organization follows this system trying to reach goals, it reflects on external elements of organization: in history of establishment and development, symbols, language, physical environment and etc. The continuity is characteristic for organizational culture: the rendering of organizational culture for other members is based on socialization; it is changing and coherent with the environment, that is why it can help organizations to react and adjust to environmental changes

B. Martinkus, D. Beržinskienė, S. Stoškus (2010) note that organizational culture is naturally occurred communication form, values and attitudes. A. Juodaitytė and D. Martišauskienė (2007) notice, that organizational culture relates its members with valuable and activity relations, creates the atmosphere of sociality, which prevents organization members from alienation.

R. Ginevičius and V. Sūdžius (2007) emphasize the importance of trust atmosphere in organization and its' influence on sharing experience: organizations' culture is its members' culture: the whole system of trust between employees, occurred relationships, attitudes and values, which warrant the change of experience, pursuance of particular norms and rules, which make the essential influence on organization members behavior. Thus employee, choosing suitable behavior manner, is under the sway of unwritten rules and attitudes, accepted in organization. According to A. F. Stoner and R. E. Freeman (2005), the essence of organizational culture is main order for daily employee's behavior and decisions; it orients their actions for achievement of organizational goals.

A. Poškienė (2006) notes, that there must be reversionary connection, which secures objective quality, because organizational culture is a system of values communication. The intercommunity of culture reference and its solidity is based on purposeful system of norms and values; it composes assumptions for creativity and innovations. Effective management of cultural coherency stimulates innovations, its' implementation and consolidates different opinions.

S. P. Robbins (2003) distinguishes five organizational culture functions: 1) organizational culture defines limits and except organization from others; 2) renders the feeling of identity for organization members; 3) helps to form the attachment to something bigger than personal interest; 4) strengthens the stability of social system; 5) is mechanism of logic and control, which directs and forms employees attitudes and behavior. T. Parsons states, that in each organization culture must fulfill four functions: 1) adaptation (on purpose an adaptation would be successful, organization must maintain good social atmosphere; 2) aspiration of aims (it succeeds easier, if organization member's goals are

consolidated into one whole – organizational strategy; 3) integration (the ability of organization detachments integrate into one unit) 4) legitimating (organization need to arise, swamp and be accepted).

Č. Purlys (2009) reminds that organizational culture strengthens employee attitude to work and organization and strengthens employee personality. Culture can force to commit such employees, who have influence on organization proceeding results, but do not acknowledge general values of organization. Such situation happens than proceeding is dynamic. In organization works not only person; separate groups, different by their structure, composition, values are trying to reach their aims. The composition of variously expressed features makes organization different, distinguished from other organizations. The success of objective implementation depends on many factors; one of them is organizational culture type.

Types of organizational culture

In order to better understand the essential of organizational culture, scientists classified organizational cultures by typical features into different types. B. Martinkus and others (2010) tender broad – brush organizations' classification into type's criteria: 1) interpersonal relationship criteria; 2) proceeding organizing and performance criteria; 3) criteria of psychological microclimate; 4) occasions for employees to display criteria.

R. Goffe and G. Jones (1998) distinguished four types of organizational culture, based on two dimensions: sociality and solidarity. Solidarity can be described as fellowship in organization employees' relations; it is appreciable because of influence on organization proceedings. (Rashid and others 2004). According to scientists, ideas, values, goals, attitudes, are shared throw friendship. Interrelation is hallmark of friendship, that is why actions, which employees perform as a favor, is not a reason to expect of backward action. The dimensions of sociality and solidarity are axes, the four quadrants of organizational culture types ("communal" – it is encouraging behaving professionally, but not icily; "fragmented" – minimal contact with colleagues; "networked" – especially friendly and careless; "mercenary" – people crowds for doing the task) stand on them. That model is also called as double "S" cube.

High level of sociality and low level of solidarity forms networked organization culture, which is opposite to mercenary culture, which is identified with low level of sociality and low level of solidarity. If both dimensions are weakly expressed when both fragmented culture is formed, when both are strongly expressed – communal culture. It should be noted that, according to this model, the combination of solidarity and sociality can manifest positively and negatively, so cultures also can be expressed negatively or positively. Typological R. Goffe and G. Jones classification of organizations can be ascribed to the first criteria of brush organizations' classification into type's (interpersonal relationship criteria). J. Sonnenfeld and M. A. Peiperl (1998) presented organization culture typology (by task's

fluency (orientation outside or inside) and supply's fluency (personal or group input), organizations' cultures' are separated into baseball team; academy; club; castle) (Gabarro, 1992) can also be ascribed to that (first) criteria.

Four types of organizational culture, by R. Harrison's presented in 1972 and by C. Handy's modified in 1978, can be ascribed to brush organizations' classification into type's, second criteria (proceeding organizing and performance). Those four types of organizational culture repeat the idea of competing values framework and "S" cube. Sustaining expression of two dimensions, four quadrants reflecting different organizations are formed. C. Handy to each type of culture ascribed an icon and changed the names of types. For type "power" was given the name of "web", "role" culture was renamed into "Greek temple", "task" culture was renamed into "lattice", "person" culture was renamed into "cluster".

In 1981 R. E. Quinn and J. Rohrbaugh presented competing values framework as the means for measuring organization effectiveness. In 1991 D. R. Denison and G. M. Spreitzer analyzed that model as the means that enable to determine types of organizational culture and identify characteristics. According to D. R. Denison and G. M. Spreitzer, in competing values framework the biggest attention is paid to competing tensions and conflicts, which rise in each human system. In 2006 R. E. Quinn and K. S. Cameron presented simplified framework of competing values: in this model attention is paid to activity proceeding. This model, same as model presented by R. E. Quinn and J. Rohrbaugh, can be ascribed to brush organizations' classification into type's second criteria (proceeding organizing and performance), because despite changed model structure, orientation to organizations performance remained not transformed.

To brush organizations' classification into type's third criteria (criteria of psychological microclimate) can be ascribed organizational culture types classification, presented by H. Steinman and G. Schreyogg. Scientists distinguished six different types of organizational culture: paranoiac, depressive, opportunistic, extortionate, shizoidic, promissory. The classification, presented by S. Deal and A. Kennedy, distinguishing four types of organizational cultures ("work hard – play hard"; "tough-guy macho"; "process"; "bet-the-company") is ascribed to the brush organizations' classification into type's fourth criteria (occasions for employees to display) (Martinkus, 2010).

The broad – brush theoretical organizational culture model

Analysis of scientific literature allows stating, that organizational culture exists historically and involves values, norms, attitudes, rules, language, assumptions, opinions, symbols, rituals, organizational myths, history knowledge, memories, beliefs, physical surrounding, communication which are acceptable, matching up and maintained by all employees and determines the type of internal and external contacts. The broad – brush theoretical organizational culture model (shown in Figure 1) includes:

- the interaction between manager and employees;
- levels of organizational culture (according to E. H. Shein, 1997);
- organization culture importance for organization performance (according to L. Šimanskienė, 2009);
- different types of organizational cultures (systematic view to different organizational culture typologies, established on interaction of two different dimensions, given by different scientists).

The broad – brush theoretical organizational culture model represents systematic view to organizational culture based on scientific literature review. In order to compose the characteristics of different organizational culture types, four scientific models, representing organization cultures typologies were used. It was followed by attributes, typical to specific organizational culture according to sets used of dimensional expressions but not graphical presentation in the flat. So, in using only the comparison of different models graphical view without questioning expression of used dimensions, the wrong map of organizational culture typologies characteristics can be resulted. Consequently, in pursuance of purifying organizational culture typologies characteristics, given in the model and marked by letters, scientific models presented before were modified by changing directions of dimensions expressions. For J. Sonnenfeld and M. A. Peiperl (1998), R. Harrison (1972) and C. Handy (1978, 1985) models the direction of vertical axes, for R. Goffee and B. Jones (1998) the direction of horizontal axes was changed.

The head of organization, being in interaction with employees, conveys his attitudes and system of values, forms attitudes about acceptable and proper behavior. Though employees communicate not only with the executive, but also with each other, estimates attitudes which executive is trying to render; compares with their own attitudes and inveterate opinions (pointers mark interaction between executive and employees).

Different factures in the model (points, strikes and vertical lines) mark E. Shein's presented levels of organizational culture. The first circle (the closest to the executive figure, filled in with points) represents underlying assumptions level, which includes visible organizational processes and structure. The second circle (filled in with strikes) marks the level of espoused values and beliefs; the third one (filled in with vertical lines) represents the level of artifacts.

Two points which marks horizontal and vertical axes of model, represents two dimensions. Appealing to their interaction scientists formulated different characteristics of organization culture typology. Different characteristics are marked by letters „A“, „B“, „C“, „D“ and are presented in separate quarters of figure. Organizational culture affects implementation of organizational activities, organizational results, philosophy and structure. It should be noted, that exactly organizational culture is an element, which appears in areas of organizational strategy and organizational culture, so, reacting to the influence of external environment and inner demand of organization, structure should be formed as functional, simple and comfortable.

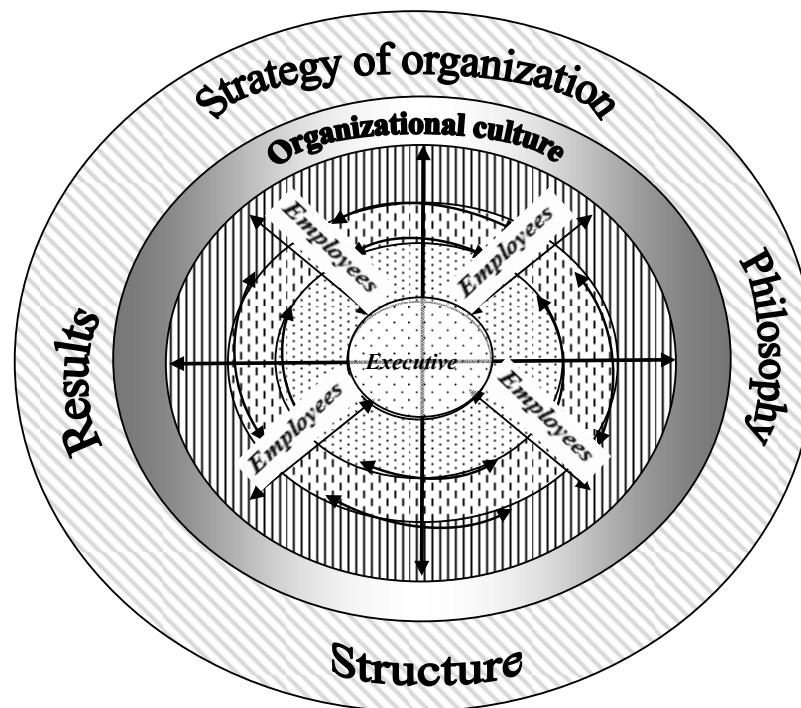


Figure 1. The broad – brush theoretical organizational culture model

The analysis of organizational culture typologies, presented by different scientists enables to substantially distinguish such features which unifies those typologies.

There are important relationships between employees, close communication in “A” typology organization. Teamwork, knowledge sharing, trust, belonging to group, loyalty to organization are valuable. Such organizational culture is inherent for family or fast growing organizations; it can be felt too big dependence from strong leaders, who are predispose to be supportive, considerate and discreet.

“B” type organizational culture is characterized by flexibility, dynamism, specialization, development of employees, teamwork are valuable, but risk avoidance between team members can also exhibit. Leaders are active; they see future vision and are trying to stimulate creativity and activity.

In “C” type organization is high level of creativity and innovative, productivity and implementation of innovations, even connected to risk, is emphasized. Often information is being managed not by dimension of organization, but subjected to individuals. Success is more important than formal roles, it is especially important to create and sustain competitive advantage. Leaders are directive, oriented to the goal.

In “D” type organization risk is avoided, people react to innovations gingerly, structure and formalization

is emphasized. Employees’ actions are regulated by procedures, rules – they are directed to achievement and implementation of organizational goals. Stability and permanence are valuable. The shortage of communication, secret conflicts can manifest, because the purpose of relationships is more important than social interaction. Leaders are canny, conservative.

Conclusions

Analysis of scientific literature allows stating that organizational culture exists historically and involves values, norms, attitudes, rules, language, assumptions, opinions, symbols, rituals, organizational myths, history knowledge, memories, beliefs, physical surrounding, communication which are acceptable, matching up and maintained by all employees and determines the type of internal and external contacts. Scientific literature analysis enabled to substantiate theoretical model of organizational culture, which includes different types of organizational culture. Tight communication between team members, valuable relations are typical for type “A”. In type “B” organization employees’ development and teamwork stimulation is typical. “C” type is special for stimulation of creativity, innovations and achievement of goals. Type “D” emphasizes formal procedures and rules, evaluation of stability and constancy.

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Diana Lipinskiene, Giedrė Morkūnaitė

ORGANIZATIONAL CULTURE MODEL: THEORETICAL BACKGROUND

Summary

In this paper the conception of organizational culture, the characteristics of organizational culture types and the theoretical background of organizational culture model is discussed. Scientific literature analysis showed, that organizational culture establishes historically and involves values, norms, attitudes, rules, language, assumptions, opinions, symbols, rituals, organizational myths, history knowledge, memories, beliefs, physical surrounding, communication which are acceptable, matching up and maintained by all employees and determines the type of internal and external contacts. According to different types of organizational culture, emotional commitment can be stimulated differently. In “A” type organization emotional commitment is being stimulating through ingenious relations between employees and being trust each other. In “B” type organization emotional commitment is stimulated through teamwork and improvement. In “C” type organization emotional commitment is being stimulated through creativity and maintenance of self-realization, emphasizing the importance of productivity. In “D” type organization emotional commitment is being stimulated through the revelation importance of aspiration organizational goals and emphasis of activity stability.

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ORGANIZATIONAL CULTURE THAT STIMULATES EMOTIONAL COMMITMENT OF EMPLOYEES

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Abstract

In this paper the scientific problem which can be formulated as a question “what organizational culture affects employees’ emotional commitment?” is discussed. The aim of paper is to explore, what are features of organizational culture that stimulates emotional commitment of employees. The paper consists from three parts: firstly conceptions of organizational culture and emotional commitment are discussed; then the connection between factors influencing emotional commitment and organizational culture are presented; finally, results of the research of organizational culture in respect of stimulating emotional commitment are presented. Research was carried out in culture and art institutions which belong to Panevėžys city municipality and subscribed to take part in research.

Keywords: emotional commitment; organizational culture.

Introduction

Organizations relish both to client and employee is an aspiration requiring efforts, work and permanent perfection. The creation, maintenance and development of conditions which stimulate ingenious employee wish to stay in organization should become a part of each organization’s strategy, because employees’ wish to satisfy employers’ wishes as well as possible, in the same time realizing personality, can bring benefit and profit. Analysis of scientific literature showed that the most valuable employees are emotionally committed. Emotional commitment is described as sensual attachment to organizational goals and values. Emotionally attached employees R. Nemeh (2009) calls gold of organization – they actively participate in organization’s activity, because they want so and they feel satisfied with their work. Employee commitment is affected by many factors which manifest in daily organization proceedings. Those factors can be named as organizational culture. Therefore in this paper the scientific problem which can be formulated as a question “what organizational culture affects employees’ emotional commitment?” will be analyzed. The aim of paper is to explore, what organizational culture stimulates emotional commitment of employees. For fulfilling the task, the literature study, statistical analysis and questionary were carried out. Research data were processed with MS Excel.

The conceptions of organizational culture and emotional commitment

Organizational culture exists historically and involves values, norms, attitudes, rules, language, assumptions, opinions, symbols, rituals, organizational myths, history knowledge, memories, beliefs, physical surrounding, communication which are acceptable,

matching up and maintained by all employees and determines the type of internal and external contacts. Organizational commitment by many scientists is investigated like element, which is important for employee motivation. There are three forms of organizational commitment distinguished in scientific literature: continuance, emotional and normative. Normative commitment causes feeling to stay in organization because of duty – employee thinks, that he or she *must* to stay in organization. Employee committed to organization in continuance commitment form perceives the worth of leaving organization. An employee, whose main connection with organization is based on continuance commitment, stays in organization because she or he *has* to. Employees who are strongly emotionally committed to organization, stays because they *want* to stay.

Any organization could not proceed without people, so organizations should try to increase employees’ commitment to organization. Emotional commitment – the strongest form of organizational commitment and emotionally committed employees create the biggest profit, consequently organizational culture’s influence to this organizational commitment form will be analyzed in this paper.

The connection between factors influencing emotional commitment and organizational culture

Analyzing researches of different scientists (J. P. Meyer and N. J. Allen (1997); T. Dvir, N. Kass, B. Shamir (2004); N. Petkevičiūtė and I. Kalinina (2004); S. Swailes (2004); R. Veršinskienė and N. Večkienė (2007); L. Pakalkaitė (2006); Ž. Kavaliauskienė (2009); J. Vveinhardt and I. Nikaitė (2008); R. Nemeh (2009); D. Lipinskienė (2008); L. Wang, J. W. Bishop, X. Chen and K. D. Scott (2002); I. O. Williamson, M. F. Burnett and

K. M. Bartol (2009); O. J. Ladebo, O. J. Olaoyes, C. O. Adamu (2008)), it can be noticed that emotional commitment to organization, according to different scientists, is affected by several factors. Those factors are following: organizational characteristics, individual employees identification, personal characteristics, working manner, the complexion of work, work conditions, expected organizational reward, emotional reactions, ability to work in a team, expectations, job satisfaction, values, relationships with colleagues, salary, interest, employee's age, marital status, work experience, experience of management, position, involvement into organization, responsibility, environmental change, autonomy. Organizational culture involves the biggest part of factors mentioned above influences emotional commitment of employee and is formed by employees in the process of values, norms, rules adjustment and etc., affects employee's emotional status, interest, expectations and etc. One of the most important elements of better each other understanding is apropos and adequate changing information, ingenuous communication. I. Nonaka (1994) noticed that subject to employee's satisfaction with amount of available information, organizational commitment is developed; employee is trying to absorb organizational values and goals (Krishna, Casey, 2008). During the process of communication, the learning process is bonding. In this process employees share their experience, for example, about the perception of right behavior or proper ways of problem solving. Such creation and knowledge development process can be called as organizational learning. R. M. Andrikiene and B. Anuzienė state, that organizational learning is organizing activity in professional sphere, elevation of occupational and collective competencies, manner of relationship development (Trakšėlyš, 2010). The whole of conditions, which affects the effectiveness of proceeding, productivity, personal evolution and etc., displays through psychological feeling, that is the reason why organizations, spoiling to encourage emotional commitment, should pay attention to organizational culture which affects and is affected by employees' interaction. Changing information and communication as elements of increasement emotional commitment are associated with transferring of myths and stories about organization. According to J. F. McCarthy (2008), the transfer of organizational myths and stories consolidates organization, increases its solidity, besides, scientist estimated that organizational commitment and storytelling are closely coherent and telling positive stories positively affects not only story tellers abut also and audience. Consequently, employee emotional commitment can be developed through maintenance of communication and collaboration and security of changing information. Organizational culture is affected by employees' and executive of organization interaction. Organizational culture affects each employee (through working environment, organizational climate, relationships and etc.) and each employee affects organizational culture (through consistency of their attitudes, opinions and values with attitudes, opinions and values, which are reputed as acceptable in organization);

the interaction of employees becomes an element which affects emotional commitment.

The research of organizational culture by the aspect of emotional commitment encouragement

The goal of research was to identify organizational culture which encourages emotional commitment of employees. Research method – survey, using questionnaire.

Organizational culture which stimulates emotional commitment was identified accomplishing research by following steps:

- 1) Identification of respondent's commitment level;
- 2) inquiring respondent's organization's culture;
- 3) searching respondent's expectations in respect of organizational culture.

In each research step, outlining questions are distinguished.

Estimating current respondent's commitment to organization, it was pursued to ascertain which form from three organizational commitment forms respondent is committed to organization he/she works in. For this criteria research P. Meyer and N. J. Allen (1997) specified emotional, normative and continuance commitment evaluation scale was used. There are six questions for each organizational commitment form in this scale (totally there are eighteen questions in this scale). Respondents had to answer all the questions marking answer in seven points scale, where 1 means "totally disagree", 7 means "totally agree". In questionnaire all the questions were mixed departing from questions bunching according to organizational commitment form.

The identification of current respondent's organizational culture enabled to estimate what organizational culture dominates in respondent's organization.

The identification of desirable respondent's organizational culture enabled to estimate with what culture in his/her organization respondent would be satisfied. Desirable organizational culture reflects respondent's attitude to in what organizational culture dominating in organization he would like to work in. To that end E. Quinn and K. S. Cameron (2006) adapted organizational culture assessment instrument (OCAI) was used. Therewith this instrument organizational culture is being evaluated by six parameters: dominant characteristics, organizational leadership, management of employees, organization glue, strategic emphasizes criteria of success. There are 100 points to each parameter, which respondent has to dispense between 4 questions reflecting four different types of organizational culture. Current and desirable (which respondent would like in his organization after five years) organizational cultures are evaluated. The questions of all six parameters were marked with letters A, B, C, D. Each statement corresponds to different organizational culture type. Organizational culture type's letter matches statement letter. It should be noticed that 100 points attribution to one statement would matter the manifestation of

particular organizational culture type certain characteristic, this is theoretical aspect, so it is natural, that segmentation of assessment points will reflect not only existence of one or another organizational culture type but will tender the visual of different types internal manifestation in particular organization.

It was chosen to perform the research in culture and art institutions which belong to Panevėžys city municipality. The choice was determined by following reasons:

1) culture and art are unseparated parts of society identity, reflects distinctive of nation, historically developed attitudes and values.

2) Parliament of the Republic of Lithuania on 2010 June 30th resolution No. XI-977 "For guidelines of Lithuanian culture politics change confirmation" states, that culture and creativity are the most important resources of Lithuania and culture position requires for critical attitude.

3) European Parliament on 2008 April 10th resolution "For culture industry in Europe" states, that culture is a public item and operates as developmental basement of individual and society and at the same time stimulates economical growth, social cohesion and local and regional development. If in culture and art organizations will dominate organizational cultures which do not stimulate employees' creativity, attachment and new ideas, cultural regions life can slow down. It can be a reason for increased number of problems associated with individual development and occupation.

4) Panevėžys is a center of Higher Lithuania ethno cultural region, special by its distinctive traditions.

5) There are predicted activity directions and functions for budgetary institutions Proceeding of such organizations has especially deep social meaning, because is oriented to rendering of sociocultural facilities for town occupants. Those institutions do not orient only to commercially salutary activities, that is why proceedings of those institutions employees, which depends on input, attitude to themselves and to surrounding, the feeling of proceeding value) is so important for different social groups.

Data were collected on 2011 April, in institutions, belonging to Panevėžys city municipality and subscribed to take part in research. 90 questionnaires were distributed. Although respondents were informed that answers to questionnaires are confidential, only 70 questionnaires (74,4 percent) returned. 10 questionnaires from 70 were inappropriate because of many overdue questions, identifying organizational culture or organizational commitment. Because of bigger part questions missed to answer, one institution was eliminated from research. In research only culture and art institutions, funded from the budget of Panevėžys city municipality were inquired, so research is restricted by the aspects of proceeding and sponsorship.

N. Gurses and E. Demiray (2009), notes, employee's commitment forms differ because of different employee requirements and opportunities to satisfy them. Research results showed that 39 respondents from 60 are emotionally committed to their organizations.

Continuance commitment was determinate to 15, normative – to 6 respondents.

After determination of respondents' organizational commitment form, their attitude to current and desirable organizational cultures was evaluated. It was sought to estimate dominant characteristics of organizational culture. Estimating respondents' answers, the averages according A, B, C, D statements were calculated. Different letters reflects different type of organizational culture. Second step of survey was intended to establish what type of organizational culture exists in organizations. Teamwork, knowledge sharing, trust, belonging to group, loyalty to organization are valuable in A type organizations. B type organizational culture is characterized by flexibility, dynamism, specialization. In C type organization the level of creativity and innovations, productivity and implementation of innovations are high. In D type organization clear avoidance of risk is observed. Such organization is gingerly reacting to innovations. Moreover, structure and formalization are emphasized. Further it was researching how emotional commitment is being stimulated in different organizations. Research showed that in A type organization emotional commitment is being stimulating through ingenuous relations between employees and being trust each other. In B type organization emotional commitment is stimulated through teamwork and improvement. In C type organization emotional commitment is being stimulated through creativity and maintenance of self-realization, emphasizing the importance of productivity. In D type organization emotional commitment is being stimulated through the revelation importance of aspiration organizational goals and emphasis of activity stability.

After establishment of culture types and level of commitment in different organizations the answers of emotionally committed respondents were compared with respondents' who are committed in continuance or normative commitment.

When analyzing research results big gap between current and desirable respondents organizational culture was observed. Moreover, research results allow stating that emotionally committed employees, despite the bigger feeling of formalization, feel, that they can better realize themselves. Respondents would like, that there would be more openness, communication, less formal procedures and control.

It was mentioned above, that organizational leadership is one of parameters, enabling to examine organizational culture. Organizational culture belongs to form of organizational leadership. Leadership in organization is evaluated like an example of coordination and organization of activity oriented to result but with less expressed training and nurture. According to emotionally committed employees desirable organizational culture is characterized by less aggression, more coordination and training. Management is a knowledge and art that is why the element of management is so important in the process of organizational culture evaluation. Emotionally committed employees highly evaluate management, notice the importance of teamwork and involvement, but the

answers of all respondents participated in research suppose that there is high rivalry among employees.

It should be noted, that bigger part of respondents would like to have more teamwork, involvement and participation in their organizations, less competitiveness and higher stability of relationships and secure job in the future.

Emotionally committed employees stated that organizational glue is mutual trust, deliberate development, and achievement of goals. All respondents noticed, that most visible are formal banns and rules; employees would like that such elements would be less expressed. The desire commitment to organization when employees are loyal and trust each other is clear.

Emotionally committed employees think that in organizations control and stability keystone are less emphasized than involvement, perfection, openness and trust; research shows that exactly recent elements the

most deficient in organizations, but control and stability keystone could be by a long way less.

Both groups to desirable organizational culture blamed the stimulation of teamwork, care of people, so, it can be stated, that person in organization can be reputed as the most important factor of success. In current situation of culture and art institutions, according to respondents, holding graphics, competitiveness and keystone of lower costs smothers proceeding based on teamwork.

Research of organizational culture in respect of its influence on emotional commitment allowed to construct board-brush evaluation of investigated institutions organizational culture (see figure 1).

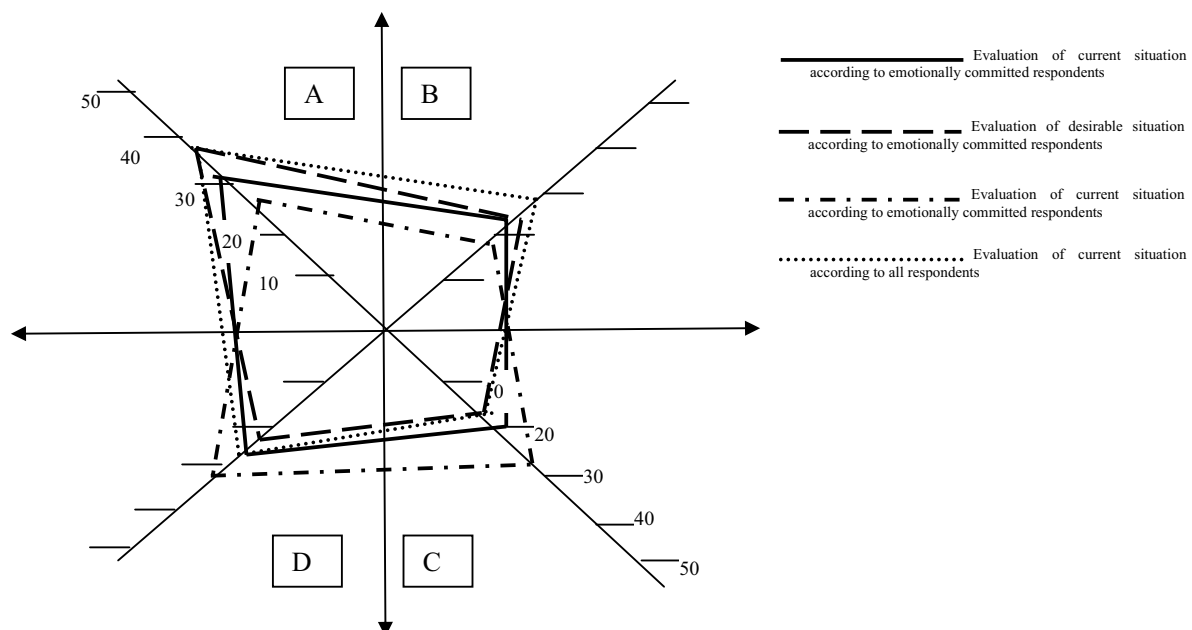


Figure 1. The broad-brush evaluation of organizational culture

Research results showed that in organizations in which questionnaire survey was carried out expression of formal rules and banns is sharp. Emotionally committed employees value teamwork. But they think that in organizations it is not valuable enough, so in desirable organizational culture it should be more expressed. Although the level of innovativeness and innovative implementation connected to risk are not weekly expressed, respondents would like to have more possibilities to express their creativity.

Accomplished research showed that 39 respondents from 60 (65 percent) are emotionally committed to their organizations. The lack of team working, trust, creativity, novation implementation, even associated with risk are typical for investigated culture and art institutions belonging to Panevėžys city municipality. Although formal structure and rules are highlighted, relationship between employees is valuable and shines out close communication. So, it can be stated,

that consolidation of A and B type organizational culture features could stimulate bigger emotional commitment.

Conclusions

Accomplished research of organizational culture by the aspect of emotional commitment in culture and art institutions belonging to Panevėžys city municipality showed that dominant desirable organizational culture mostly involves features of A and B organizational culture types. Less evidence is of D type organizational culture, C type features mostly are not eligible.

So, in organizational culture which stimulates emotional commitment, the atmosphere of trust should dominate. Employees should be loyal, appreciating teamwork and communicating closely. Although formal rules regulate employees' actions, organization should remain flexible, stimulating employees to work creatively and reach marked goals.

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Diana Lipinskiene, Giedrė Morkūnaitė

ORGANIZATIONAL CULTURE THAT STIMULATES EMOTIONAL COMMITMENT OF EMPLOYEES

Summary

In this paper the scientific problem which can be formulated as a question “what organizational culture affects employees’ emotional commitment?” is analyzed. Organizational culture affects each employee (through working environment, organizational climate, relationships and etc.) and each employee affects organizational culture (through consistency of their attitudes, opinions and values with attitudes, opinions and values, which are reputed as acceptable in organization); the interaction of employees becomes an element which affects emotional commitment. Accomplished research of organizational culture by the aspect of emotional commitment in culture and art institutions belonging to Panevėžys city municipality showed that dominant desirable organizational culture mostly involves features of A and B organizational culture types. Less evidence is of D type organizational culture, C type features mostly are not eligible.

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TRANSPORT INFRASTRUCTURE DEVELOPMENT IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT: TOWARDS EVIDENCE BASE

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Abstract

The paper generally raises the aspects of the validity of investment in highway infrastructure development in the context of sustainability pursuit. The pilot analysis based on the author's assumptions as well as empirical data allowed to state that change of socio-economic effects in the result of highway infrastructure development might be questioned. It focuses on experience with the notion of the assessment of so called direct benefits associated with the investments rather than the estimation of the indirect ones in context of so popular in practice cost-benefit analysis generating a huge literature in its own right. The question of an adequate, socially and economically reasonable assessment of development is raised.

Keywords: transport, infrastructure, sustainable, development

Introduction

The linkage between transport and economy itself is a highly contentious issue which has generated considerable debate and an abundant in scientific literature. To begin the analysis of public investments, infrastructure and socio-economic development is a literature survey that focuses on how public investments in water, sewer, highway or mass transportation lead to economic growth; which economic sectors rely on various infrastructure systems; and what other factors are needed to complement. However, practice show, that a single type of infrastructure is unlikely to induce widespread private investment without the others. Thus, transparent decision-choice funding of projects or programs must be strictly prioritized seeking to allocate the resources optimally. Despite a large body of literature on the negative impacts and externalities of transport systems, it is difficult for policy-makers to infer a coherent message about whether intervention should be considered, and if so, how to weigh the relative importance of multiple domains of impact (Himanen, Lee-Gosselin, Perrels, 2004). From the economic point of view, state must intervene into the economy only in case when a market failure can not be removed by other, less competition distortive measures. Public support should be an appropriate policy tool to align the interests of many groups of interest. The prevalence of unsatisfactory public systems may contribute to disinvestment, discourage local expansions and lead to a general climate of economic decline. Ironically, a vibrant economy, as we have seen in this region over the past decade, places unexpected stress on infrastructure systems. If maintenance is deferred during "boom" years, costly investments to upgrade a deteriorating public capital plant may be required while

the economy is stagnating in order to prevent a long term decline (Himanen, Lee-Gosselin, Perrels, 2004).

At present there exists an opinion among the scientists that transport not only joins but also separates. So assuming complexity decisions to be taken in the fields of transport arteries development, the experts-specialists in different areas of knowledge need to be involved (Hodakovska, Trofimenko, 2008). This context arises very often in the discussion on sustainable development issues. Most authors agree that sustainability assessment currently arises as a comprehensive, integrated and provident decision-making approach (Ciegis, Ramanauskiene, Startiene, 2009).

The problem of scientific research. It was determined there was no sufficient structurally coherent base that would allow to analyze the benefits of transport infrastructure in the context of sustainable development.

The object of scientific research: benefit measurement of the impact of highway infrastructure in the context of sustainable development.

Research objectives are as follows:

1. To distinguish the peculiarities of the evaluation of the impacts of transport infrastructure development.
2. To perform a pilot investigation of the measurement of the benefits of highway infrastructure in terms of sustainable development.

Research methods:

In order to conceive the analyzed problem, general methods of scientific literature comparative structural analysis and synthesis as well as those of logic analysis were applied. When determining the benefits of highway infrastructure the method of cost - benefit was applied.

The *objective* of the article is to overlook the main effects generated by highway networks and empirically test if the initial impulse generate the impact sprawl. The *theoretical arguments* linking transportation infrastructure

and economic development possesses both logical and intuitive appeal *based on systematic comparative and logical analysis*.

Fundamental research issues

The beginnings of the analysis into the impact of transport infrastructure on public welfare (in the terms of sustainability) are considered to be an academic discussion on the quantitative assessment of the impact initiated by USA scientists in 1950s. The pioneers in analyzing the impact are Samuleson (1954), Hirschman (1958) and Mohring (1961); individual aspects of the issue were also investigated by Rosenstein-Rodan (1961). Until the beginning of 1970's the problem under other economic and managerial topics was researched narrowly and in more generalized way. The essential change in this attitude was scientific works published in 1980s, introducing methodological principles to assess wider impact of transport infrastructure in the context of economic growth. The conclusion was drawn examining the studies by Kidokoro (2004), Le Sage, Polasek (2006), Vickerman (2007), Smart (2008), Jacoby, Minten (2009) and others. Kilijotiene, Simanaviciene, Simanavicius (2010), p. 71) also conclude, that "education and trainings, capital, land and *infrastructure* were distinguished often for the identification of regional development level". Generally the topic of the significance of transport infrastructure in economics was escalated in scientific literature when the European Union started to form the Trans-European Transport Network (TEN-Tr.). However, scientists focused on highly generalized conception of the benefits of transport infrastructure on economics and distinguish various effects such as direct and indirect ones (Berechman, 2001; Rodrigue, 2009), those of short, long and average duration (van Exel *et al.*, 2002; Laksnman, Chaterjee, 2005) as well as macroeconomic and microeconomic ones (Button, Henser, 2003). The benefits of transport infrastructure were investigated using the methods of cost-benefit analysis, modified production function approach and correlation-regression analysis as well as general equilibrium, as Laid *et al.* (2007), Vickerman (2007), Rodrigue (2009) state. While the need to justify investments into transport infrastructure developed in Europe, Asia and Africa was increasing, scientific literature started to pay more attention to the impact analysis of exploitable transport infrastructure. Though Kancs (2005), Schade *et al.*, (2006), Zietsman (2006), Vickerman (2007), Smart (2008) and Rodrigue (2009) recognized the impact to be positive and undoubtedly beneficial the society, their opinions diverged in terms of level, factors and the subject of the impact analysis. Nevertheless, in this context *the change in transport costs* was unanimously distinguished as an essential object of the impact investigation of improved transport infrastructure.

In Lithuania the individual aspects of the impact of transport infrastructure in terms of the benefit spread in economics were fragmentally investigated by Cibinskiene, Navickas (2004), Maciulis, Vasilis-Vasiliauskas, Baublys (2008), Jakubauskas (2009).

However, summarizing the issues widely discussed by the academics, it must be concluded that typical transport infrastructure improvements reduce effective distances between origins and destinations by reducing congestion, thereby lowering travel times (Laksman, Chaterjee, 2005). It is believed that travelers gain directly from travel time savings and lowered vehicleoperating costs, despite the fact that Metz (2008) argues that the evidence of the research is performed in the past is still insufficient. However, the position that companies enjoy direct efficiency gains from cheaper and more reliable freight services and reduced assembly and delivery costs are not under controversy. Companies compete for a customer, revenue, market share with products and services that meet customer's needs (Boguslauskas, Kvedaraviciene, 2009), 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, increase outputs (Laksnman, Chaterjee, 2005) as well as obtain the possibility to increase the competitive advantage. As Lydeka, Adomavicius (2007) conclude, in one of two ways – (a) by achieving advantageous position in as an industry; (b) by developing and using core competences to offer products and services. The competitive ability is most efficiently increased upon prompting basic research and knowledge spread obtained as the result of this research (Jasinskas, Simanaviciene, 2008). However, despite large amounts invested on roads, it is still little known about their benefits (Jacoby, Minten, 2008).

Analyzing the academic literature, the author of the paper may conclude that efforts to establish the sequence and the causing relationship between the transport infrastructure and socio-economic performance must be impelled because at present so popular among academics and practioneers the ideas of sustainability pursuit. It is believed that 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 and social environment for it is believed that "Sustainable development is development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs" (WCED, 1987: 43). In order to sustain something it may be necessary to integrate ecological,

social and economic issues (Berechman, 2001), but this is not what sustainability is "about". These pragmatic requirements are not the focus of the concept. Sutton (1996) point out that it is not possible to achieve a desired level of ecological or social or economic sustainability (separately) without achieving at least a basic level or without the integration of all three forms of the former. Improvements in transport technology and infrastructure have promoted major structural changes in national economies and regional regeneration. *However, the question arises does this mechanism works in practice?*

The investigation of so popular attitude among the politician concerning direct impact of the developed transport networks on one of the major elements of transport costs – travel time – still remains in controversy. *The problem of substantiation of federal investment* in highway infrastructure hoping reduce travel times and initiate the above analyzed processes arises as an open ground for the scientific discussion.

The network paradox and sustainability issues

Most authors investigating the effects of transport junctions often miss one important detail: transport infrastructure development often refers to a network of junctions rather than a formation of a single transport artery (Banister, Berechman, 2001; Zhang, Levinson, 2007). As it was already mentioned above, the main impact sprawl is generated by travel time reduction. However, a research group (<http://www.davros.org>) prove that adding a road to a road network can actually *slow* traffic providing a simple example. Let it be that there is a lot of traffic flowing from A to D (let it be 6000 cars per hour) and there are two routes, one via B and the other via C (both of which are tiny villages that don't generate any noticeable traffic themselves). Each route consists of a long high-capacity section and a short low-capacity one. The researchers also conclude that the length of time to get from A to D via a route will depend on the amount of traffic on that route, and thus on the split between the routes (Table 1).

Table 1

Travel characteristics (adopted from <http://www.davros.org>)

Cars per hour traveling		Time taken from A to D	
via B	via C	via B	via C
0	6000	60	116
1000	5000	62	105
2000	4000	72	94
3000	3000	83	83
4000	2000	94	72
5000	1000	105	62
6000	0	116	60

Analyzing the example it becomes absolutely clear that if traffic is split unevenly, one route will be faster than the other. Those who use the slower route will realize that they could do better by changing to the other, and no doubt will do so. The only stable situation is

where half the traffic goes each way, because then anyone changing to the other route will find they are on a slower route, and thus will change back.

Therefore the stable situation for this network is when the journey takes 83 minutes (<http://www.davros.org>). Developing the former investigation and proposing an alternative – a short cut – (build a brand-new link from B to C, so now there are three sensible routes from A to D, and the time taken on each will depend on the traffic on all of them).

Table 2

Travel characteristics (adopted from <http://www.davros.org>)

Cars per hour travelling			Time taken from A to D	
via B	via both	via C	via B or C	via both
0	6000	0	110	136
500	5000	500	105½	125
1000	4000	1000	101	114
1500	3000	1500	96½	103
2000	2000	2000	92	92
2500	1000	2500	87½	81
3000	0	3000	83	70

It is absolutely clear that after starting using the new link the traffic increases on both the overloaded sections of road, increasing travel time for everyone as well. The only stable position now is when everyone takes 92 minutes for the journey what makes almost 11 percent slower than before the new road was opened. That directly increases pollution, noise, fuel consumption, travel costs and etc. So the sustainability issues are not pursued. The theoretical model needs empirical evidence. The primary result of the investigation by the author of the article are presented in the following chapter.

Travel Time Changes in the Result of Highway Infrastructure Development: Empirical Evidence

Aiming to reveal whether the highways infrastructure improvement significantly affect travel time changes and generate the theoretical effects described in former chapters of the paper, the analysis of the changes of the development of the 1st European transport corridor *Via Baltica* was performed. The investigation was based on the data of Lithuanian Transport and Road Research Institute and Lithuanian Department of Statistics in the year 2004 – 2008. The results of the research are summarized in the Table 3. Basing on the analysis of traffic flow patterns in the corridor, it was found that average number of cars per single transport stream corridor.

It was found that in 2004 – 2009 corridor used by an average of 6 715 cars. It was determined the number of the commuting. Basing on the data presented by Lithuanian Department of Statistics to the Government of the Republic of Lithuania about the structure of local tourism it was carried out that 59 percent. Of the transport means are travelling on business purposes. It was found that development or reinforcement of the corridors infrastructure decreased the travel duration 4.5 percent.

Table 3

Travel time saving of business users

Variable	Value	Variable	Value
<i>Average number of business vehicles</i>		<i>Travel time economy</i>	
Average number of transport means, cars/day	10493	Travel time economy, percent	4.5
Average number of busses, trucks and minivans, percent	27	Average travel time economy, hours/ day	66
Average number of business cars in the fleet, cars/day	2833	Average travel time economy of business users, hours/ day	17.8

Commuting time decreased 38.9 hours per day for all individual corridor users. While the daily time savings *per vehicle*, was not great.

The lack of data and limitations of cost-benefit approach did not allowed determining the value of save travel time of the private corridor users in monetary terms. To achieve this required accurate data on traffic structure, the number of passenger car, destination, an average of different professions, peoples attitude or willingness to pay for better transport conditions as well as alternatives to use the saved time. The terms of observation, questioning techniques of the information received would provide a more complete, and in particular, received a minor indicator of travel time savings in economic terms. But the conclusion is clear – the impact was not significant. The investigations allow to make a presumption about the features of network and

unsustainable resource allocation but the conclusion requires deeper analyses based on quality data.

Conclusions

1. In the scientific literature discussions confine in respect of generalized assessment of the benefits of improved transport infrastructure. However, the studies are characterized by functional polarity and different orientation in time axis. The structures of this impact models are presented only in individual cases, are of intermittent nature, lack integrated approach to the constituent parts that link them.
2. Having analyzed the relationship between transport infrastructure and economics, the aspect of the assessment of the direct impact of highway in terms of the change in transportation costs, was distinguished. The subjects of the change are considered to be infrastructure users (households and enterprises), behavioural changes of which are recorded in the markets of goods and services, stock and labour.
3. 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 in the context of the sustainable development.
4. Basing on the distinct principles of the cost-benefit analysis and using the data of Lithuanian Transport and Road Research Institute and Lithuanian Department of Statistics furthermore on restrictive assumptions, assessing the possible impact of the 1st European transport corridor (*Via Baltica*) on Lithuanian socio-economic environment in terms of travel cost change allowed to establish that in the period analyzed (2004-2009) improved quality of transport corridor road infrastructure allowed business users and individuals save travel time but the impact was not significant.

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Diana Micevčienė

TRANSPORT INFRASTRUCTURE DEVELOPMENT IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT: TOWARDS EVIDENCE BASE

Summary

At present there exists an opinion among the scientists that transport not only joins but also separates. Scientists that transport not only joins but also separates. So assuming complexity decisions to be taken in the fields of transport arteries development, the experts-specialists in different areas of knowledge need to be involved (Hodakovska, Trofimenko, 2008). This context arises very often in the discussion on sustainable development issues. Most authors agree that sustainability assessment currently arises as a comprehensive, integrated and provident decision-making approach (Ciegis, Ramanauskienė, Startienė, 2009). *The problem of scientific research*. It was determined there was no sufficient structurally coherent base that would allow to analyze the benefits of transport infrastructure in the context of sustainable development. *The object of scientific research*: benefit measurement of the impact of highway infrastructure in the context of sustainable development. *Research objectives* are as follows: 1. To distinguish the peculiarities of the evaluation of the impacts of transport infrastructure development. 2. To perform a pilot investigation of the measurement of the benefits of highway infrastructure in terms of sustainable development. *Research methods*. In order to conceive the analyzed problem, general methods of scientific literature comparative structural analysis and synthesis as well as those of logic analysis were applied. When determining the benefits of highway infrastructure the method of cost - benefit was applied. *The objective* of the article is to overlook the main effects generated by highway networks and empirically test if the initial impulse generate the impact sprawl. *The theoretical arguments* linking transportation infrastructure and economic development possesses both logical and intuitive appeal based on systematic comparative and logical analysis. The beginnings of the analysis into the impact of transport infrastructure on public welfare (in the terms of sustainability) are considered to be an academic discussion on the quantitative assessment of the impact initiated by USA scientists in 1950s. However, summarizing the issues widely discussed by the academics, it must be concluded that typical transport infrastructure improvements reduce effective distances between origins and destinations by reducing congestion, thereby lowering travel times (Laksman, Chatterjee, 2005). It is believed that travelers gain directly from travel time savings and lowered vehicle operating costs, despite the fact that Metz (2008) argues that the evidence of the research is performed in the past is still insufficient. The advantages of scale economies occur as firms consolidate production and distribution sites, increase outputs (Laksman, Chatterjee, 2005) as well as obtain the possibility to increase the competitive advantage. As Lydeka, Adomavicius (2007) conclude, in one of two ways – (a) by achieving advantageous position in an industry; (b) by developing and using core competences to offer products and services. The competitive ability is most efficiently increased upon prompting basic research and knowledge spread obtained as the result of this research (Jasinskas, Simanaviciene, 2008). However, despite large amounts invested on roads, it is still little known about their benefits (Jacoby, Minten, 2008). 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 and social environment for it is believed that "Sustainable development is development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs" (WCED, 1987: 43). In order to sustain something it may be necessary to integrate ecological, social and economic issues (Berechman, 2001), but this is not what sustainability is "about". These pragmatic requirements are not the focus of the concept. Sutton (1996) point out that that it is not possible to achieve a desired level of ecological or social or economic sustainability (separately) without achieving at least a basic level or without the integration of all three forms of the former. Improvements in transport technology and infrastructure have promoted major structural changes in national economies and regional regeneration. *However, the question arises does this mechanism works in practice?* Aiming to reveal whether the highways infrastructure improvement significantly affect travel time changes and generate the theoretical effects described in former chapters of the paper, the analysis of the changes of the development of the 1st European transport corridor *Via Baltica* was performed. The investigation was based on the data of Lithuanian Transport and Road Research Institute and Lithuanian Department of Statistics in the year 2004 – 2008. The results of the research are summarized in the Table 3. Basing on the analysis of traffic flow patterns in the corridor, it was found that average number of cars per single transport stream corridor. It was found that in 2004 – 2009 corridor used by an average of 6 715 cars. It was determined the number of the commuting. Basing on the data presented by Lithuanian Department of Statistics to the Government of the Republic of Lithuania about the structure of local tourism it was carried out that 59 percent. Of the transport means are travelling on business purposes. It was found that development or reinforcement of the corridors infrastructure decreased the travel duration 4.5 percent. Commuting time decreased 38.9 hours per day for all individual corridor users. While the daily time savings per vehicle, was not significant. The investigations allow to make a presumption about the features of network and unsustainable resource allocation but the conclusion requires deeper analyses based on quality data.

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LOAN PORTFOLIO CREDIT RISK: RELATION WITH CREDIT RATING MODEL VALIDITY

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Abstract

This paper investigates the credit risk assessment of Lithuanian companies and the validity of developed statistical credit rating model. The attribution of credit ratings for companies in developed model involves 2 stages. The first is the classification of companies into default and non-default groups by logistic regression model. The second is attribution of credit ratings for companies that by logistic regression model were classified as non-default. The analysis of the parameters of loan portfolio affirmed the validity to use the model in credit risk assessment. The loss of loan portfolio is acceptable and the analysis results allow to manage the loan portfolio risk in bank.

Keywords: bank, credit rating, credit risk, loan portfolio.

Introduction

The loans are the primary source of credit risk for banking institutions. To evaluate the risk of these loans, banks use credit risk assessment models. They allow to estimate default risk of a single client (Xu, Zhou, Wang, 2009). The development of models requires data about bank clients. Typical bank loan databases have many characteristics about each customer's credit history. The high dimension of variables makes it difficult to classify customers without statistical analysis. The statistical analysis allow to identify the impacts of explanatory variables on estimating the probability of defaults. The relevance of explanatory variables is generally regarded as the most important consideration in the construction of credit risk assessment models (Marshall, Tang, Milne, 2010). The financial institutions evaluate the risk of their clients and overall credit portfolio. Such models can provide an important information to help them formulate their respective risk management strategies. In fact, banking authorities such as Bank of International Settlements, the World Bank, the IMF, and the Federal Reserve all encourage commercial banks to develop internal models to better quantify financial risks (Min, Lee, 2008).

The object of the research is credit risk of bank's loan portfolio.

The aim of this research is to estimate how the parameters of loan portfolio reflect the quality of developed credit rating model.

The tasks of the research:

1. To analyze the substance of companies and loan portfolio credit risk in banks.
2. To develop internal credit rating model.
3. To estimate the relations between loan portfolio parameters and the quality of developed credit rating model.

The methods applied in the research:

1. Analysis of scientific publications about credit risk assessment.
2. Development and analysis of credit rating model and loan portfolio in bank.

The very important stage in model development is the estimation of the model validity, i.e. the suitability to use it in practice. The novelty of this research is to relate the loan portfolio parameters with the quality of credit rating model. The main task is to ascertain how the loan portfolio parameters, such as expected loss, unexpected loss, amount of financed and not financed clients reflect the developed credit risk assessment model's quality.

The credit risk and default definitions in banks

Banks are exposed to many different risk types and among these risk types are credit, market, operational, business and other risk. Credit risk is defined as the risk of loss due to a debtor's non-payment of a loan: the principal, interest or both (Chen, Wang, Wu, 2010). The criterion used for the classification of a loan in the default category is different. Three default definitions are used in the literature:

- A loan is classified as doubtful as soon as full payment appears to be questionable on the basis of the available information.
- A loan is classified as in distress as soon as a payment (interest or principal) has been missed.
- A loan is classified as in default when a formal restructuring process or bankruptcy procedure is started (Dermine, Carvalho, 2006).

The task of the risk management division in banks is to measure credit risk and to determine the necessary

amount of economic capital which is needed as a buffer to absorb unexpected losses associated with this risk (Grundke, 2009). The measures of credit risk are often based on an analytic model and on the assumption that the parameters of this model are known with certainty (Tarashev, 2010). The main data analyzed in credit risk assessment is obtained from the financial reports. Also the loan characteristics, such as loan size, collateral and interest rate, are important when making the credit decisions. The loan size affects credit risk, since a loan tends to become riskier as its size becomes larger. Collateral is also very relevant to credit granting decisions as an instrument of risk management (Zambaldi, Aranha, Lopes, Politi, 2011).

Credit risk assessment

The main objective of credit risk management is to provide models and tools allowing to estimate and eventually reduce amount of losses (Ivorra, Mohammadi, Ramos, 2009). Thus, the primary problem of any lender is to differentiate between good and bad debtors prior to granting credit. Such differentiation is possible by using a credit-scoring method. Credit scoring determines the likelihood that credit applicant will default on its credit obligation. Credit scoring typically serves two purposes:

- The initial assessment of credit risk.
- The monitoring of payment behavior, also known as behavior scoring (Bahrammirzaee, Ghatari, Ahmadi, Madani, 2011).

The essence of banking is the determination as to whether a potential borrower is creditworthy, that is, whether the potential borrower meets the bank's credit standards. Bank lending standards (or credit standards) are the criteria by which banks determine and rank loan applicants' risks of loss due to default, and according to which a bank then makes its lending decisions. The reason is that bank lending standards vary through time due to strategic interaction between competing banks. Credit cycles can occur without any change in the macroeconomic environment (Gorton, He, 2008).

According to the Basel II Accord banks may decide between two broad methodologies to compute the risk-weighted assets: the Standardized approach and the Internal Ratings-based (IRB) approach. The Standardized approach is based on external risk assessments produced by the international rating agencies while the IRB approach is based on banks' internal credit risk systems. Moreover, under the Standardized approach, risk weights are set by the Basel Committee as a function of the external rating and take only discrete values, while under the IRB approach risk weights are obtained by applying the risk weight function defined by the Committee, giving rise to a range of values for risk weights (Antao, Lacerda, 2011). Banks using IRB methods must calculate default probabilities (PD), loss given default (LGD), exposure at default (EAD) and effective maturity (M) for groups of homogeneous assets. The Basel II framework for capital standards provides for banks to use models to assess risks and determine minimum capital requirements. All aspects of the models (specification, estimation, validation) have to meet the requirements of

national supervisors (Kiefer, 2009). In addition, using a more accurate rating system leads to lower capital requirements. The rating class structure can be freely chosen by the bank (Jankowitsch, Pichler, Schwaiger, 2007).

To manage credit risk lenders are developing more accurate quantitative models that provide more useful information for the financing decisions. In today's market, even better credit models are needed for financial institutions' survival (Trinkle, Baldwin, 2007). A lender's ability to generate profits depends fundamentally on how successful they are in predicting default based on observed characteristics of the borrower and the terms of the contract (Lieli, White, 2010). The main objective of credit scoring systems is to classify samples into different risk groups. Generally, credit scoring problems are related to classification by statistical methods (Hsieh, Hung, 2010).

Creditors need useful information about their debtors to manage their credit portfolio. The most costly misclassification error is incorrect classification of a defaulter as a nondefaulter (Type I error), which increases exposure to a loss of funds and profits. A less costly error occurs when nondefaulters are misclassified as defaulters (Type II error), creating an opportunity cost of not extending credit to worthy applicants. The potential for defaults and charge-offs rises as higher risk applicants receive credit. Lenders need better, more objective credit risk evaluation techniques to assess the risk associated with individual assets in a credit portfolio. Two issues arise regarding credit risk model accuracy: variable selection and model development techniques (Trinkle, Baldwin, 2007).

The risk of loan portfolio

The loan portfolio of the bank is discrete, i.e., at every instant, it consists of finitely many loans. Each loan can default with a certain intensity, independently from the other loans (conditionally on the state of the economy); upon default it is immediately liquidated (Frey, Seydel, 2010). Decomposing portfolio risk into its different sources is a fundamental problem in financial risk management. Specifically, the risk manager may be interested in understanding contributions to portfolio risk of two types:

- Positions: individual instruments, counterparties and subportfolios.
- Risk factors: various systematic or idiosyncratic factors affecting portfolio losses. They are market risk factors such as interest rates, exchange rates, equity volatilities etc., macro-economic, geographic, or industry factors affecting market or credit risk (Rosen, Saunders, 2010).

In credit portfolio risk models three parameters are driving loan losses: the PD, the loss given default (LGD) and the exposure at default (EAD). Losses of individual obligors are mostly independent. Since loan quality and asset prices both depend on the general macroeconomic conditions, these variables tend to be highly correlated (Rheinberger, Summer, 2008). Also the correlations in

the default rate of obligors arise due to their common dependence on one or more of the sector default rates (Deshpande, Iyer, 2009).

Identifying the systematic and idiosyncratic components of a portfolio risk is particularly relevant for the construction of hedging strategies and for the effective diversification of this risk. Furthermore, investigating the relationship between the overall risk of a credit portfolio and its systematic determinants is also significant for the development of credit risk management models (Giammarino, Barrieu, 2009). For calculating risk measures of credit portfolios such as Value-at-Risk or expected shortfall, a range of models has been developed. Examples are CreditMetrics by J.P. Morgan Chase, CreditPortfolioView by McKinsey, Portfolio Manager by KMV, or CreditRisk+ by CSFP. Most credit portfolio models rely on Monte Carlo simulations for calculating the probability distribution of the future credit portfolio value (Grundke, 2007).

Research methodology

The sample for the classification of companies must consist of reliable and not reliable clients. The worst event (default) in this research for bank is considered as the bankruptcy of company. So the data sample consists of 198 companies where 50 companies are bankrupted and 148 not bankrupted. The financial reports of 5 years (the profit (loss) statements and the balance sheets) were used as the information sources of companies.

The analysis in this research involve these stages:

1. The selection of independent variables for the assessment of credit risk.
2. The development of classification models.
3. The development of rating model.
4. The analysis of the parameters of loan portfolio according to the attributed credit ratings.

At first it is necessary to select the financial ratios that are able to differentiate default and non-default companies. The profitability, solvency, financial structure, activity and other ratios were analyzed applying the analysis of variance and Kolmogorov-Smirnov test in order to find informative independent variables for the credit risk assessment. The classification of companies into default and non-default groups was accomplished by discriminant analysis, logistic regression and artificial neural networks. According to the classification results the most accurate model was selected and credit rating model was developed. Further the parameters of loan portfolio according to the attributed credit ratings were analyzed.

Credit rating model

The set of initial independent variables consisted of 20 different financial ratios (5 years data). The most accurate method for the classification of companies was the logistic regression. The highest classification accuracy (97%) was reached analyzing 3 years data of companies. When developing this model from 60 initial

variables using the analysis of variance 25 informative variables were selected.

The logistic regression is a method for modelling dichotomous dependent variable. The classifying variable has two values: the company default or non-default. The individual possibility of default (P) for each company is in range [0; 1] and it was calculated:

$$P = \frac{e^{f(x)}}{1 + e^{f(x)}} \quad (1)$$

The main task developing logistic regression model was to construct the function:

$$f(x) = \alpha + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_{25} x_{25} \quad (2)$$

where x_i is the informative independent variable;

α is an intercept;

β_i is the coefficient of the variable x_i .

The attribution of credit ratings for companies involves 2 stages:

1. The classification of companies into default and non-default groups by logistic regression model.
2. The attribution of credit ratings for companies that by logistic regression model were classified as non-default (Figure 1).

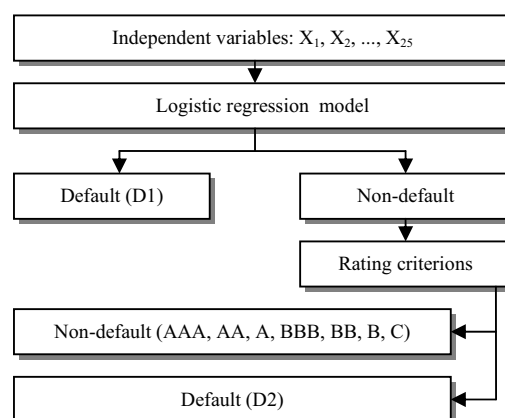


Figure 1. Credit rating model

The classification threshold in the logistic regression model was set to 0.5:

- If $P \in [0; 0.5)$ the company is reliable.
- If $P \in [0.5; 1]$ the company is not reliable client for bank.

According to the recommendations of Basel Committee of Bank Supervision the reliable companies must be classified into at least 7 risk groups. So according to company's individual possibility of default and 7 financial ratios the classification was accomplished. The determinants of credit rating in group of reliable clients are:

- Profitability – 50%.
- Solvency – 25%.
- Financial structure – 12.5%.
- Individual possibility of default – 12.5%.

For the companies that by the logistic regression model were classified as reliable but their credit rating

determinants are low the credit rating D2 was attributed. The bank should not credit companies with ratings D1 and D2.

Loan portfolio credit risk

The assets and debts of analyzed companies are illustrated in Figure 2.

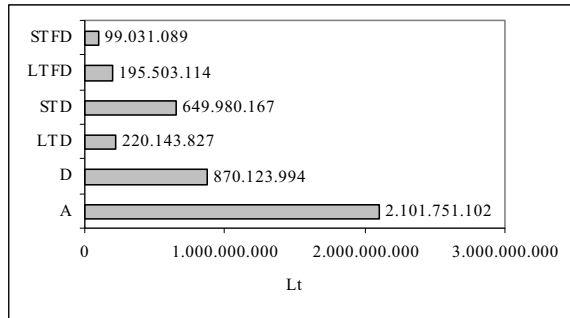


Figure 2. The assets and debts of companies

Overall debts (D) of companies are 41.4% relatively to the total assets (A). Companies have 220 million Lt of long-term (LTD) and 649 million Lt of short-term (STD) debts. The long-term financial debts (LTFD) are 195 million Lt and the short-term financial debts (STFD) are 99 million Lt. Relatively 88.81% of long-term debts and 15.24% of short-term debts are financial debts of companies (Figure 3).

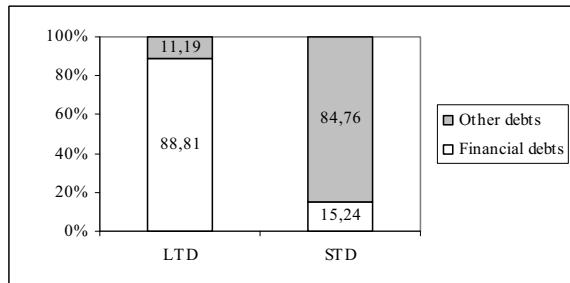


Figure 3. The proportion of financial debts

The analysis of credit rating model results was implemented according to these assumptions:

1. All long-term and short-term debts were provided by one bank.
2. The maturity (M) when exists the risk of value decrease in receivable debts is 1 year.
3. The loss given default (LGD) is 75% for the positions without accepted securities when bank has not the rights of priority in demand.

According to the results of developed credit rating model bank will finance the clients with ratings AAA – C and will not finance with ratings D1 and D2. The amount of loans for clients in not bankrupted and bankrupted groups is given in Table 1.

The bank will finance 96% of reliable and 16.28% of not reliable clients. The amount of credits for companies with ratings AAA – C is illustrated in Figure

4. The total loan portfolio of a bank is 274 007 226 Lt (91 675 950 Lt of short-term and 182 331 276 Lt of long-term debts).

Table 1

Financing of companies

	Not bankrupted		Bankrupted	
	Comp.	%	Comp.	%
Credit	144	96	7	16.28
No credit	6	4	43	83.72

Exposure at default (EAD), value of expected loss and expected loss (EL) in different risk groups of clients are calculated in Table 2. The EAD is the nominal value of the borrower's debt. The value of expected loss reflect the potential loss in particular risk group. EL is the percentage of potential loss in EAD. The potential credit loss at a given horizon is computed as the product of the PD, the LGD, and the EAD.

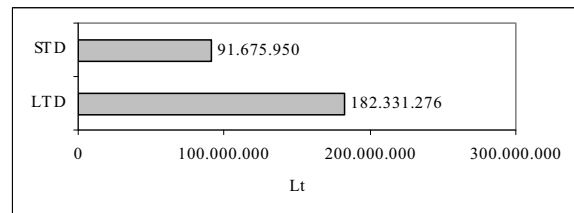


Figure 4. The amount of credits

The value of expected loss:

$$V(EL) = EL \cdot EAD \quad (3)$$

The expected loss:

$$EL = PD \cdot LGD \quad (4)$$

where PD is the probability of default.

Table 2

Expected loss in different risk groups of clients

Rating	EAD, Lt	V(EL), Lt	EL, %
AAA	266 244	59.9	0.0224982
AA	16 372	3.68	0.0224774
A	3 097 509	696.94	0.0225000
BBB	27 201 968	612 044.3	2.2500001
BB	110 006 214	3 052 672	2.7749996
B	128 697 183	7 046 171	5.4750002
C	4 721 736	708 260.4	15
Total	274 007 226	11 419 908.22	4.1677398

The EL is constantly increasing when the credit ratings decrease. That affirms the high quality of developed credit rating model and allow to calculate the risk premia (the additional interest) when pricing the loans.

The amount of not financed credits, total assets and total debts of correctly classified not reliable clients (ratings D1 and D2) are illustrated in Figure 5. According to the results of credit risk assessment bank will not lend 18 019 213 Lt for default companies. The total debts of these companies are higher than total assets by 6.7%. That shows the insolvency of default companies.

Due to incorrectly classified non-default companies (ratings D1 and D2) the loan portfolio

decreased by 1 230 715 Lt. That influence the decrease in interest income of bank.

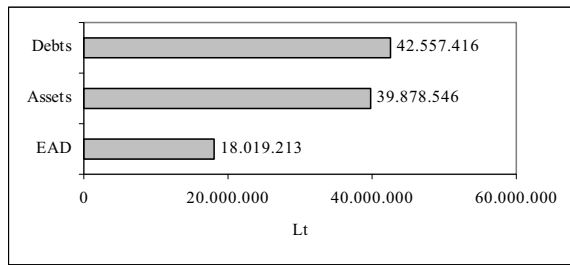


Figure 5. The amount of not financed credits (ratings D1 and D2), assets and debts of bankrupted companies

The loan portfolio, the values of expected and unexpected loss are illustrated in Figure 6. Banks must accumulate the reserve capital for the potential loss. The problem exists what amount of capital is necessary. If the reserve is equal to the average loss, the bank can become insolvent because the loss can be higher than average. So it is important to consider the variation of expected loss. The unexpected loss (UL) is the standard deviation of the values of expected loss:

$$V(UL) = \sqrt{\sigma_{V(EL)}^2} \quad (5)$$

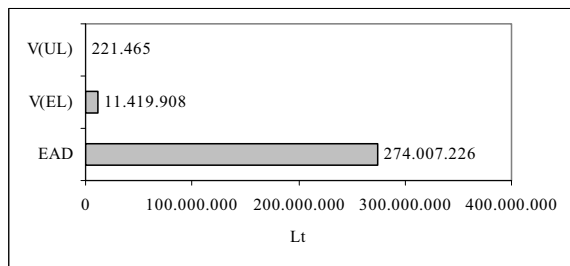


Figure 6. The amount of credits and the values of expected and unexpected loss

Alessandri & Drehmann (2010) affirmed that unexpected loss arise due to the unstability of companies credit risk level and interest rates that must refund the expected loss.

The maximum loss in loan portfolio (ML) is the sum of expected (V(EL)) and unexpected (V(UL)) loss values:

$$ML = V(EL) + V(UL) = 11\,419\,908 + 221\,465 = 11\,641\,373 \text{ Lt} \quad (6)$$

So the maximum loss is the 4,25% of loan portfolio. According to the analyzed sample of companies the total loss was calculated if bank finances all clients with credit ratings AAA – C (Table 3).

Table 3

Bank loss in different risk groups of clients

Rating	LTFD, Lt	STFD, Lt	Total FD, Lt
AAA	0	0	0
AA	0	0	0
A	0	0	0
BBB	0	0	0
BB	4 219	8 040	12 259
B	6 012 530	1 736 758	7 749 288
C	904 497	293 886	1 198 383
Total	6 921 246	2 038 684	8 959 930

The total loss would be 8 959 930 Lt or 78,46% of expected loss estimated in loan portfolio. Due to the misclassification of default companies the real loss is 3.27% of total loan portfolio.

Conclusions

1. According to the results of developed rating model, the bank will finance 96% of reliable and 16.28% of not reliable clients. The overall proportion of not reliable clients in credit portfolio is 4.64%.
2. The values of expected loss are increasing when the credit ratings decrease. The expected loss in highest rating AAA is 0.022%, while in rating C is 15%.
3. Due to incorrectly classified non-default companies the loan portfolio of bank decreased by 1 230 715 Lt. That influenced the decrease in interest income of bank by 0.45%.
4. The misclassification of default companies caused the real loss of 3.27% in total loan portfolio. According to the financial data of default companies, the total loss would be 78,46% of the estimated maximum loss in loan portfolio.
5. All estimated loan portfolio parameters affirmed the validity to use the model in credit risk assessment.

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Ričardas Mileris

LOAN PORTFOLIO CREDIT RISK: RELATION WITH CREDIT RATING MODEL VALIDITY

Summary

The credit ratings of companies reflect the capacity to meet the financial obligations. Such information is very important for banks when granting credits because the loans are the primary source of credit risk for banks. When managing credit risk, commercial banks use various risk assessment methodologies to evaluate the financial performance of client firms. Many researchers also have constructed classification models by using statistical and artificial intelligence techniques. The very important stage in model development is the estimation of the model validity, i.e. the suitability to use it in practice. It is essential to ascertain how the loan portfolio parameters, such as expected loss, unexpected loss, amount of financed and not financed clients reflect the developed credit risk assessment model's quality. So the object of the research is credit risk of bank's loan portfolio. The aim of this research is to estimate how the parameters of loan portfolio reflect the quality of developed credit rating model.

The sample for the analysis consisted of bankrupted and not bankrupted Lithuanian companies. The financial reports of 5 years (the profit (loss) statements and the balance sheets) were used as the information sources of companies. The analysis in this research involved four stages.

At first, the selection of independent variables for the assessment of credit risk was accomplished. The set of initial independent variables consisted of 20 different financial ratios (5 years data). The profitability, solvency, financial structure, activity and other ratios were analyzed applying the analysis of variance and Kolmogorov-Smirnov test in order to find informative independent variables for the credit risk assessment.

Secondly, the classification models were developed. The classification of companies into default and non-default groups was accomplished by discriminant analysis, logistic regression and artificial neural networks. According to the classification results the most accurate model was selected. The most accurate method for the classification of companies was the logistic regression. The highest classification accuracy (97%) was reached analyzing 3 years data of companies. When developing this model from 60 initial variables using the analysis of variance 25 informative variables were selected.

Then the rating model was developed for the classification of reliable clients into 7 risk groups. According to the recommendations of Basel Committee of Bank Supervision the reliable companies must be classified into at least 7 risk groups. So according to company's individual possibility of default and 7 financial ratios the classification was accomplished. The determinants of credit rating in group of reliable clients are: profitability (50%), solvency (25%), financial structure (12.5%) and the individual possibility of default (12.5%). For the companies that by the logistic regression model were classified as reliable but their credit rating determinants are low the credit rating D2 was attributed. According to the results of developed credit rating model bank will finance the clients with ratings AAA – C and will not finance with ratings D1 and D2.

Finally, the analysis of the parameters of loan portfolio according to the attributed credit ratings was implemented. The analysis of credit rating model results was implemented according to these assumptions: all long-term and short-term debts were provided by one bank; the maturity (M) when exists the risk of value decrease in receivable debts is 1 year; the loss given default (LGD) is 75% for the positions without accepted securities when bank has not the rights of priority in demand. The analysis results have shown that bank will finance 96% of reliable and 16.28% of not reliable clients. The overall proportion of not reliable clients in credit portfolio is 4.64%. The values of expected loss are increasing when the credit ratings decrease. The expected loss in highest rating AAA is 0.022%, while in rating C is 15%. Due to incorrectly classified non-default companies the loan portfolio of bank decreased by 1 230 715 Lt. That influenced the decrease in interest income of bank by 0.45%. The misclassification of default companies caused the real loss of 3.27% in total loan portfolio. According to the financial data of default companies, the total loss would be 78,46% of the estimated maximum loss in loan portfolio. All these estimated loan portfolio parameters affirmed the validity to use the model in credit risk assessment.

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TEACHING A SECOND LANGUAGE IN IT-BASED SETTINGS

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Abstract

The citizenship of the 21st century is confronted with new opportunities and challenges due to the omnipresent technologies in all spheres of life: business and administration, government and education. Developments in ITs and research into learning are changing the face of how, where and when people learn. In this context two factors come out — the understanding that learning is exploring and the ability of technology to provide wide spaces for exploration (Evans, St Johns, 1998). In these two senses the use of technology complements and extends the learner-centred methodology. The advantage of it is that learners can access the material in their own time, work through the material at their own pace, choosing topics and subject areas to match their own interests, i.e. learners are in control of their own language learning. One aspect of this increased choice is that the new technology is blurring the distinctions between self-study outside the class, distance learning and institutional facilities (Moore, 1996).

Keywords: network-based learning environment, web-based activities, integration of online activities, English as a second language.

Introduction

Information technologies and the Internet – now central to new teaching and learning processes - open up communication ways allowing an unlimited access to information and knowledge, as well as account for a flexibilization of time and space barriers and increase interaction. The Net provides an excellent environment which has definitely transformed the different relationships within the educational field and has made it possible for new teaching and learning modalities to emerge, a fact which in turn requires radical pedagogical changes and new definitions of traditional teaching and learning models. According to Cabero (2001), "the flexibilization time-space accounted for by the integration of IT into teaching and learning processes contributes to increase the interaction and reception of information. Such possibilities suggest changes in the communication models and the teaching and learning methods used by teachers, giving way to new scenarios which favor both individual and collaborative learning".

Consequently, *the problem of the research* could be defined as follows: the promotion of autonomous learning of foreign languages and the growing role of online information technologies are gaining increasing importance in language teaching in all educational institutions.

The aim of the research is to provide a clearer understanding of the benefits of using ITs in various learning environments, thus enabling to study the tools and resources further, which eventually could provide more help into teaching practices. The use of different web-based training platforms with specific training modules, a collaborative environment and the use of different communication tools and resources aims at providing new perspectives to face the teaching of

English as a foreign language from an innovating perspective.

The objectives of the research are as follows:

1. To define the ways of integrating the Internet and Information Technologies into the curriculum that it is really motivating for both students and teachers.
2. To define the ways of developing the students' language skills, and fostering a multi-cultural, international perspective for our ever-changing, interdependent world.

The subject of the research is promotion of autonomous learning of foreign languages in the IT-based learning environment.

The methods used: for data collection a survey in the form of questionnaire was carried out; a descriptive way of data analysis was used.

The 21st century confronts its citizenship with new choices, opportunities and challenges due to the ubiquitous presence of technologies into all spheres of life. Traditional teaching and learning paradigms have been shaken by the impact of the integration of Information Technologies (ITs) into educational practices; These processes are occurring at the time when teachers and trainers are confronted by challenges ranging from the acquisition of skills and literacy in the usage of ITs to the delivery of the necessary tools which would lead students to become knowledge creators and users. E-learning methods and the use of information and communication technologies in education and training have changed the way of learning and teaching, providing a fundamental contribution in their processes of innovation and reform (1). Through the integration of new technologies, education and training have become more accessible and more flexible, offering opportunities to all and at all educational levels. Developments in technology and research into learning are changing the face of how, where and when people learn.

The irruption of ITs generates the emergence of new teaching and learning spaces which inevitably lead to changes in the teaching models. The new teacher-student roles, the literacy and competencies that teachers need - such are the challenges that are put forward in the digital era.

The interest to learning languages has been enforced by the availability of the Internet, which provides easy access to every possible kind of information and serves as an effective tool to facilitate learning. In this classification of the tools facilitating learning, the World Wide Web is clearly in the first place and its main utilities to teach English as a second language are as follows: search engines, authentic materials, language translators, etc. All of this provides the means to add pictures, sound and video, to use visuals and graphics, and to employ the wealth of content-rich sources from a range of cultures, that can be found on the Web. The combination of spoken, written, visual and picture support provides the learner with the scope to engage in meaningful curriculum-focussed activities at a linguistic level that is matched to their level of English language development.

The presentation of the research

The first step in solving these issues was to determine the needs, learning preferences, and computer literacy of potential students.

Initially, a questionnaire was designed in order to collect essential information about the potential students of *Internet-Based Course of a Second Language*, their level of proficiency, preferences, computer access and eventually, identifying the preferred style of open

learning. This will help the researcher design the structures and functionalities of the future course to best suit the second language needs of the learners; also consider the placement of ITs in the second language curriculum, with special emphasis on the current situation and perspectives of the future. The need to revise the curriculum and integrate ITs into it, so that it can become effective upon teaching and learning practices is also made evident.

The analysis of the questionnaire

This questionnaire is aimed to demonstrate the students and the second language teachers the ways in which ITs can contribute to a second language learning/teaching and indicate the areas which the teacher must deal with besides the technology, i.e. with the aspects of the classroom, and of methodology to ensure maximum educational benefit.

A group of first and second year students was selected to fill out the questionnaires, and in this way participate in the research. In the authors' opinion this age group of students mainly have a basic (or above basic) understanding of what their needs are in learning in general and learning a second language in particular. A large part of them already know what sort of further study they are going to choose and are aware that a second language is going to play an important part in their further studies and career.

The diagram below represents one part the results in the first part of the questionnaire. The results clearly demonstrate that the major part of respondents have more or less clear understanding of the needs of integrating into the common European space.

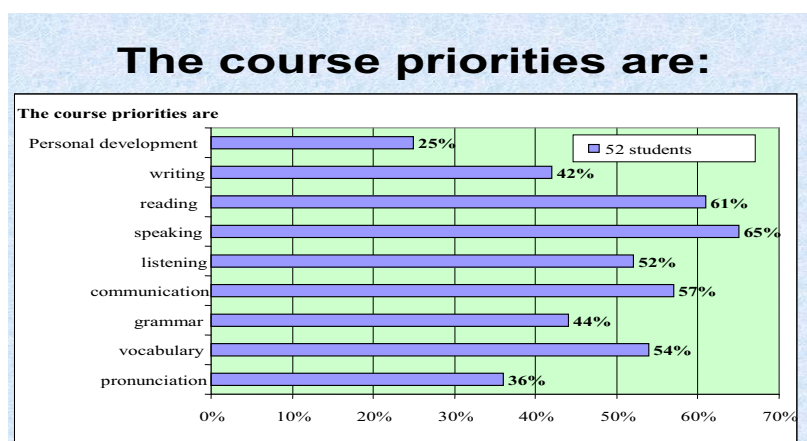


Figure 1. Course priorities (I)

The chart above clearly demonstrates that the learners understand quite well what priorities they have for learning English. The majority think that the highest priorities are speaking and reading. The following priorities on the list are communication, listening and

vocabulary. Quite a few of respondents mentioned grammar and writing tasks as important ones. Pronunciation tasks, however, remained at the bottom of the priority list.

Figure 3 presents an interesting observation that relatively more students (45%) would prefer their work assessed by the computer, rather than their teacher (38%), this should be done more often (37%), giving grades and description (37%). Grading alone proved to be quite unpopular (9%); 5% of the respondents thought that this work should be done by *another person*. 37% would prefer to have it done more often. The abovementioned facts clearly demonstrate that a major part of learners obviously want a clear and objective feedback to and evaluation of their work and assignments they have to do.

Such responses may also indicate that a large part of students don't think that their teacher's evaluation is always objective and unbiased.

The results also clearly demonstrate that a non-traditional evaluation is required at the time and that new tools and resources open up new perspectives for the teacher. Students interact with multifaceted materials which sometimes the teacher cannot control. Thus, a deep evaluation of all the elements that intervene in the new teaching and learning processes is needed.

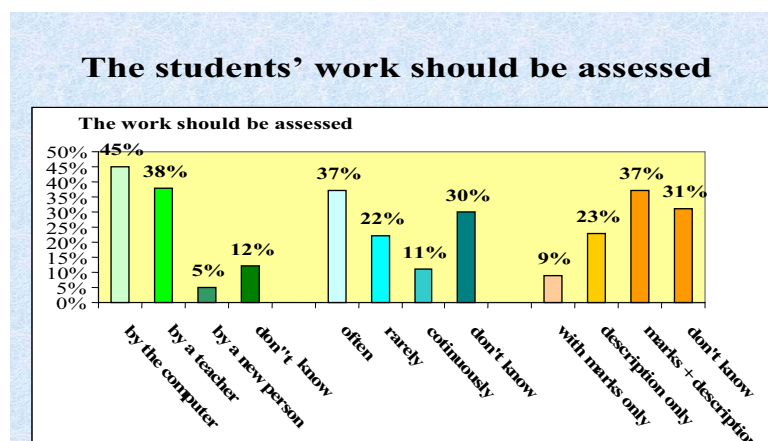


Figure 2. Need for assessment

Figure 4 presents the answers to the questions dealing with the needs of a second language. The total of 52 students submitted their answers. The results demonstrate a rather high level of motivation among the respondents. The top of the list is a good employment in Lithuania (58%), which illustrates that a large part of university students already think of their future careers.

44% of respondents indicate English for their final university exam, which again speaks of rather high motivation to do well at the exam. Socializing with non-native speakers (52%), going abroad (50%) illustrate the need of English as a means of non-formal communication:

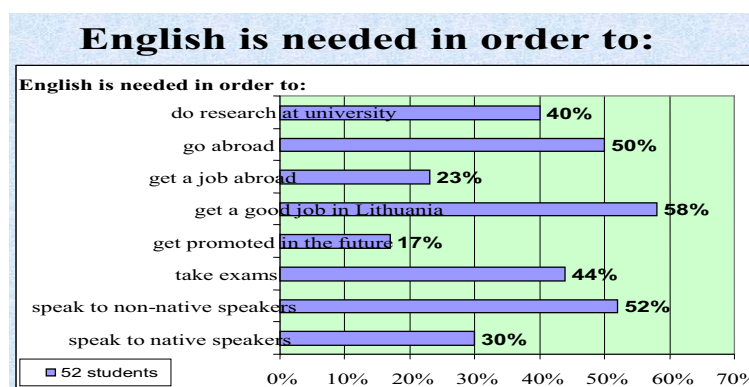


Figure 3. Course Priorities (II)

The diagram below reflects the expectation that the respondents have for using a second language. Interestingly enough, 67 % of respondents indicated that they are going to need it for writing, which obviously speaks of work-related and/or personal communication. 65 % think that they are going to read reports/manuals in a second language, which shows their awareness of the

fact that most work and business related literature is in foreign languages, mainly in English. Almost two-thirds (63%) think they will use second language for asking for information; also 63 % are going to use it for browsing the Internet and using e-mail, and 57 % for explaining and giving instruction (46 %), making presentations (35 %), and telephoning (29 %). These are the facts which

again clearly indicate the practical need of foreign languages. The low score given to traditional correspondence (10%) also reflect the fact that letter

writing has been substituted by more efficient means of communication, such as e-mail and other online forms of communication.

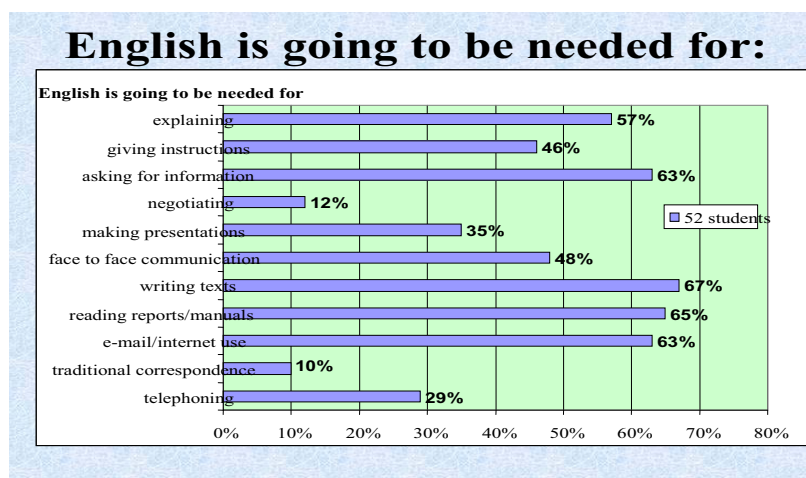


Figure 4. Course Priorities (III)

The final questionnaire deals with the learners' ICT needs. This group of question is the most interesting for the research, as it mainly reflects the attitude to the

Internet-based language learning course and ICT in general.

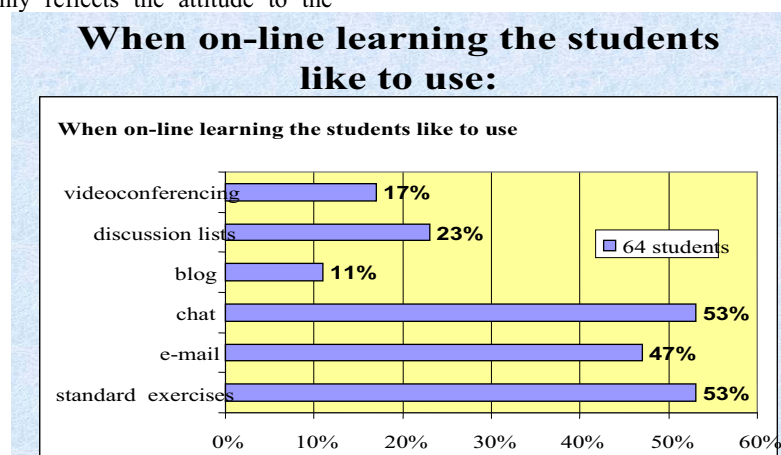


Figure 5. Course Priorities (IV)

The results in the chart demonstrate that most learners would prefer learning activities they are already well familiar with: chat (53%), e-mail (47%) and the ones related to standard language exercises (53%). Discussion lists are at 23% only, videoconferencing – 17%, blogs – 11%. This also means that not many students are well familiar with this kind of relatively new kind of activities. On the other hand, getting familiar with these new types of activities would soon make them more popular.

The results of the survey

The results obtained in the questionnaire demonstrate that the learners understand the priorities for learning English. The top priorities for learning a foreign language are communication, listening and vocabulary (57%, 52%, and 54%).

The results of the survey also reveal the whole range of important points:

1. Most learners prefer learning activities they are well familiar with: chat (53%), e-mail (47%) and the ones related to standard language exercises (53%).
2. Most learners give priority to more practical types of exercises, for example their favourite types of exercises being matching (44%), multiple choice (44%), doing crosswords (42%), etc.
3. Most learners are rather motivated, well aware of their needs for English and the challenges the future presents.
4. Students interact with various online available materials which sometimes the teacher cannot control.

5. Finally it is necessary to point out that ICTs have much to offer language testing: not just for test delivery, but also for test construction, test compilation, response capture, test scoring, result calculation and delivery, and test analysis. This means that computers can be used at all stages in the test development and administration process, the most practical features being the easy test delivery, test scoring and test analysis.

Conclusions

Based on the results of the questionnaire it is obvious that general attitude towards learning a second language on the web is positive, however, some learners might be reluctant to learn ESP on the web in their spare time.

Needless to say that ICTs provide an exhaustive compilation of the telematic tools and resources that a teacher of English may have access to in order to successfully integrate them into his/her teaching practices. The main classification will include the World Wide Web in the first place and its main utilities to teach English as a foreign language: Search Engines, authentic materials, language translators, etc.

Secondly, there is a whole array of the Internet communication tools - synchronous and asynchronous- and the educational possibilities they may offer to a teacher of English as a foreign language are endless.

The major potential advantage of using ITs in the second language classes is a vast variety of interactive activities that allow fostering independent learning. The basic difficulty, however, second language students encounter using the Internet for preparing creative assignments is linguistic complexity of materials and inability to assess materials impartially.

A non-traditional evaluation is required at the time that new tools and resources open up new perspectives for the teacher. Students interact with multifaceted materials which sometimes the teacher cannot control. Thus, a deep evaluation of all the elements that intervene in the new teaching and learning processes is needed.

It is possible to make a compilation of the different contributions to which we agree and reproduce the four main roles teachers working in IT-based settings would have to play:

1. The teacher as a planner and facilitator of situations and suitable learning contexts
2. The teacher as a developer, adapter and creator of materials and resources.

3. The teacher as an evaluator, guide and knowledge facilitator.

On the other hand, many authors agree with the fact that the integration of ITs into education generates a set of transformations that modify all the elements which take part in the educational process: organization, student, curriculum and mainly, they affect the teacher's role, functions and attitudes.

The utilization of ITs learning settings and tools in educational processes, evidently leads to radical changes both in the role of teachers and learners and to the emergence of new teaching and learning environments and methodologies (e-Learning, Web-based Learning, Open and Distance Learning) as well as new training modalities (on-line training, on-site training, Blended-Learning, etc.).

Finally new virtual training settings aimed at facilitating tools and resources to favor communication and interaction and distributing teaching materials through the web will emerge in order to encourage and promote collaboration and co-operation among the participants in teaching and learning processes.

Preparing students to effectively understand and operate in this global environment requires a clear comprehension of its diversity. "There is sometimes the danger of the class becoming rather a dry affair that fails to motivate learners... Many textbooks use a relatively narrow range of exercise types but we have always found that the use of wide range of types increases motivation..." (Dudley-Evans, St John, p.177-178).

However, authors such as Gisbert (2003) warn us that although telematic networks constitute powerful containers and transmitters of information and that ITs become important tools in teaching and learning processes, their educational potentiality can be insignificant if it is not properly accompanied by other pedagogical measures. Blázquez (2003) emphasizes the fact that the participants in these teaching and learning processes set in new virtual environments will have to develop a critical distance in order to benefit from the enormous advantages they account for: "We are aware that the Internet is not and will not be the panacea, it will not even become - to our judgment- a suitable educational means in all situations, furthermore, a proper critical distancing will be required to educate with it".

Nevertheless, Information Technologies (IT), if properly used, may contribute to the quality of education and training and to Europe's move to a knowledge-based society

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Valdas Narbutas

TEACHING A SECOND LANGUAGE IN IT-BASED SETTINGS

Summary

Information technologies and the Internet open up communication ways allowing an unlimited access to information and knowledge, as well as account for a flexibilization of time and space barriers and increase interaction. The Net provides an excellent environment which has definitely transformed the different relationships within the educational field and has made it possible for new teaching and learning modalities to emerge, a fact which in turn requires radical pedagogical changes and new definitions of traditional teaching and learning models. Such possibilities suggest changes in the communication models and the teaching and learning methods used by teachers, giving way to new scenarios which favor both individual and collaborative learning.

The 21st century confronts its citizenship with new choices, opportunities and challenges due to the ubiquitous presence of technologies into all spheres of life. Traditional teaching and learning paradigms have been shaken by the impact of the integration of Information Technologies (ITs) into educational practices; These processes are occurring at the time when teachers and trainers are confronted by challenges ranging from the acquisition of skills and literacy in the usage of ITs to the delivery of the necessary tools which would lead students to become knowledge creators and users. E-learning methods and the use of information and communication technologies in education and training have changed the way of learning and teaching, providing a fundamental contribution in their processes of innovation and reform (1). Through the integration of new technologies, education and training have become more accessible and more flexible, offering opportunities to all and at all educational levels. Developments in technology and research into learning are changing the face of how, where and when people learn.

A questionnaire was designed in order to collect essential information about the potential students of *Internet-Based Course of a Second Language*, their level of proficiency, preferences, computer access and eventually, identifying the preferred style of open learning. This will help the researcher design the structures and functionalities of the future course to best suit the second language needs of the learners. This questionnaire is aimed to demonstrate the students and the second language teachers the ways in which ITs can contribute to a second language learning/teaching and indicate the areas which the teacher must deal with besides the technology, i.e. with the aspects of the classroom, and of methodology to ensure maximum educational benefit.

Consequently, *the problem of the research* could be defined as follows: the promotion of autonomous learning of foreign languages and the growing role of online information technologies are gaining increasing importance in language teaching in all educational institutions.

The aim of the research is to provide a clearer understanding of the benefits of using ITs in various learning environments, thus enabling to study the tools and resources further, which eventually could provide more help into teaching practices. The use of different web-based training platforms with specific training modules, a collaborative environment and the use of different communication tools and resources aims at providing new perspectives to face the teaching of English as a foreign language from an innovating perspective.

The objectives of the research are as follows:

1. To define the ways of integrating the Internet and Information Technologies into the curriculum that it is really motivating for both students and teachers.
2. To define the ways of developing the students' language skills, and fostering a multi-cultural, international perspective for our ever-changing, interdependent world.

The subject of the research is promotion of autonomous learning of foreign languages in the IT-based learning environment.

The methods used: for data collection a survey in the form of questionnaire was carried out; a descriptive way of data analysis was used.

It is obvious that general attitude towards learning a second language on the web is positive, however, some learners might be reluctant to learn a foreign on the web in their spare time. ITs provide an exhaustive compilation of the telematic tools and resources that a teacher of English may have access to in order to successfully integrate them into his/her teaching practices. The classification will include the World Wide Web in the first place and its utilities to teach English as a foreign language: search Engines, authentic materials, language translators, etc. Secondly, there is a whole array of the Internet communication tools and the possibilities they may offer to a teacher are endless. The potential advantage of using ITs in the second language classes is a variety of activities that allow fostering independent learning. The basic difficulty, however, second language students encounter using the Internet for preparing assignments is linguistic complexity of materials and inability to assess materials impartially.

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Areas of scientific interests: e-learning, web-based activities, integration of online activities into learning;

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CROSS-CULTURAL VALIDATION OF QUISS II QUESTIONNAIRE: THE CASE OF LITHUANIA

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Abstract

Increasing number of inter-cultural researches and frequent practices of foreign questionnaires transfer, suggest the relevance of methodological issues about survey instruments adaptation. Incorrectly translated questionnaires can result in the whole research project failure due to the lack of methodological quality. Different authors consider that competencies of survey instruments' translation are an important premise for good measurement properties of transferred questionnaire. Nevertheless, only few attempts have been made to produce some empirical validations. This article is based on quantitative and qualitative analysis of QUISS II questionnaire on Motivation and Academic Studies Quality.

Keywords: cross-cultural validation, adaptation of survey instruments, competencies, team approach, measurement properties.

Introduction

For several decades growing scale of intercultural research and interest in how best to do it is observed all around the world. Translated and adapted questionnaires are frequently used in Lithuania: consistent attempts to adapt various sociological, psychological, health care and other questionnaires developed abroad are found almost in every research field (Pauliukaitė et al., 2011, p. 51). Increasing number of inter-cultural researches and frequent practices of foreign questionnaires transfer, suggest the relevance of methodological issues about survey instruments adaptation.

Different methodological issues are discussed even in the context of standard monolingual surveys. According to Farrington (2003, p. 49) the development of methodological quality standards for evaluation research based on assessment of conclusion validity, internal validity, construct validity, external validity, and descriptive validity is needed. Other authors analyzing evaluation of methodological quality of reviews highlight the importance of measurement properties of the research instrument (Mokkink et al., 2009, p. 313). In cross-national/cross-cultural research the research instrument is often translated, therefore, according to Maneesriwongul and Dixon (2004) cross-cultural validation of the translated instrument plays a significant role in ensuring that the results obtained are not due to errors in translation, but rather are due to real differences or similarities between cultures in the phenomena being measured. Since incorrectly translated questionnaires can result in the whole research project failure due to the lack of methodological quality (Behling and Law, 2000; Maneesriwongul and Dixon, 2004; Mažeikienė and Merkys, 2002; Survey Research Center, 2010), therefore, researchers involved in comparative research are seriously concerned about measurement issues, comparability, reliability and validity of their

data (Behling and Law, 2000; Dean et al., 2007; Hambleton et al., 2005; Kalinauskaitė and Merkys, 2007; Maneesriwongul and Dixon, 2004; Mažeikienė and Merkys, 2002).

Aiming to ensure quality of a translated questionnaire different translation techniques or their combinations can be applied: simply direct translation, modified direct translation, parallel blind technique, committee and modified committee translation, etc. (Dean et al., 2007; Hambleton et al., 2005; Martinez et al., 2006). Once a questionnaire or a survey instrument is translated, it must be subjected to both qualitative and quantitative assessment (Harkness et al., 2004; Maneesriwongul and Dixon, 2004; Survey Research Center, 2010). Different qualitative methods for assessment of translation quality may be used: expert panel review, cognitive interviews, interviewer and respondent debriefing, focus groups, back-translation and etc. (Harkness et al., 2004; Survey Research Center, 2010). For quantitative assessment of translation quality measurement properties of translated research instrument are to be evaluated in the review process. Measurement properties of research instrument indicate whether it performs as expected and are assessed by analysing various psychometric characteristics including internal consistency, reliability and indicators of validity. Producing cross-cultural validation measurement properties of translated research instrument are analysed.

The procedure to follow is first to make translation as good as possible by using different translation techniques, then to produce a qualitative testing and afterwards to produce statistical analysis confirming the problematic issues detected by the qualitative procedures or discovering some incorrectly translated items that were not detected in qualitative appraisal (Harkness et al., 2010). Usually decisions on

which translation procedure, as well as qualitative and quantitative methods for assessment of translation quality, to adopt are influenced by the time, funding, expertise and personnel available, as well as by specific

aspects of a given study (see case example of QUISS II questionnaire on *Motivation and Academic Studies Quality*, presented in Figure 1). All these factors are interrelated and interfering.

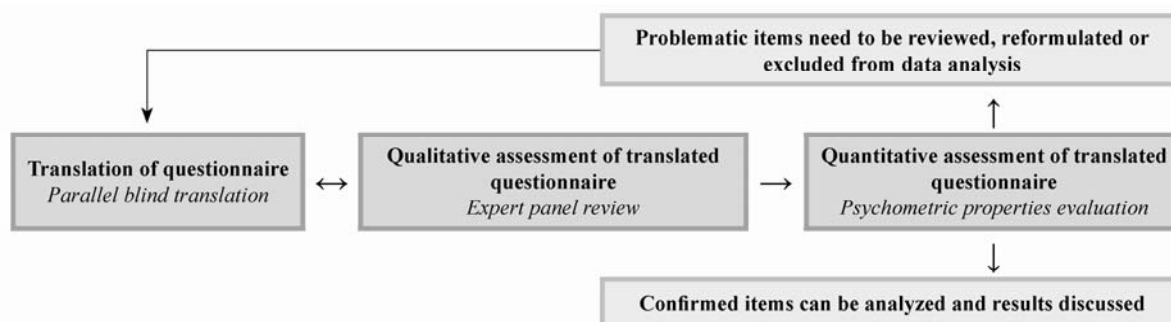


Figure 1. Case of questionnaire on *Motivation and Academic Studies Quality*

Source: compiled by the authors

Seeking to make target questionnaire as good as possible, various authors suggest the importance of the competencies of survey instruments' translation (Behling and Law, 2000; Hambleton et al., 2005; Harkness et al., 2003, 2010; Weeks et al., 2007). This case study was conceived taking in consideration the fact that competencies applied in research instruments' translation and adaptation process are an important premise for obtainment of good measurement properties, nevertheless in scientific literature the lack of empirical validation is observed.

The aim of the article is to produce cross-cultural validation of QUISS² II questionnaire on *Motivation and Academic Studies Quality* and to analyze the efficiency of competencies based *Team Approach* for the development of Lithuanian questionnaire version.

Research methods: Systematic and comparative analysis of scientific literature; in-depth interview method and qualitative content analysis; evaluation of psychometric properties (reliability and construct validity) of Lithuanian version of QUISS II questionnaire on *Motivation and Academic Studies Quality*.

Research methodology

Literature analysis was accomplished aiming to define the concept of competencies required for adaptation of survey instruments. Most researchers agree that the main competencies that researcher-translator should have in order to be able to produce an accurate translation and adaptation of survey instruments are those: being fluent in both languages, having cultural awareness, understanding empirical social science research, and being expert in both the characteristics and the content measurement on the instrument.

To unfold the competencies used in the adaptation process of Lithuanian version of QUISS II questionnaire on *Motivation and Academic Studies Quality*, in-depth interview method and qualitative content analysis of the data were applied. Forward Translator and Bilingual Expert were interviewed on February and March 2011.

Interviews took two to three hours and have been fully transcribed and coded for an exhaustive qualitative data analysis.

Questionnaire on *Motivation and Academic Studies Quality* is a part of QUISS survey methodology, elaborated by the team of scholars at Konztanz University (Germany) in 1983, since it was used repeatedly in surveys in Germany and systematically improved by authors (Bargel et al., 2009). In 2009 Lithuanian State Studies Foundation financed the project "*Academic Studies Quality and Social Context Survey*" directed by Professor Gediminas Merkys in which the latest version of QUISS (QUISS II) was translated and culturally adapted (Merkys et al., 2009; Turčinskaitė-Balčiūnienė and Merkys, 2010). This paper-pencil type questionnaire dominated by psychometric Likert-type scales of different levels (from 3 to 9), most often with central categories, was filled in by 964 respondents from Kaunas, Klaipėda, Šiauliai and Vilnius higher education institutions. In this paper, psychometric properties of translated QUISS II scales for *Motivation and Academic Studies Quality* were assessed: 34 scales consisting of 297 items (see Table 1 and Table 2).

Statistical package SPSS 13.0 for Windows was used for evaluation of psychometric properties (reliability and construct validity) of Lithuanian version of questionnaire on *Motivation and Academic Studies Quality*. Various statistics were computed: 1) Cronbach's alpha; 2) Cronbach's alpha if item deleted; 3) corrected item-total correlation; 4) factor analysis.

Competencies required for adaptation of survey instruments

In survey literature there are different views on what is necessary to know for adaptation of transferred survey instruments. Seeking to make target questionnaire as good as possible, various authors suggest the importance of the competencies of survey instruments' translation (Behling and Law, 2000; Hambleton et al., 2005; Harkness et al., 2003, 2010; Weeks et al., 2007).

Current best practice called *Team Approach* advises to split competencies to the survey research team

² Qualitätsverbesserung in Schulen und Schulsystemen.

members. Three sets of people are required to produce the final version of a translated questionnaire: translators, translation reviewers, and adjudicators. According to this approach all the members of the team during the entire process of the questionnaire adaptation are using different competencies (see Table 1). The team should bring together the mix of skills and disciplinary expertise needed to decide on optimal versions. Together, members

of this team must supply knowledge of the study, of questionnaire design; they also must have the cultural and linguistic knowledge needed to translate appropriately in the required varieties of the target language (Harkness, 2003, p. 37). Lithuanian version of QUISS II questionnaire was adapted using this approach as well (see Figure 2).

Table 1

Competencies required by <i>Team Approach</i>		
Team members	Requirements for members of the team	Competencies extracted
Translators	Should be skilled practitioners who have received training on translating questionnaires.	Language competence, Experience in translation, Familiarity with translation of questionnaires.
Reviewers	Need to have at least as good language abilities as the translators but also must be familiar with questionnaire design principles, as well as the study design and topic.	Language competence, Familiarity with questionnaire design principle, Knowledge of the construct being measured.
The adjudicating body	Is responsible for making final decisions about which translation options to adopt, preferably on cooperation with reviewers and translators. Adjudicators must understand the research subject, know about the survey design, and be proficient in the languages involved.	Methodological competence, Knowledge of constructs being measured, Awareness of questionnaire design, Proficiency in the languages involved.

Source: summarised by authors with references to Harkness (2003, p. 36)

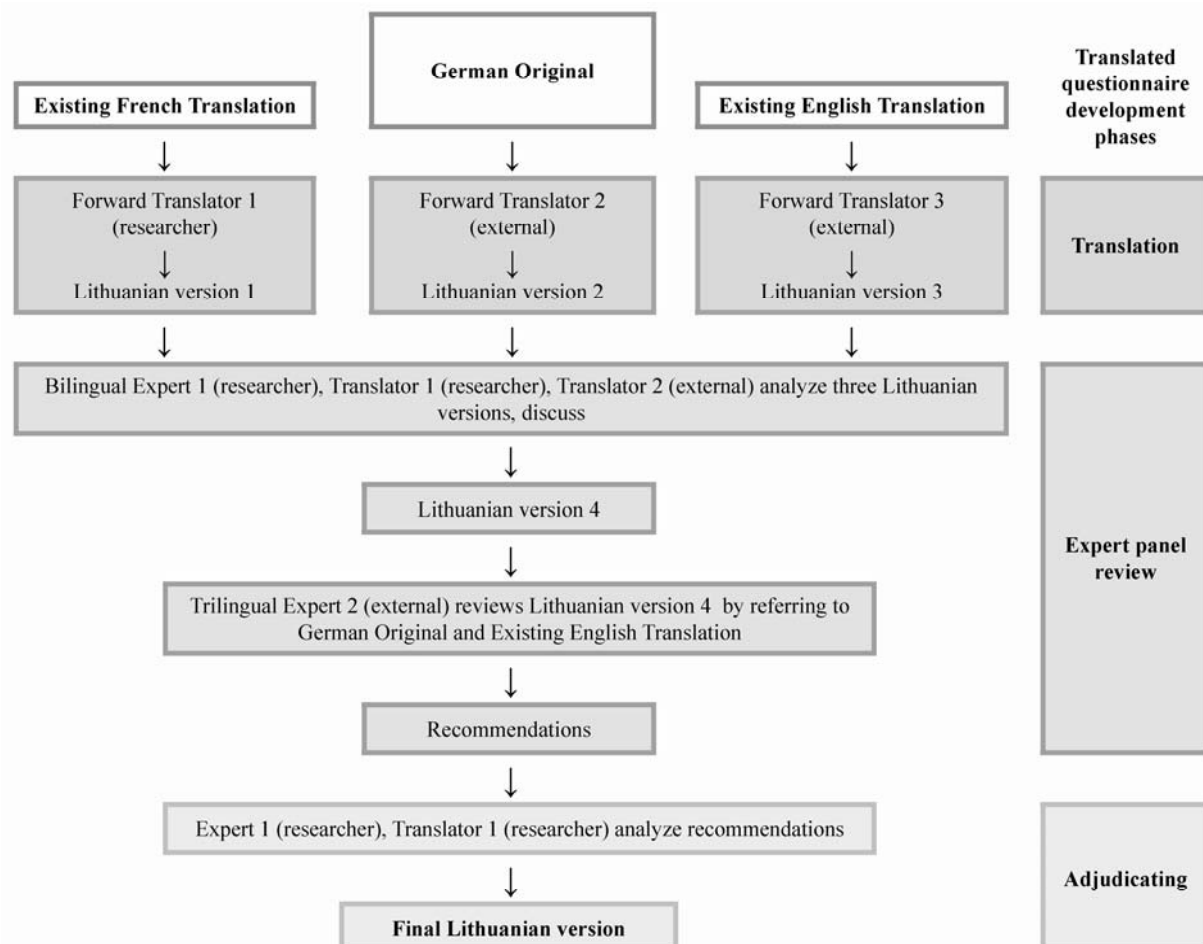


Figure 2. Adaptation process of QUISS II applying *Team Approach*

Source: authors' questionnaire development protocol

Nevertheless, systematic and comparative analysis of scientific literature revealed that most scientists focus

on translation competencies, i.e. the components of the translation competence that a *translator* suitable for

translation of survey instruments is supposed to have. Different models focusing on various components of translation competence are created (PACTE, 2003, 2011) and quite many recommendations about who and how should translate are formulated (Hambleton et al., 2005; Harkness et al., 2010; International Test Commission, 2000; Survey Research Center, 2010; U. S. Census Bureau, 2005). Nevertheless commonly accepted model of what constitute translation competence does not exist neither is described the acquisition of translation competence and there is a lack of empirical validation (PACTE, 2003, 2011).

In survey literature there are different views on what person translating questionnaires need to know in order to be able to translate well. Behling and Law (2000) noticed that in ideal case the researcher should be fluent in the source and target languages and should be able to translate the instrument. However, as a practical matter, most researchers lack adequate knowledge of target language and the instrument translation must rely on external translators (Behling and Law, 2000, p. 53). So what competencies should have these external translators?

Language competence is certainly a prerequisite for translation, but not a sufficient condition for working as a translator. Nor the previous experience in translation – “having done it before” – is a guarantee of quality or competence. The level of awareness on research topic is under discussions as well even if it seems unreasonable to require that translators of philosophy must be philosophers and translators of books on calligraphy, calligraphers (Harkness and Schoua-Glusberg, 1998, p. 119; Harkness et al., 2010, p. 125).

As mentioned above quite many guidelines are formulated unfolding the components of the translation competence that a translator suitable for translation of survey instruments is supposed to have. Our compiled summary of these recommendations is presented in Table 2. It shows that researches variously advocate and agree that the main competencies which translators should have in order to be able to translate survey instruments accurately are:

- *being fluent in both languages (being bilingual);*
- *having cultural awareness;*
- *understanding empirical social science research;*
- *being expert in both the characteristics and the content measurement on the instrument.*

Table 2

Requirements for translators of survey instruments	
Authors	Requirements for translators
Behling and Law (2000, p. 54)	<i>“must settle for a less-than-perfect mix of fluency, cultural awareness, and knowledge of the instrument and its uses.”</i>
Geisinger (1994, p. 306)	<i>“must be fluent in both languages, extremely knowledgeable about both cultures, and expert in both the characteristics and the content measurement on the instrument and the uses to which the [...] instrument will be put.”</i>
Guthery and Lowe (1992) cited by Behling and Law (2000, p. 54)	<i>suggest that a native speaker of the target language, other things being equal, is a better translator than someone who learned it as a second language.</i>
Hambleton and Patsula, (1999, p. 8)	<i>“Seek out translators with language proficiency, knowledge of the relevant cultures, and some subject matter knowledge/knowledge of the construct of interest”.</i>
Hambleton et al. (2005, p. 10).	<i>“Should know the cultures very well, especially the target culture. [...] subject matter knowledge in the adaptation of achievement test is highly desirable”.</i>
Harkness (2003, p. 44)	<i>“should be ‘bilinguals’, ‘professional translators’, people who understand empirical social science research, or combination of these.”</i>

Source: summarised by the authors

Still some authors (Harkness, 2003; Behling and Law, 2000) are in doubt whether such criteria are practical. For survey translation, especially perhaps in the multi-lingual context, it is currently unrealistic to expect to find translators who have experience in survey translation, a good understanding of the relevant survey practices and are also in command of both translator skills and proficiency in the languages needed (Harkness and Schoua-Glusberg, 1998, p. 118). Moreover, analysis of publications allows us to draw the same inference as drew the PACTE group (2003, p. 5): “Most of recommendations are simply lists of characteristics that define the translator, and do not suggest how these components are related to each other or if there are hierarchies amongst them”. There is not much indication of what, concretely, is required in papers describing translator suitability for translation of survey instruments. Bilingualism, for example, is a term applied to various kinds and degrees of abilities in two languages. Nevertheless, competencies differ in the case of

bilinguals, who learn one language after the other; from the case of the ones who learn both more or less simultaneously; as well as from the case of bilinguals who learn a language being young, and the ones who learn it being adult. Also, the high level of proficiency expected from translator often glossed as ‘first language proficiency’ in the target language and ‘good proficiency’ in the source text language but it is not clear enough what is meant by ‘high level’ and ‘good’ proficiency and how this can be assessed before the work is commissioned (Harkness and Schoua-Glusberg, 1998; Harkness, 2003). Therefore the need for empirical validation is observable: “Neither the degree of bilingual competence needed for survey translation nor what other competencies are needed has been *empirically* investigated” (Harkness and Schoua-Glusberg, 1998, p. 118).

Nevertheless some authors producing survey literature provide with some light on how the competencies are related to each other and what kind of hierarchies may be defined amongst them. Most often

(Behling and Law, 2000; Harkness et al., 2003, 2010; Harkness and Schoua-Glusberg, 1998) it is considered translating skills to be more important than the experience of survey instruments' translation, taking in consideration that translators could be provided with guidelines and examples. Additionally, knowledge of the instrument and its use should be the least important criterion for selecting translators in most cases (Hambleton and Patsula, 1999; Hambleton et al., 2005). "It is generally easier to teach a competent translator what he or she needs to know about the instrument and research program than it is to train someone in the target language and in the subtleties of the target culture" (Behling and Law, 2000, p. 54).

In summary, review of survey literature unfolds that most scientists focus on competencies applied during the phase of questionnaire translation instead of analyzing the competencies applied during the entire process of questionnaire adaptation. Only the *Team Approach* emphasizes the competencies applied during the whole target questionnaire development process. Existing variations of team approaches are described in guidelines such as those for the European Social Survey, for the U.S. Bureau of Census and on the Cross-Cultural Survey Guidelines website (Harkness et al., 2010, p. 128). Lithuanian version of QUISS II questionnaire was adapted using this approach and the content analysis of in-depth interviews with researchers (Forward Translator 1 and Bilingual Expert 1) was produced.

Competencies applied for the QUISS II adaptation

Seeking to unfold the competencies applied in the adaptation process of Lithuanian version of QUISS II questionnaire on *Motivation and Academic Studies Quality*, in-depth interview method and qualitative content analysis of the data were applied. On February and March 2011 Forward Translator and Bilingual Expert narrated the process of the questionnaire translation, were asked to identify the main competencies necessary for accurate translation, to narrate (by telling biographical facts) how these competencies were acquired and to share the insights about the translation itself (i.e. what translation is to them, what a good survey translator should know, what is the most important during the translation process, what the main problems are, etc.).

In-depth interview analysis revealed the key competencies that helped in translation, review and adjudication phases of Lithuanian version of this questionnaire development process.

The first category "**Language competence**" highlights the importance of having language proficiency, concretizes the components of this competence and reflects in what way this competence was acquired by interviewees. It is constituted of such main elements: a) excellent knowledge of the language; b) knowledge of live language (closely related to the deep awareness of the culture); c) intuition of the language, "high verbal IQ". It appeared that knowledge of live language is more important than having formal language competence and intuition of the language is an essential premise for survey instruments translation.

"**Awareness of the culture**" was the second category extracted. Interviewees indicated that the quality of living abroad as well as the period spent there has a big impact on the acquisition of this competence. The importance to see culture in various facets was highlighted too.

The third competence identified by the qualitative content analysis of the responses was "**Knowledge of the construct**". This competence splits into following subcategories: acquaintance with the construct a) in theoretical and b) in practical perspectives (it provides with the ability to formulate translated items in the most understandable way for the respondents). In addition it appeared that practical familiarity with the construct is more substantial than theoretical knowledge of it. Taking consultation with different experts may also help the accuracy of translations.

The fourth extracted category was named as "**Methodological proficiency on survey design**". Analysis of interviews revealed that there are two types of knowledge which are important for this capacity: a) acquired from the theoretical studies; b) acquired through the experience. The main factors useful in achieving high methodological competence are: the quality of studies, experience, and personal motivation.

While generalizing the key elements that were helpful in translation, review and adjudication phases of target questionnaire development process it is possible to state that the main factors leading to the know-how translation level are:

- knowledge of live language (which is closely related to the deep awareness of the culture);
- experience (which consists of experienced knowledge of survey design, experience in questionnaire translation and practical familiarity with the construct).

In summary, qualitative analysis of interview unfolded that competencies applied in the adaptation process of Lithuanian version of QUISS II questionnaire were similar to theoretically extracted competencies required by *Team Approach*.

The concept of the competencies was concretized by revealing its components and explaining the way all these elements are related to each other. Furthermore, even if there was extracted the hierarchy amongst translator competencies in theoretical level (e.g. translating skills considered as more important competence than survey translation experience), the analysis of empirical data did not confirm this hypothesis. It showed that all extracted competencies are about equally important and they were applied in translation, review and adjudication phases of target questionnaire development process. The hierarchy within the components of competencies is observable though.

According to literature review, cross-cultural validation of survey instrument is required suggesting analysis of measurement properties (Kalinauskaitė and Merkys, 2007; Maneesriwongul and Dixon, 2004; Mason, 2005; Riklikienė and Pukėnas, 2007). The results of cross-cultural validation of Lithuanian version of

QUISS II questionnaire on *Motivation and Academic Studies Quality* is presented below.

Measurement properties of QUISS II questionnaire on *Motivation and Academic Studies Quality*

Different psychometric properties (reliability and construct validity of translated items) were assessed:

a) internal consistency of the items in the scales was evaluated by overall Cronbach's alpha; b) Cronbach's alpha if item deleted was analysed aiming to determine whether some of the items have significantly different scores; c) corrected item-total correlation analysis was produced in order to determine how well score of one

Table 3

Factor analysis statistics								
Scales (N=964)	Kaiser-Meyer-Olkin measure		% of variance that factor accounts			Sub-scales Items	Factor values	
			1	2	3		Max - min	Mean
Motivation scales (42 items)								
Choice of Higher Education Institution – 8 items	0.86	good	45	-	-	-	0.75 – 0.49	0.67
Choice of Studies – 7 items	0.84	good	57	8	-	4	0.90 – 0.77	0.84
						3	0.87 – 0.69	0.81
Meaningfulness of Studies – 10 items	0.87	good	51	11	-	7	0.70 – 0.57	0.65
						3	0.90 – 0.76	0.82
Motivation for Doctoral Studies – 11 items	0.88	good	47	13	-	6	0.80 – 0.74	0.69
						5	0.81 – 0.52	0.72
Intentions to Study Abroad – 6 items	0.93	excellent	81	-	-	-	0.93 – 0.86	0.90
Academic Studies Quality: Availability of Information (29 items)								
Information Available – 10 items	0.91	excellent	49	10	-	5	0.83 – 0.56	0.73
						5	0.68 – 0.61	0.67
Information Needed – 6 items	0.90	good	69	-	-	-	0.89 – 0.68	0.83
Use of Internet – 10 items	0.97	excellent	70	-	-	-	0.86 – 0.81	0.84
Academic Studies Quality: Major Problem Areas (42 items)								
Areas in Need for Improvement – 16 items	0.92	excellent	43	8	7	8	0.75 – 0.57	0.67
						5	0.76 – 0.61	0.68
						3	0.86 – 0.43	0.70
Problematic Areas – 12 items	0.97	excellent	67	-	-	-	0.86 – 0.76	0.82
Urgent Problems – 14 items	0.98	excellent	78	-	-	-	0.92 – 0.85	0.88
Academic Studies Quality: Studies and Teaching (76 items)								
Speciality Studies – 12 items	0.87	good	35	14	-	6	0.74 – 0.61	0.70
						6	0.75 – 0.52	0.61
Studies Requirements – 14 items	0.96	excellent	56	-	-	-	0.83 – 0.53	0.75
Studies and Teaching Quality – 9 items	0.87	good	46	17	-	7	0.82 – 0.60	0.76
						2	0.87	0.87
Teaching Quality – 10 items	0.96	excellent	66	-	-	-	0.87 – 0.69	0.81
Studies Experience – 7 items	0.89	good	64	-	-	-	0.86 – 0.69	0.80
Anxiety over Possible Failures – 10 items	0.88	good	43	10	-	5	0.74 – 0.57	0.68
						5	0.78 – 0.48	0.70
Studies Results – 14 items	0.96	excellent	61	-	-	-	0.82 – 0.71	0.78
Academic Studies Quality: Communication and Consulting (30 items)								
Satisfaction with Communication Possibilities – 3 items	0.61	questionable	-	-	-	-	-	-
Consulting Possibilities – 4 items	0.87	good	87	-	-	-	0.95 – 0.92	0.93
Consultations – 4 items	0.82	good	70	-	-	-	0.85 – 0.83	0.84
Attentiveness to Students' Problems – 3 items	0.58	poor	-	-	-	-	-	-
Consultations Provided by Student Offices – 3 items	0.78	acceptable	93	-	-	-	0.97 – 0.96	0.97
Benefits of Consultations by Student Offices – 3 items	0.75	acceptable	84	-	-	-	0.93 – 0.90	0.92
Functions of Student Representative Office – 10 items	0.98	excellent	78	-	-	-	0.92 – 0.78	0.88
Academic Studies Quality: Studies Results (50 items)								
Personal Growth Factors – 13 items	0.95	excellent	58	-	-	-	0.81 – 0.61	0.76
Professional Perspectives Factors – 13 items	0.96	excellent	67	-	-	-	0.86 – 0.70	0.82
Seeking for Improvement – 6 items	0.94	excellent	86	-	-	-	0.94 – 0.92	0.93
Interests in Improvement Possibilities – 6 items	0.92	excellent	72	-	-	-	0.88 – 0.83	0.85
Autonomous Search for Improvement – 5 items	0.87	good	73	-	-	-	0.89 – 0.81	0.86
Studies – 7 items	0.72	acceptable	6	0	2	3	0.79 – 0.77	0.78
						2	0.83	0.83
						2	0.92 – 0.87	0.89
Academic Studies Quality: European Higher Education Area (28 items)								
EHEA Means – 9 items	0.93	excellent	58	-	-	-	0.83 – 0.63	0.75
EHEA Studies Organization Forms – 7 items	0.93	excellent	71	-	-	-	0.86 – 0.81	0.84
EHEA Objectives – 12 items	0.96	excellent	65	-	-	-	0.85 – 0.70	0.80

Table 4

Internal consistency statistics

Scales (N=964)	Cronbach's alpha		Cronbach's alpha if item deleted	Corrected item-total correlation
Motivation scales (42 items)				
Choice of Higher Education Institution – 8 items	0.82	good	0.79 – 0.82	0.36 – 0.60
Choice of Studies – 7 items	0.87	good	0.84 – 0.87	0.50 – 0.77
Subscale I – 4 items	0.90	excellent	0.82 – 0.90	0.68 – 0.83
Subscale II – 3 items	0.80	good	0.66 – 0.80	0.59 – 0.70
Meaningfulness of Studies – 10 items	0.88	good	0.87 – 0.89	0.40 – 0.70
Subscale I – 7 items	0.84	good	0.87 – 0.88	0.60 – 0.71
Subscale II – 3 items	0.85	good	0.61 – 0.72	0.38 – 0.58
Motivation for Doctoral Studies – 11 items	0.88	good	0.87 – 0.88	0.47 – 0.72
Subscale I – 6 items	0.83	good	0.80 – 0.84	0.38 – 0.71
Subscale II – 5 items	0.78	acceptable	0.70 – 0.75	0.51 – 0.64
Intentions to Study Abroad – 6 items	0.95	excellent	0.94 – 0.95	0.80 – 0.89
Academic Studies Quality: Availability of Information (29 items)				
Information Available – 10 items	0.88	good	0.87 – 0.88	0.50 – 0.68
Subscale I – 5 items	0.77	acceptable	0.72 – 0.75	0.51 – 0.60
Subscale II – 5 items	0.85	good	0.81 – 0.84	0.60 – 0.71
Information Needed – 6 items	0.90	excellent	0.87 – 0.91	0.58 – 0.82
Use of Internet – 13 items	0.96	excellent	0.96	0.77 – 0.84
Academic Studies Quality: Major Problem Areas (42 items)				
Areas in Need for Improvement – 16 items	0.90	excellent	0.90	0.48 – 0.67
Subscale I – 8 items	0.88	good	0.86 – 0.88	0.53 – 0.70
Subscale II – 5 items	0.80	good	0.75 – 0.78	0.54 – 0.64
Subscale III – 3 items	0.80	good	0.51 – 0.76	0.43 – 0.64
Problematic Areas – 12 items	0.95	excellent	0.95	0.71 – 0.83
Urgent Problems – 14 items	0.93	excellent	0.92 – 0.93	0.59 – 0.74
Academic Studies Quality: Studies and Teaching (76 items)				
Specialty Studies – 12 items	0.81	good	0.79 – 0.81	0.35 – 0.61
Subscale I – 6 items	0.81	good	0.76 – 0.80	0.48 – 0.67
Subscale II – 6 items	0.71	acceptable	0.66 – 0.70	0.38 – 0.52
Studies Requirements – 14 items	0.94	excellent	0.93 – 0.94	0.48 – 0.79
Studies and Teaching Quality – 9 items	0.80	good	0.76 – 0.82	0.23 – 0.65
Subscale I – 7 items	0.85	good	0.84 – 0.89	0.50 – 0.71
Subscale II – 2 items	0.70	acceptable	–	0.54
Teaching Quality – 10 items	0.94	excellent	0.93 – 0.94	0.62 – 0.84
Studies Experience – 7 items	0.90	excellent	0.88 – 0.90	0.61 – 0.78
Anxiety over Possible Failures – 10 items	0.83	good	0.81 – 0.84	0.36 – 0.62
Subscale I – 5 items	0.79	acceptable	0.73 – 0.76	0.55 – 0.63
Subscale II – 5 items	0.70	acceptable	0.61 – 0.74	0.34 – 0.59
Studies Results – 14 items	0.95	excellent	0.95	0.67 – 0.78
Academic Studies Quality: Communication and Consulting (30 items)				
Satisfaction with Communication Possibilities – 3 items	0.79	acceptable	0.71 – 0.84	0.50 – 0.77
Consulting Possibilities – 4 items	0.95	excellent	0.93 – 0.94	0.86 – 0.90
Consultations – 4 items	0.86	good	0.81 – 0.83	0.69 – 0.72
Attentiveness to Students' Problems – 3 items	0.46	unacceptable	0.25 – 0.43	0.23 – 0.35
Consultations Provided by Student Offices – 3 items	0.96	excellent	0.94 – 0.95	0.92 – 0.94
Benefits of Consultations by Student Offices – 3 items	0.90	excellent	0.85 – 0.89	0.78 – 0.83
Functions of Student Representative Office – 10 items	0.97	excellent	0.96 – 0.97	0.74 – 0.90
Academic Studies Quality: Studies Results (50 items)				
Personal Growth Factors – 13 items	0.94	excellent	0.93 – 0.94	0.56 – 0.76
Professional Perspectives Factors – 13 items	0.96	excellent	0.95 – 0.96	0.66 – 0.82
Seeking for Improvement – 6 items	0.97	excellent	0.96	0.88 – 0.91
Interests in Improvement Possibilities – 6 items	0.92	excellent	0.90 – 0.91	0.75 – 0.82
Autonomous Search for Improvement – 5 items	0.91	excellent	0.88 – 0.90	0.33 – 0.58
Studies – 7 items	0.76	acceptable	0.72 – 0.76	0.71 – 0.82
Subscale I – 3 items	0.72	acceptable	0.61 – 0.72	0.38 – 0.58
Subscale II – 2 items	0.68	questionable	–	0.54 – 0.63
Subscale III – 2 items	0.84	good	–	0.73
Academic Studies Quality: European Higher Education Area (28 items)				
EHEA Means – 9 items	0.90	excellent	0.88 – 0.90	0.62 – 0.75
EHEA Studies Organization Forms – 7 items	0.93	excellent	0.92 – 0.93	0.74 – 0.81
EHEA Objectives – 12 items	0.95	excellent	0.94 – 0.95	0.65 – 0.81

item is internally consistent with composite scores from all other items that remain; d) dimensionality of the scales was evaluated by factor analysis. When both validity and reliability analyses produce reasonably good results, then the transferred questionnaire can be concluded and declared to have acceptable measurement properties, indispensable for the methodological quality of the research. Hence statistical methods evaluating dimensionality (see Table 3) and internal consistency (see Table 4) were applied seeking to assess the measurement properties of Lithuanian version of QUISS II *Motivation* and *Academic Studies Quality* scales.

According to Kaiser-Meyer-Olkin measure of sampling adequacy, two scales are not appropriate for factor analysis: *Satisfaction with Communication Possibilities* and *Attentiveness to Students' Problems*. To all other scales factor analysis can be applied – none of the correlation matrixes is an identity matrix (Bartlett's tests of sphericity are significant with probabilities lower than 0.05). Factor analysis shows that 23 scales are one-dimensional and demonstrate strong internal consistency. Some 7 scales are two-dimensional and 2 scales are three-dimensional. Nevertheless, most of factor values are higher than 0.60 and all factor values means are higher than 0.60 indicating good construct validity score for the scales and the subscales detected.

The results show that in general strong internal consistency among items is observed (Cronbach's alpha of 0.80 is considered to be a reasonable goal). 91% of the scales demonstrate good or excellent overall Cronbach's alpha scores. In general Cronbach's alpha if item deleted varies around the overall Cronbach's alpha score within four points, nevertheless, in some cases it varies by 6-18 points reflecting unequal contributions of different items to total alpha and pointing at the lack of internal consistency. Corrected item-total correlation is considered weak when the score is lower than 0.30 (De Vaus, 2004). There are 2 scales with weak corrected item-total correlation.

According to the assessment of measurement properties of Lithuanian version of questionnaire on *Motivation* and *Academic Studies Quality*, evidence is provided that based on all the statistics computed 23 scales (67.7%) are one-dimensional and exhibit strong internal consistency. Taking in consideration the results of internal consistency for the subscales determined by factor analysis, in total 247 translated items (83.2%) can be concluded to have good measurement properties.

Conclusions

- Based on scientific literature analysis:
 - In cross-national / cross-cultural research the validation of the instrument adapted for use in a second language plays a significant role in ensuring that the results obtained are due to real differences or similarities between cultures in the phenomena being measured. The procedure to follow is: 1) to make translation as good as possible by using different translation techniques; 2) to produce a qualitative testing; 3) to produce

statistical analysis of research instrument measurement properties.

- Competencies applied for research instruments' translation and adaptation processes are an important premise for obtainment of good measurement properties, nevertheless in scientific literature the lack of empirical validation is observed: most scientists focus on competencies applied during the phase of questionnaire translation instead of analyzing the competencies applied during the entire process of questionnaire adaptation. Only the *Team Approach* emphasizes the competencies applied during the whole target questionnaire development process.
- Based on empirical evidence of QUISS II questionnaire validation:
 - The content analysis of in-depth interviews with researchers revealed that competencies applied in the adaptation process of translated QUISS II questionnaire were similar to theoretically extracted competencies required by *Team Approach*.
 - Qualitative data analysis of interview revealed that competencies named as "Language competence", "Awareness of culture", "Knowledge of the construct" and "Methodological proficiency on survey design" were used in QUISS II Lithuanian questionnaire development process. The concept of the competencies was concretized by revealing its components and explaining the way all these elements are related to each other. It also showed that all extracted competencies were equally important in the process of QUISS II questionnaire adaptation. The hierarchy within the components of competencies is observable though.
 - Based on good measurement properties obtained producing cross-cultural validation of the QUISS II questionnaire on *Motivation* and *Academic Studies Quality*, we conclude that competencies applied in *Team Approach* were efficient for the adaptation of target questionnaire: 1) according to all the statistics computed for questionnaire on *Motivation* and *Academic Studies Quality*, 23 translated scales (67.7%) are one-dimensional and exhibit strong internal consistency; 2) according to the results of internal consistency for the subscales determined by factor analysis, in total 247 translated items (83.2%) can be concluded to have good measurement properties.
- Further analysis on researchers' competencies as an important premise for obtainment of good

measurement properties of transferred questionnaire is recommended.

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CROSS-CULTURAL VALIDATION OF QUISS II: THE CASE OF LITHUANIA

Summary

The aim of this article is to produce cross-cultural validation of QUISS II questionnaire on Motivation and Academic Studies Quality and to analyze the efficiency of competencies based *Team Approach* for the development of Lithuanian questionnaire version. This case study was conceived taking

in consideration the fact that competencies applied for research instruments' translation and adaptation process are an important premise for obtainment of good measurement properties, nevertheless in scientific literature the lack of empirical validation is observed.

Research methodology:

Systematic and comparative analysis of scientific literature was accomplished aiming to define the concept of competencies required for adaptation of survey instruments.

In-depth interview method and qualitative content analysis of the data were applied to unfold the competencies used in the adaptation process of Lithuanian version of QUISS II questionnaire on *Motivation and Academic Studies Quality*. Forward Translator and Bilingual Expert were interviewed. Interviewees were asked to narrate the process of the questionnaire translation, to identify the main competencies necessary for accurate translation, to narrate (by telling biographical facts) how these competencies were acquired and to share the insights about the translation itself. Interviews took two to three hours and have been fully transcribed and coded for an exhaustive qualitative data analysis.

Psychometric properties of translated QUISS II scales for *Motivation and Academic Studies Quality* were assessed (34 scales consisting of 297 items) aiming to produce cross-cultural validation. Statistical package SPSS 13.0 for Windows was used for this purpose. Various statistics were computed: 1) Cronbach's alpha; 2) Cronbach's alpha if item deleted; 3) corrected item-total correlation; 4) factor analysis.

The results of research:

Literature analysis was accomplished aiming to define the concept of competencies required for adaptation of survey instruments. Most researchers (Behling and Law, 2000; Geisinger, 1994; Guthery and Lowe (1992); Hambleton and Patsula, 1999; Hambleton et al., 2005; Harkness et al., 2003, etc.) agree that the main competencies that researcher-translator should have in order to be able to produce an accurate translation and adaptation of survey instruments are those: being fluent in both languages, having cultural awareness, understanding empirical social science research, and being expert in both the characteristics and the content measurement on the instrument. Current best practice called *Team Approach* advises to split these competencies to the survey research team members. Lithuanian version of QUISS II questionnaire was adapted using this approach as well.

Qualitative analysis of interview unfolded that competencies named as "Language competence", "Awareness of culture", "Knowledge of the construct" and "Methodological proficiency on survey design" were applied in the adaptation process of Lithuanian version of QUISS II questionnaire and were similar to theoretically extracted competencies required by *Team Approach*. Furthermore, the concept of the competencies was concretized by revealing its components and explaining the way all these elements are related to each other.

Evaluation of psychometric properties of translated questionnaire on *Motivation and Academic Studies Quality* showed that in general strong internal consistency among items is observed (Cronbach's alpha of 0.80 is considered to be a reasonable goal). 91% of the scales demonstrate good or excellent overall Cronbach's alpha scores. Aiming to assess the construct validity of survey instrument, exploratory factor analysis involving the principle component analysis extraction and varimax rotation was used. Factor analysis showed that 23 scales (67.7%) are one-dimensional and demonstrate strong internal consistency. Taking in consideration the results of internal consistency for the subscales determined by factor analysis, in total 247 translated items (83.2%) can be concluded to have good measurement properties.

Conclusions:

- Based on scientific literature analysis:
 - In cross-national/cross-cultural research the validation of the instrument adapted for use in a second language plays a significant role in ensuring that the results obtained are to real differences or similarities between cultures in the phenomena being measured. The procedure to follow is first to make translation as good as possible by using different translation techniques, then to produce a qualitative testing and afterwards to produce statistical analysis of research instrument measurement properties.
 - Competencies applied for research instruments' translation and adaptation processes are an important premise for obtainment of good measurement properties, nevertheless in scientific literature the lack of empirical validation is observed: most scientists focus on competencies applied during the phase of questionnaire translation instead of analyzing the competencies applied during the entire process of questionnaire adaptation. Only the *Team Approach* emphasizes the competencies applied during the whole target questionnaire development process.
- Based on empirical evidence of QUISS II questionnaire validation:
 - The content analysis of in-depth interviews with researchers revealed that competencies applied in the adaptation process of translated QUISS II questionnaire were similar to theoretically extracted competencies required by *Team Approach*.
 - Qualitative data analysis of interview revealed that competencies named as "Language competence", "Awareness of culture", "Knowledge of the construct" and "Methodological proficiency on survey design" were used in QUISS II Lithuanian questionnaire development process. The concept of the competencies was concretized by revealing its components and explaining the way all these elements are related to each other. It also showed that all extracted competencies were equally important in the process of QUISS II questionnaire adaptation. The hierarchy within the components of competencies is observable though.
 - Based on good measurement properties obtained producing cross-cultural validation of the QUISS II questionnaire on *Motivation and Academic Studies Quality*, we conclude that competencies applied in *Team Approach* were efficient for the adaptation of target questionnaire: 1) according to all the statistics computed for questionnaire on *Motivation and Academic Studies Quality*, 23 translated scales (67.7%) are one-dimensional and exhibit strong internal consistency; 2) according to the results of internal consistency for the subscales determined by factor analysis, in total 247 translated items (83.2%) can be concluded to have good measurement properties.
- Further analysis on researchers' competencies as an important premise for obtainment of good measurement properties of transferred questionnaire is recommended.

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CULTURE MANAGEMENT IN THE CONTEXT OF NEW PUBLIC GOVERNANCE

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Abstract

This article analyzes the changes of culture management in the modern stage of public governance the essential of which is the incremental evolvement from new public management into new (good) public governance. The article distinguishes main new public governance indicators, describes the structure of new public governance and analysis culture management key challenges in the context of new public governance. In change of cultural and social circumstances, international arena of culture management covers strategic needs for development of new methods of culture politics implementation in practice. Culture management phenomenon requires systematic point of view.

Keywords: new public governance, culture management, indicators of governance, culture policy implementation, democratization of governance, cultural networks, social responsibility of culture sector organizations.

Introduction

The period of transformation of political challenges encountered by the countries is presupposing the alternation of valuable cultural orientations in the societies. In change of social circumstances, international arena of culture management covers strategic needs for development of culture processes as well as possibilities for adoption of the most effective methods of implementation of culture politics in practice. Essential theoretical-methodological research projections in this article are focused to reveal culture management model (which emphasizes the accuracy of the transformation of market mechanisms to the practice of public sector activity) implementation results, i.e. positive changes in governance system and stated dysfunctional meanings as well as to generalize non abundant theoretical statements of new public governance doctrine (which is still forming). Using systemic – processional research aspect the article aims to define and detail the impact of evolution of modern public governance stage when forming new socially and culturally oriented governance tendencies and trends. It is necessary to create and adopt the reliable culture management system. Culture management changes in the context of new public governance are concerned with the fundamental problems that arise in the practical level of management of culture organizations in the period when new public management transformation to the new public governance theoretical assumptions is realized and identified by various public policy, culture management analysts.

Scientific problem analyzed in this paper is how to improve the productivity and efficiency of culture management providing a better understanding of new public governance and its wider application in practice.

A goal of this paper is to summarize the culture management techniques in the context of new public governance and analyze these measures in Lithuanian culture sector environment. **An object of the research** is culture management in the context of new public governance. **The main tasks of the article are:** to summarize theoretical-methodological aspects of new public governance structure; to analyze culture management changes in the context of new public governance using forecasting methods. **Methods of the research are:** scientific literature analysis, systematic analysis, theoretical modelling, comparative analysis, forecasting.

Structure of the new public governance

Various reasons, environment of globalization and devolution of responsibilities within which governance must function has changed public administration methods in every sector, including culture sector as well. The new constructs of governance in the 21st century are based on the strategies that will built bridges between new public management and new public governance. The main principles of new public governance are: the new model of bureaucracy, transformation of governance to complex of networks, governance transparency establishment, investing in new forms of human capital development and the private and public collaboration and partnership, new strategies and tactics in all levels of public governance (Mcnabb, 2009, p. 5-6). The most remarkable European and world public governance theorists (Pollitt, Bouckaert, Lane, Osborne, Hood and others) in their works one or other way agree that the essential attention in the last decade of the 20th century scientific new public management analysis was devoted to new public

management theoretical – intellectual considerations to purify the logics, definitions and categories of new public management, the evaluation of constructing models, the underlining of differences of general new public management ideology realization in various national spaces in common. We must accept that till the beginning of the 21st century in the theory of public governance there were not enough fixed attempts to analyze and generalize practical reforms (of public governance and public sector) inspired by new public management; assessing the achievements and certain distinct disfunctions. Evaluating the impact of new public management such essential problem for scientists in the 21st century appeared how to choose the most proper assumptions, theoretical constructions, models prepared in plentiful scientific works, conclusions, recommendations. It is very important to carry out the estimation of new public management and new public governance practical means in various meanings properly, i.e. the preparation of methodological instrumentations of the past governance reforms and the practice of their possibilities.

New public management as a theory was formed having in mind good practice of public governance of western states (first of all the United Kingdom and the USA), variety of liberal thought, ideological doctrines of market, which were the basis of permanent evolvement of weberian-wilsonian traditional public administration forms to new public management. Good practice from the USA and the United Kingdom that was based on the wider implementation of market methods in public sector, activity marketization fought its way with difficulty. Recently the archives of the United Kingdom government institutions have been given publicity which testify that around 1980^s M. Thatcher's government had to put enormous efforts to reform the public sector trying to apply the elements of the future new public management, implementing new ways of giving governance and public services (Bovaird and Loeffler, 2009, p. 9-11). The changes of public governance in scientific literature are understood as the formation of new public management paradigm in 9th-10th decades of the 20th century; and they dominated as incremental evolvement of whole theoretical doctrines to new public governance; today they have many decomposition determinants which hardly can be named as reliable paradigm construction of scientific views; because theoreticians can only satisfy themselves by the first generalizations of consequences and results of the mentioned evolvement, non plentiful complex research of these processes (Raipa, 2011b, p. 79).

G. Mulgan and M. Potuček define plethora of accents in the strategic nature projections of new public governance (Mulgan, 2004, p. 32 – 59):

1. Firm coordinated and stable government activity.
2. Wide spectrum of political support for strategic governance.
3. The creation and functioning of strategic units structures in the highest public administration organization hierarchy.

4. The development of possibilities of progressive educative culture and giving consultation skills to other administration units.
5. The strengthening of interaction among different governance structures and organizations.
6. Wide application of effective public policy formation and implementation concepts, adaption of various mixed methods and procedures.
7. Effective concentration of efforts from public, private and nongovernmental sectors as well as from academic institutions and governance practitioners in the development of strategic political kinds and trends.
8. Intellectual – useful – friendly communication with all strategic setting of new public governance nature and direct participants from strategic governance committees, commissions, research institutions and others.
9. In specific strategies and policy formation there must be clearly formulated concrete real tasks, defined forms of accountability, responsibility and control assessment as concerns time and allocation parameters.
10. The definition of strategic new public governance does not reject the incremental (gradual) and cyclic nature, but makes it more open and strengthens traditional strategic governance.

The new public governance strategic nature is connected with context of performance management, new forms and different degrees of measurability and a range of classifications of categories of measures. All of this requires a performance measurement policy at micro, meso, macro and mega levels. New public governance view to performance management is not just equivalent of "results", it also becomes the equivalent of a "presentation" and it includes, beyond better performance as better results, also better performance of the performance, or better presentation of better results. Despite a range of approaches and attitudes towards managing performance (disbelievers, deconstructivistic understanding of managing performance like a set of reinforcing rituals) the structure of performance management is potential approach oriented to change organizational and personal behavior and culture of public decisions, despite formalized planning or the limitation of performance management based systems (Bouckaert, Halligan, 2008, p. 27-29).

One of the most famous public governance researches of the beginning of the 20th century Y. Dror has in mind H. Simon's efficiency evaluation of democracy and governance interaction, given already in the 20th century, as the essential common disturbances for the setting of strategic new public governance. As it is known H. Simon represented the world struck by post war hardships and he kept the goals, criteria of governance efficiency as priorities, but he understood the democratization of governance rather limitedly; he did not separate it from common-democratic – classical traditions of democracy, principal citizen rights and freedom guaranty and other traditions, focusing the main attention to technologies of decision processes, the search of social assumptions, the dominant of rational paradigm

on the whole, seeking to include them into the context of democratic process development only partly. H. Simon in his conceptions of *administrative state* and *administrative man* widely used psychological way of behavior of organization members analytical –systemic research which was by no means his biggest income into the 20th century public governance strategic thinking, attempts of institutionalization (Simon, 2003, p. 111-112, 238-290). At the same time strategic thinking and planning cannot become the matter of fashion in organizational activity when formalized, perfunctory and irresponsible understanding of this public governance orientation and technologies becomes predominant and which does not satisfy neither formers of strategic view implementation, nor organization members that are looking forward to effective changes, the setting of quality governance dimensions and very closely connected realization of legal expectations.

Theorists analyzing new public governance formation distinguish traditional policy, governance problems – namely, preparation of programs and projects, taking decisions, service quality spheres. Together a second group of problems is accented which become remarkable at the junction of the 20th and 21st centuries when new public management evolves and which are decided by new governance surrounding conditions and governance complex nature, the development of science and technologies, the growth in possibilities of information technologies, the development of more humanistic and right principles of governance as well as the development of implementation mechanisms (Ormond, 2010, p. 221-222). In the traditional understanding of public organizations in the modern stage of new public governance formation public organizations are listed as post bureaucracy, modern, which mastered new public governance principles and methods, based of inter sector and inter branch various level organizations net interaction; organizations where the elements of new management culture and changes become dominating as well as new public governance democratizations levels are implemented. Such organizations are named as matrix ones, on the basis of political and management nets they act as complex structures. At the end of the 20th century some scientists perceived dysfunctions of new public management and forecasted its evolvement to higher level public governance forms and named them as organizations with alternative possibilities for structural – institutional and functional changes. Theorists that analyze today's public governance practice accent the nature of inter organizational activity of such public structures, directed to the partnership improvement of all levels, kinds and sectors; most often amongst the priority new public governance indicators they accent decision making as consensus or dialogue form, but not hierarchic governance and order or indication form. The activity of such organization is more transparent, and the structure itself becomes more open and more socially responsible in the general and in the specific (in the level of organization itself) meanings. Such model of complex, matrix organization is based on self confidence, horizontal and vertical information dispersion, various governance levels organization consensus and decisions

that link various governance chains. J. E. Lane named such type of organizations as “good” public organizations (Lane, 2009, p. 22-23). There are a lot off complex, matrix organizations in the culture sector, some of them are even virtual organizations, providing their products and cultural services through the space of networks.

Public administrators who work in culture organizations nowadays find themselves having to face multiple “forum of accountability”, so that the idea that public administrators should just go ahead and simply follow the directives of any single political master or single group of such masters, even if it was ever at all an incredible idea, has now become increasingly. The fact that they are accountable to multiple forums obviously complicated the job of public administrators and can be frustrating for many of them. However, accountability to multiple forums can also help promote procedural justice in the practice of administration. The idea that public administrators should simply follow the directives of a single elected official or group of elected officials is not only impractical; it is also potentially harmful to the plurality of conflicting values that politics, as a process of hearing the other side, help us to deal with (Spicer, 2010, p. 86-87).

Social structures that compose the social cultural system are the complex part of systemic elements and acts by principles of mutual interaction, inter organizational interaction, networks. Social systems, successful functioning of social cultural networks, their mutual interaction today is one of the most important condition of public governance evolution to more improved governance forms (Bourgon, 2010, p. 119-121). Social networks performing in such conditions and carrying certain general or special tasks or functions develop and improve themselves as social systems and subsystems – saying in other words the functions they execute enable and compel the structures to improve institutionally and increase the effectiveness of their activity (Lin, 2003, p. 39-39).

Summarising theoretical-methodological aspects of the structure of new public governance it is important to distinguish main indicators of such governance. Those indicators provide a lot of useful information for culture managers and culture administrators aswell, because every indicator shows a point of modern public governance approach, its specificity. Important indicator of new public governance is the preparation of public policy, the elements of globalization context that define their quality when the essential task in public structures activity, in the state strategy becomes the necessity to balance the inside state (organization) factors and outside environment conditions and subjects. Global changes, new technological, information-communication means the possibilities of development of their application, the impact of the world organizations, support, their consolidation nature compose opportunities for public policy constructors, decision makers to apply the best world's theoretic thoughts and public governance practice results implementing methodologies, methods that were partly checked or new procedure elements, paying attention to and assuring the realization of complex democratic governance principles, i.e. solving first of all

social society problems, coordinating the essential requirements for people's rights and responsibility. Intellectual, organizational, material and motivational efforts are necessary for this purpose, changes in public cultural organization behavior that can make presumptions for the formation of strategically oriented public culture policy, the assurance of culture programs of their realization and project quality. The indicators of modern new public governance that reflect integration changes, the tendencies of formal and informal structures in society social processes regulation and deregulation, the social stratification elements which reflect these processes are the following:

- The interaction of formal and informal structures has grown in all the spheres of social and cultural life.
- Inter sector (covering all three sectors) integration.
- Transformation of horizontal and vertical connections in organizational systems in various social life spheres.
- Changes of direct and return links expression, multidimensional changes in various social activity spheres.
- Different level system changes oriented to the development of generalized systemic connections (regional and inter regional inter sectoral, combined structures) (Melnikas, 2011, p. 254-256).

New public governance raises new requirements for realization of organizational social responsibility in institutions of various levels. This is called today as "organizational corporative social responsibility" (Raipa, 2011a, p. 178). We can not speak about the structure of the new public governance without highlighting the importance of innovation and citizens' participation in any sector program or project implementation. The innovation challenge of public administration is twofold. First, governments play an important role in establishing the conditions that will enable a knowledge and innovation driven economy to prosper. Secondly, innovative economics can only prosper if the public sector is also able to develop into an innovative sector that is able to deal with a number of vital societal challenges, such as the quality of the education system, the fight against crime, the development of a sustainable economy and culture. In meeting these challenges governments are forced to reflect on their governance strategy (Innovation in the Public Sector: Linking Capacity and Leadership, 2011, p. 3-4). Citizens' participation is connected first of all with political, democratic rights, with their active participation in general creation of public value what allows to make a presumption about real representative bureaucracy possibilities in interaction with civil institutions, business structures seeking to harmonize the development of one or other side. Defining citizens only as customers or consumers does not encourage fast democratization of governance processes. We can see that today when analyzing the results of implementation of new public governance doctrine which reveal many disfunctions of

this public governance formation – the biggest part of which is one or other way linked with social society aims and problems realizing them (Groeneveld, Van de Walle, 2010, p. 252-253).

New public governance indicators and structure allows to understand changing processes in different countries, variety of policy strategies reveal how public governance indicators reflect in culture sector development too. Sterile (management) governance style, sometimes artificially shifted the traditional values of business sector governance have not enabled the setting of society governance humanistic origins, has only increased social differentiation. Such social stratification was expressed by the growth of social risks, social separation factors in the society, thus, liberalism doctrine projections in the structure of public governance have not always given only positive results realizing the improvement of public governance social practice. On the basis of the analysis it can be stated, that new public governance marks a new modern stage in any sector development using new forms of managerial activities, facing challenges for different organizations, solving problems with democratic decisions, realizing strengths and weaknesses of virtual organizations in order to ensure appropriate resource management and quality improvement in all spheres of life.

Culture management key challenges in the context of new public governance

Culture management includes management measures for culture sector programs and projects implementation. Culture management is closely related to any other sector managerial mechanisms (particularly education, tourism and regional development sectors) that can provide a lot of different decisions in planning, organizing, controlling any kind of cultural activity, because some aspects of culture management show, that if cultural organization wants to implement its ideas efficiently, it has to deal with decisions, that are made in other organizations as well (even in those who belong to other sectors). Culture management in different countries is always in the need of so called effective organizational structure. Culture managers who work and operate in various systems not always can count or even rely on the prevailing tradition of management in their organization, or country. The period of economic and political transformation, the growing importance of social networks in culture policy formation and implementation, variability of citizens' cultural needs - all these reasons encourages theoreticians to continue culture sector management research processes, seeking to provide new models for good culture management in different systems (countries, organizations, environments).

When different culture organizations try to strengthen and protect the cultural recourse base for creative expression and practice often they choose new public management paradigm as the theoretical concept of their performance. But at the present stage of governance, there are other possibilities. New public management helped to create and foster new way of thinking about culture programs and projects, their

implementation methods. Countries oriented their cultural activities according to strategic orientations, public private partnership, bureaucratisation and democratisation also were understood as important factors in creating national cultural priorities as well as formulating concrete goals in culture projects implementation. But during the period of difficult economic and political changes in our societies every country must rethink its culture strategy and compose new tactics for effective culture management at different levels. Seeking to engage the whole community in participating in cultural expression and appreciation, looking for new possibilities of providing relevant community infrastructure for the support of cultural activities and preparing to develop the economic framework for cultural production and promotion, different countries have to pay suitable attention to the changes in the theoretical level of culture management. The new public governance opens up modern possibilities how to understand different ways of citizens participation in culture management processes, also it leads to more ethical culture management. In the context of new public governance culture organizations face a lot of challenges: dynamic and changing culture sector requires the study of organizations, their internal and external environment, process management and opportunities for knowledge apply. Modern cultural organization is open to any kind of changes, it is ready to compete in the cultural market, it is strong enough for development of innovative culture programs, it has good partners and knows how to manage human, financial and any other resources. A coherent methodological analysis of new public governance and adequate implementation of its values and principles in the culture sector could help managers and administrators to ensure more flexible long term culture sector orientations, to control the policy formation processes better, to distinguish main components of regional cultural development. Also new public governance draws additional attention to workers motivation, who are involved in the culture sector organizations. The known professor M. Potuček in his new public governance understanding emphasizes that this understanding was forming when seeking for the implementation of social society aims, installation of social interests priorities in public governance practice while new public management evolves, when the principles of decision preparation change, the role of analytical systems and institutions, communications and multi-organizational activity is growing in the space of public sector governance acquiring the tendencies of (first of all) European integration (The Capacity to Govern in Central and Eastern Europe, 2004). The principles of decision preparation are very important in the context of culture management, because as the world is globalizing, knowledge and information society is emerging, spanning all regions. Culture as a medium of social interaction confers agency within a field of power relations (Werbner, 2005, p. 7).

As public administration and management discussion is getting international attention, scholars in public management as well as internationally acting practitioners have become aware of the impact of societal culture on the range of options a country has for the

design of public administration (Schedler, Proeller, 2007, p. 186). We need to know more about "culture", however we define it in local, regional, national, and global contexts — both quantitatively and qualitatively. We need to improve the quantitative baseline (cultural statistics) and the qualitative baseline (evidence on "social impacts," the relationship between culture and quality of life, social cohesion and inclusion, etc). We need more numbers, more facts, more indicators, more benchmarks in both quantitative and qualitative terms. Indicators only become "tools" for policy and governance when they are firmly related to or embedded in a policy framework or strategy from which they gain their meaning and currency. There are no universal cultural indicators independent of these specific and operational contexts of governance. Governance is not the same as government. It describes, rather, our joint and uneven terms of engagement with the complex field of economic, human, social and cultural power relations in which we are all "stakeholders." Engagement with the concept and reality of governance means moving beyond the more traditional dichotomies of State and People, Government and Community, etc. - a new political rationality, that is (Mercer, 2005, p. 9).

Analysis of culture policy as the area of public policy is inevitably related to the main analysts of public policy: W. N. Dunn, W. Parsons, E. Lane, Ch. E. Lindblom. The works by M. Weber, R. Denhardt and H. Simon are also important theoretical-methodological grounds for assessment of changes in culture management. Culture policy has been analysed by a number of authors in their works: H. Rauhe, Ch. Demmer, H. P. Reinecke, A. J. Wiesand, A. Foglio. Some main researchers who have described multiculturalism and cultural migration phenomenon: F. Fukuyama, P. J. Katzenstein, P. Werbner, D. Hebdige, J. Horton, T. Modood, W. Kymlicka, S. Okin, Ch. Taylor, H. Rae, G. Baumann, E. Roosens, Th. Banchoff. Cultural migration universal and powerful processes in one hand may increase the level of cultural diversity and construct new identities, community structure, cultural sensibilities, but on the other hand it is not only the process of negotiation over cultures, it can form a lot of problems for the country seeking to prevent its society from different cultural and social divisions. Culture governance changing orientations should closely be linked to the emigration situational changes.

Probably the earliest modern study that explicitly focused on cultural aspects in the public sphere has been conducted by Almond and Verba (1963). In *The Civic Culture*, their basic interest was to explain why in the 1920s and 1930s democracy was able to stabilize in some countries but not in others. In the wake of behavioral sciences, *The Civic Culture* was the first systematic attempt to explain polity outcomes with cultural variables (Laitin, 1995) (Schedler, Proeller, 2007, p. 190).

Culture is ordinary: that is the first fact. Every human society has its own shape, its own purposes, its own meanings. Every human society expresses these, in institutions, and in art and learning. The making of a society is the finding of common meanings and directions, and its growth is an active debate and

amendment under the pressures of experience, contact, and discovery, writing themselves into the land. The growing society is there, yet it is also made and remade in every individual mind. The whole history of humankind is a history of global cultural change and diffusion, from the initial expansion of homo sapiens out of Africa one million years ago, to the displacement of hunters and gatherers by agriculturalists starting 9000 years ago, to the spread of civilizations from China to the Andes starting about 6000 years ago, to the discovery and colonization of the new world by Europeans, the industrial revolution, and the present globalization of communications, entertainment, and commodities. The historic trajectories of every society have always been buffeted and modified by these flows, and always will (Stanley, 2005, p. 27). The widespread study of culture management changes in the context of new public governance is relevant and important speaking about Lithuanian culture as well.

Culture managers, public servants who work in Lithuanian culture institutions should always be mindful of protecting the most suitable solutions that fit problems in culture sector best, also should remember the importance of resource management, try to design decisions according to long term goals, be concentrated and motivated, know the best way of their knowledge and experience integration. There are no special strategies designed to stimulate employment in the Lithuanian culture sector. Training and re-training programmes have been set up for employees working in the culture sector including courses on culture management and theoretical / practical aspects of culture. These programmes are provided by the Lithuanian Cultural Administrators Training Centre, which functions under the Ministry of Culture. Some of the Centre's programmes are oriented to re-train specialists in the culture sector or to provide additional professional skills (Employment policies for the culture sector, 2006). Paige (1993) and Alperyte (2010), discussing the skills and competencies that should be developed in the person, working in the culture sector, in addition to the professional requirements (hard skills), identifies the critical humanitarian (soft) features: uncertainty tolerance; cognitive and behavioral flexibility; personal self-awareness, strong personal sense of identity; cultural self-awareness; patience; enthusiasm and zeal; interpersonal sensitivity; tolerability of differences; openness to new experiences and people who are different; humility; sense of humor (Paige 1993; Alperyte, 2010). In 2001, the Republic of Lithuania approved the important document for its culture sector development - "Provisions of Culture Policy" (goals: to retain and cherish identity of national culture; to promote creative activities and diversity of arts; to develop information society; to promote openness of national culture; to provide conditions for the society to participate in culture and to use it) (Provisions for the Lithuanian Culture Policy, 2001).

It is important to emphasize, that in 2010 Lithuania has approved the Culture Policy Changing Guidelines in which some modern culture development ideas are expressed: Lithuanian society creative skills -

they should be central resources seeking to guarantee the rising level of competitiveness and sustainability in the culture sector; optimization of cultural facilities and the modernization of culture infrastructure, the funding of programs and projects must be clearly understood as main priorities in the context of Lithuanian culture development (Lithuanian Culture Policy Changing Guidelines, 2010, p. 2).

During the training processes of culture sector managers in Lithuania, the following major problems are being encountered: the culture facilities which are not being modernised quickly enough, the insufficient provision of professional training institutions with modern information technologies; the scarce financial and legal possibilities for the realisation of independent, original initiatives, culture innovations; the low salaries of culture employees, compared to the other sectors; the passive use of the relevant and various possibilities of international culture administration experience. Also there is a problem, which is related to the trust between implementation structures and their levels. The disadvantage is related to control which does not present any element of trust in the processes of culture policy implementation. Interests of recipients of programme services, legal measures, audit and control systems, monitoring may help to solve the problem of activity control of the institutions (Kettl, Fesler, 2009, p. 382-383). A theoretical-methodological analysis of the culture management revealed main culture management key challenges in the context of new public governance:

- the need for new skills;
- implementation of democratic decisions in culture management;
- involving citizens in culture policy formation and implementation;
- internationalization of cultural organizations;
- the power of social/political networks;
- the need to modernize managerial mechanisms - cultural and creative innovations;
- the threat of multicultural context;
- intercultural competence development in different culture sector organizations;
- traditions and stereotypes of political and administrative cultures;
- productivity of inter-organizational dialogue;
- the impact of economic processes (including cultural migration);
- finance circulation in the culture sector;
- culture organizations and public institutions relations debureaucratization;
- development of ethical organizational culture;
- strengthening of national culture policies;
- public dissemination of culture management research results;
- public-private partnerships in the culture sector.

Professor John Meisel identified the following emerging policy and research needs in the culture sector of modern governance period:

- a new public interest discourse for culture policy;

- the need to broaden the definition of culture (to address such factors as sustainability, social cohesion, democracy);
- more research at the sub and supra-national levels;
- better conceptual base for thinking about social cohesion;
- more research on the so-called third sector;
- more research on internet access, on the role of culture within civic identity;
- resolution of the data gap in the analysis of cultural consumption and participation;
- development of quality of life indicators which would include culture;
- advanced theoretical work on multiple identities, cultural diversity (Baeker, 2005, p. 279-281).

Most of these issues continue to resonate within culture policy, culture management and cultural research, in Lithuania and elsewhere. It is important to clarify that modern culture management model on the basis of theoretical-methodological research in the modern stage of governance should be prepared and presented publicly. The main dimensions of the efficiency of culture management (culture management model):

- continuing research of the management need in the culture sector;
- dealing with legal, political and administrative environmental impact on culture management;
- democratic and ethical guides and tools of culture management;
- creativity and innovations in culture sector problems solving;
- strategic development of the national culture policy;
- productive cross-sectoral inter-organizational communication;
- leadership in the culture sector.

Culture management in the context of new public governance is closely related to cultural mapping and learning organizations. Learning organizations are the new forms of alliances and partnerships, rooted in more horizontal relationships and moral contracts, that are now necessary to succeed. So this dispersive revolution has crystallized into new network business organizations, into more subsidiary-focused governments, and into increasingly virtual, elective, and malleable communities. The major governance challenge is how to acquire speed, flexibility, and innovativeness in learning while maintaining a modicum of co-ordination and coherence (Paquet, 2005, p. 224).

Cultural mapping involves the identification and recording of an area's indigenous cultural resources for the purposes of social, economic and cultural development. Through cultural mapping, communities and their constituent interest groups can record their cultural practices and resources, as well as other intangibles such as their sense of place and social value. Varied social values and multiple readings and interpretations can be accommodated in cultural maps, as can more utilitarian "cultural inventories." The identified values of place and culture can provide the foundation for cultural tourism planning and strategies, thematic

architectural planning and cultural industries development. This approach clearly provides a fruitful context for the convergence of academic and other specialist research skills, local knowledge, industry and government interests, and a useful example of the sort of multidisciplinary and cross sectoral collaboration research which is going to be so important for both enhancing traditional cultural sources and values and developing them in the context of the creative industries (Mercer, 2005, p. 13).

Appropriate attention of academic society, fixed and focused study of culture management and new public governance theory would highlight essential problems in the context of definitions, approaches and researches of culture sector organizations development. Culture management processes are very complicated and should be analysed taking into account various interrelated micro and macro internal and external factors. Most contemporary liberal democracies uphold the principle of equality among their respective citizens and reflect this goal in their legislative and policy structures. Social inclusion is generally viewed as the means to ensure the benefits of citizenship for all. Citizens must know how to engage in citizenship activities. They require basic working knowledge of the political system and skills in accessing and processing information, interpreting political talk, and debating public issues. Cultural capital is to be found in the cultural knowledge and competencies that an individual holds, but which are not necessarily articulated by society in formal manners (Karim, 2005, p. 147). Globalization of different priorities in the multinational cultural development not always guarantee reliable and coherent administration of culture programs and projects. The impact of natural environment to the culture policy formation, legal considerations and administrative structures of the state, capacity to govern in wider way are certainly important and must be well analyzed in today's modern governance stage.

Could culture management activities positively influence subjective estimation of management theories? The answer is not simple, but on the basis of all the raised points in this article authors believe that culture management activities can influence subjective estimation of management theories. Because quality of culture management (including the quality of public servant training in culture institutions) depend on how the strategies of management modernization, promotion of democratic values and principles of debureaucratization are understood and applied in practice by those who implement political provisions. Culture management at the present stage in Lithuania requires the deeper study of internationalization processes, which transform some ways of policy implementation. The relationship between political, economic and media powers as well as the qualities of the constitutional and political system need to be studied.

Culture management in Lithuania modernization results are not easily accessible. Social support system for culture sector employees should guarantee the potential help for all who are in need of the support. Implementation of culture policy in modernization of

management must be clear, rational, purposeful, ensure selection of political and administrative alternatives, develop cultural mentality in practice by improving spread of democratic principles. The democratization of culture involves broadening access to the products of one culture. Cultural democracy is a more radical vision of cultural development. It not only seeks the broader dissemination of one culture, but acknowledges the value and legitimacy of many cultural traditions and forms of expression (Baeker, 2005, p. 279). Different Lithuania culture sector organizations (including public institutions) could act in more open way to the internationalization processes, revealing their own strategic strengths by using individual internationalization indicators. Culture management in the current stage in Lithuania uses various channels of communication, but not all the opportunities in the context of new public governance are evaluated.

Conclusions

The directions of modern new public governance development are focused having in mind mega circumstances that exist in many regions, countries connected with globalization dimensions. Therefore, successful institutionalization of public governance ideological regulations is possible only orienting the development of new public governance into new level of strategic thinking, planning and governance which is understood as qualitative changes in the strategy of organizational structures, seeking for strategically based

inter organizational interaction of new forms, structures and communications.

Stating the indicators of new public governance in detail, the setting of public governance democratization development ideology is considered as one of the most important which has real meaning in the view of both normative and developing methodology. One of the main indicators of new public governance today is becoming inter sector interaction forms – network interaction, partnership opportunities, integration processes, hybrid mixed organizations, mixed activity methods and procedures, and their implementation into the instrumental arsenal of public governance. The structure of the new public governance can not be identified without highlighting the importance of innovation and citizens' participation in any sector program or project implementation.

Culture management in the context of new public governance requires deeper theoretical study, because of its large number of key challenges. Orientation of human resources in management of culture processes is related to training of culture managers and improvement of their qualification. Quality of culture management also depends on how the strategies of management modernization, promotion of democratic values and principles of debureaucratization are understood and applied in practice. Culture management can influence subjective estimation of management theories also, if it is implemented consistent and rational as well as ethical and genuinely democratic.

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CULTURE MANAGEMENT IN THE CONTEXT OF NEW PUBLIC GOVERNANCE

Summary

Culture management phenomenon requires systematic point of view. Essential theoretical-methodological research projections in this article are focused to reveal culture management model (which emphasizes the accuracy of the transformation of market mechanisms to the practice of public sector activity) implementation results, i.e. positive changes in governance system and stated disfunctional meanings as well as to generalize non abundant theoretical statements of new public governance doctrine (which is still forming). Using systemic – processional research aspect the article aims to define and detail the impact of evolution of modern public governance stage when forming new socially and culturally oriented governance tendencies and trends. It is necessary to create and adopt the reliable culture management system. Culture management changes in the context of new public governance are concerned with the fundamental problems that arise in the practical level of management of culture organizations in the period when new public management transformation to the new public governance theoretical assumptions is realized and identified by various public policy, culture management analysts. Scientific problem analyzed in this paper is how to improve the productivity and efficiency of culture management providing a better understanding of new public governance and its wider application in practice. A goal of this paper is to summarize the culture management techniques in the context of new public governance and analyze these measures in Lithuanian culture sector environment. An object of the research is culture management in the context of new public governance. The main tasks of the article are: to summarize theoretical-methodological aspects of structure of the new public governance; to analyze culture management changes in the context of new public governance using forecasting methods. Methods of the research are: scientific literature analysis, systematic analysis, theoretical modelling, comparative analysis, forecasting. The article ends with discussion how culture management techniques and activities could positively influence subjective estimation of management theories. Theorists analyzing new public governance formation distinguish traditional policy, governance problems – namely, preparation of programs and projects, taking decisions, service quality spheres. Together a second group of problems is accented which become remarkable at the junction of the 20th and 21st centuries when new public management evolves and which are decided by new governance surrounding conditions and governance complex nature, the development of science and technologies. Public administrators who work in culture organizations nowadays find themselves having to face multiple “forum of accountability”, so that the idea that public administrators should just go ahead and simply follow the directives of any single political master or single group of such masters, even if it was ever at all an incredible idea, has now become increasingly. The fact that they are accountable to multiple forums obviously complicated the job of public administrators and can be frustrating for many of them. However, accountability to multiple forums can also help promote procedural justice in the practice of administration. Social structures that compose the social cultural system are the complex part of systemic elements and acts by principles of mutual interaction, inter organizational interaction, networks. This is a really complex thing which requires constant monitoring of this system estimating the conditions and subjective factors that influence the opportunities of this mechanism. Summarising theoretical-methodological aspects of the structure of new public governance it is important to distinguish main indicators of such governance. Those indicators provide a lot of useful information for culture managers and culture administrators as well, because every indicator shows a point of modern public governance approach, its specificity. Important indicator of new public governance is the preparation of public policy, the elements of globalization context that define their quality when the essential task in public structures activity, in the state strategy becomes the necessity to balance the inside state (organization) factors and outside environment conditions and subjects. Global changes, new technological, information-communication means and the possibilities of development of their application, the impact of the world organizations. Culture management is closely related to any other sector managerial mechanisms (particularly education, tourism and regional development sectors) that can provide a lot of different decisions in planning, organizing, controlling any kind of cultural activity, because some aspects of culture management show, that if cultural organization wants to implement its ideas efficiently, it has to deal with decisions, that are made in other organizations as well (even in those who belong to other sectors). Culture management in different countries is always in the need of so called effective organizational structure. Culture managers, public servants who work in Lithuanian culture institutions should always be mindful of protecting the most suitable solutions that fit problems in culture sector best, also should remember the importance of recourse management, try to design decisions according to long term goals, be concentrated and motivated, know the best way of their knowledge and experience integration. A theoretical-methodological analysis of the culture management revealed main culture management key challenges in the context of new public governance: the need for new skills; implementation of democratic decisions in culture management; involving citizens in culture policy formation and implementation; internationalization of cultural organizations; the power of social/political networks; the need to modernize managerial mechanisms - cultural and creative innovations; the threat of multicultural context; intercultural competence development in different culture sector organizations; traditions and stereotypes of political and administrative cultures; productivity of inter-organizational dialogue; the impact of economic processes (including cultural migration); finance circulation in the culture sector; culture

organizations and public institutions relations debureaucratisation; development of ethical organizational culture; strengthening of national culture policies; public dissemination of culture management research results; public-private partnerships in the culture sector. Culture management in the context of new public governance is closely related to cultural mapping and learning organizations. Appropriate attention of academic society, fixed and focused study of culture management and new public governance theory would highlight essential problems in the context of definitions, approaches and researches of culture sector organizations development. Culture management processes are very complicated and should be analysed taking into account various interrelated micro and macro internal and external factors.

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ENTREPRENEURSHIP AS THE ECONOMIC DEVELOPMENT DRIVER

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Abstract

The article treats the role of entrepreneurship in economic development and emphasizes that entrepreneurial enterprises help not only improve the quantitative measures of economy, which are related with economic growth, but promote the qualitative changes of economic environment, so jointly influence on economic development. The entrepreneurship and economic development can be very closely positively linked together by explaining the role of entrepreneurs. Entrepreneurs are the creators of the best part of innovations of products and manufacture methods, which condition the transformation of economy and changes society's life.

Keywords: economic growth, economic development, entrepreneurship.

Introduction

Relevance of the topic. The role of entrepreneurship in modern-day world's economy has become essential. The goals of promoting entrepreneurship and encouraging of entrepreneurs has entrenched in various countries programmes of economy's strengthening. Entrepreneurship is being explored from different dimensions by many scientists.

Scientists are interested in entrepreneur and his/her characteristics (Hobert, Link, 1982; Begley, Boyd, 1987; Carland, Hoy Carland; 1988; Gartner, 1988; Herron, Robinson, 1993; Stevenson, 1999; Bolton, Thompson; 2004; Thompson, 2004; Serarols-Tarres, Padilla-Melendez, Aguila-Obra, 2006 et al.), corporate entrepreneurship (Sathe, 2003; Elfring, 2005; Kelley, Neck, O'Connor, Paulson, 2005; Kumar, Haran, 2006; Kuratko, 2007; Burns, 2008; Dijk, 2008; Morris, Kuratko, Covin, 2010 et al.), woman entrepreneurship (Hisrich, Brush, 1984; Zapalska, 1997; Kohli, 1991; Kephart, Schumacher, 2005; Chamblou, 2008; Startiene, Remeikiene, 2008 et al.), rural entrepreneurship (Henderson, 2002; Macke, Markley, 2006; Singh, Namboodiri, 2007 et al.) and other sides of multidimensional phenomenon of entrepreneurship. In this paper attention is paid to the entrepreneurship's influence on economic development processes.

Entrepreneurship is the key factor for the innovations and economic development. Entrepreneurs are considered as the agents of changes, who influence on the qualitative transformation of socio-economic environment. The new goods and services, new methods of manufacture, new markets, conquest of a new source of raw materials, creation of new organisations can be related with the actions of entrepreneurs. Innovations proposed by entrepreneurs help society to achieve higher stage of living standards. Consequently, the increasing number of entrepreneurial enterprisers determines not only growth of economy (GDP), but stimulates its development through innovations and changes in manufacturers and consumers perception, habits, activity.

The **object** of this paper is entrepreneurship as the economic development driver.

The **purpose** of this paper is to stress the role of entrepreneurship in economic development.

The tasks of the paper are:

- 1) to explore the concept of economic development;
- 2) to analyse the entrepreneurship in economic development.

The following **methods** were applied in this article: systematic and comparative analysis of scientific literature, which allowed to study economic development, entrepreneurship and their interrelationship; logical deduction method was used aiming to explain the main features, linking together entrepreneurship and economic development; inference generation.

The **problem** of the paper can be tied to the changes of today economy, which is maintained not only by the mass-production securing the competitive prices, but to the new products, services and innovations in different manufacture, market areas too. Such situation requires searching for most effective innovation drivers, so the importance of entrepreneurship becomes obvious in economic development processes of modern societies.

Economic development

Economic development is the main goal of many countries and their policymakers. The means, tools, expedients contributing to economic development on several levels (national, regional and local) are analysed by different authors (Schumpeter, 1934; Tomé, 2004; Raiklin, 2005; Saab, 2007; Blažević, Jelušić, 2006; Johannisson, 2007; Cypher, Dietz, 2008; Arnold, 2008; Ingram, Luo, Eshun, 2010; Robinson, 2011). The interest in the economic development isn't suppressed as the process of development is endless. The new raised factors and volatile circumstances require specific standpoints to conditioning of economy.

In the 20th century the main factors of development radically changed. Resources of extensive growth have contributed less and less to development whereby 'knowledge' has gained more importance and

technological progress has become the principal driving force of economic development (Papanek, 2002).

According to Friedman, cities, towns, counties, and all local entities in a global economy have the challenge and opportunity of crafting their own economic destinies. This is true for the poorest as well as the wealthiest localities. In reality, the forces of nature, demography, technology, and industry are such that no local economy can ever count on an achieved position of stability and security. This has always been true, but the contemporary context for local economic development planning is being severely challenged by the two trends of rising inequality and global warming. It is also being challenged by the increasingly transitory nature of any given local economy in the face of overwhelming forces of globalization. These forces are flattening the world in such a way that few, if any, local economies are exempt from globalizing forces that can bring growth and development, or decline and increased poverty (Blakely, Leigh 2009).

Economic development can be defined as the progress in an economy, or the qualitative measure of this. Economic development usually refers to the adoption of new technologies, transition from agriculture-based to industry-based economy, and general improvement in living standards (Business dictionary). As a scholarly field, economic development is a theoretical exploration with very real implications for place. As a practice, economic development is an essential component of local policy and governing and a perceived driver of success and vitality for cities and regions alike (Currid-Halkett, Stolarick, 2011).

Constructing a definition of economic development is not only an intellectual exercise; it has also practical importance because such definition, if accepted, becomes the objective or the mission for economists, as well as a guide for the policies that they design and promote. In other words, economic policy may be very different depending on the adopted definition of economic development. Likewise, the orientation for the teaching of economics will depend on which definition gathers most consensus (Montenegro, 2004).

We may conclude that development is both a physical reality and a state of mind in which society has, through some combination of social, economic, and institutional processes, secured the means for obtaining a better life. Whatever the specific components of this better life, development in all societies must have at least the following three objectives:

1. *To increase the availability and widen the distribution of basic life-sustaining goods* such as food, shelter, health and protection.

2. *To raise level of living*, including, in addition to higher incomes, the provision of more jobs, better education and greater attention to cultural and human values, all of which will serve not only to enhance material well-being, but also to generate greater individual and national self-esteem.

3. *To expand the range of economic and social choices* available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery (Todaro, Smith, 2009).

So, the development (progress) of countries is related to many different tasks. This is the reason why the economic development can't be identified as economic growth only. According to R. G. Holcombe (2007), economists tend to represent economic growth as growth in the level of income, but economic progress is much broader than that. To focus on income growth is to ignore the most important elements of economic progress. Changes in the characteristics of goods and services produced, and in the methods of production, are more significant for economic well-being than growth in the level of income.

Focusing on growth rather than progress is misleading for three reasons. First, much of the increased prosperity that people enjoy comes not from more income, but rather from the ability to consume new goods and services not available before. Second, growth could not occur without progress, so progress is really the phenomenon that must be understood, even if one is interested in income growth more narrowly defined. Third, from a policy perspective, a focus on growth rather than progress points toward policies that at their most benign are not the most effective at increasing prosperity, and often can even be counterproductive (Holcombe, 2007).

EUROSTAT has also tried to compile the evaluation indicators' set of regional development level, where 50 indicators were provided for the identification of regional development level. The indicators were grouped into global indicators of regional development (GDP for one economically active inhabitant, unemployment under the age and sex, level of long-term unemployment, net disposable income) and thematic indicators, also divided into subgroups of natural resources, human resources, infrastructure, and production sector's efficiency. However, not all provided indicators are being registered and calculated in statistics departments, therefore there is no official solution regarding the composition of the most optimum evaluation indicators' set of regional development level (Kilijoniene, Simanaviciene, Simanavicius, 2010).

M. Russ and J. K. Jones (2008) aims to propose regional economic development indicators, which are suitable for knowledge-based economy with knowledge deprivation (see figure 1). The accepted framework of indicators uses the system approach of inputs (assets, enablers), processes, and outcomes. The framework includes the following aspects: cultural enablers, physical and administrative infrastructure, quality of life, education, renovation capital, human capital, process capital, market capital, and financial capital. The framework also includes the need to assess the cultural readiness of the region to adopt the new economy's realities.

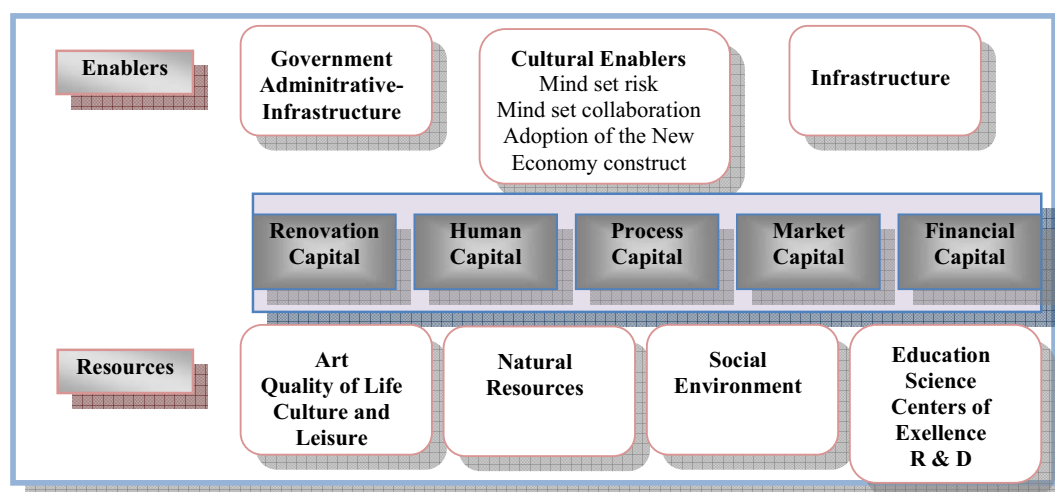


Figure 1. Economical development framework: Regional Indicators - International Virtual Mega Region (IVMR) (Russ, Jones, 2008)

So, in summary can be emphasized that in modern economy the achievements of society can't be taken just by the GDP quantity. The welfare of people is related to the variety of products and services, new methods of manufacture, market, work enabling to improve the daily and professional lives of people. Consequently, the

importance of creative attitudes, innovations becomes evident. The countries strive to promote the entrepreneurship, because both scientists and practitioners find it essential for the innovation, competitiveness and economic development.

Entrepreneurship in economic development

Interest in the study of entrepreneurship re-emerged with greater intensity in the late '70s, with an emphasis on economic theories through empirical findings and theoretical reflections. In empirical terms, it was found that several developed countries, mainly in Europe, launched new initiatives, after years of economic downturn and decline in business creation. On the other hand, widespread theoretical reflections about events that marked the world economy are reflected in national economies. These changes indicate that economic growth was not only sustained in economies of scale or scope, but that the companies had an important role in growth. Thus, Audretsch and Thurik concluded that the change in consumption patterns, the rise of more flexible production processes and more competition among small and medium enterprises were striking in the transition from an economy of management to an entrepreneurial economy (Vázquez-Rozas, Gomes, Vieira, 2010).

Entrepreneurship is a central facet of contemporary theories of regional growth and development (Feser, Renski, Goldstein, 2008). Most economists would agree that any well-rounded analysis of economic development should include some appraisal of the role of entrepreneurship (Harbison, 1956). Improvements in the type of output the economy produces and improvements in methods of production the factors that create economic progress are the result of entrepreneurship (Holcombe, 2007).

Entrepreneurship can make big influence on the country's development by making stronger competitive abilities throughout knowledge and innovations. But this

is not the only positive effect for the economy which can be made by entrepreneurial enterprises. Entrepreneurship can reduce unemployment and brain drain as the spread of entrepreneurs increases self-employment and creation of new enterprises. Moreover, entrepreneurship can stimulate regional development and raise the standards of living. These are the main reasons, why countries are endeavouring to promote entrepreneurship. The phenomenon of entrepreneurship has become essential for the economic development (Glinskiene, Petuskiene, 2011).

The growing interest in entrepreneurship in economic analysis, particularly in the economic growth literature, results from the unsatisfactory explanatory power of neoclassical growth accounting exercises (Yu, Cheng, Stough, 2011). The neoclassical growth models disregarded the entrepreneur and viewed knowledge as an exogenous factor (Entrepreneurship, Knowledge and Economic Growth, 2007). According to neoclassical approach the main sources of economic growth are accumulation of capital (both human and physical) that leads to technical progress (Fainstein, Lumiste, Matina, 2009). Contemporary current knowledge-based growth models have re-introduced the notion of the entrepreneur, however stripped of its most typical characteristics, and the diffusion of knowledge is kept exogenous (Entrepreneurship, Knowledge and Economic Growth, 2007). More recently, researchers have begun to examine growth that is endogenously determined by technical change resulting from decisions of profit-maximising agents. Endogenous growth models emphasise the importance of knowledge, knowledge spillovers and technological substitution in the process of economic

growth, conceptually parallel to Schumpeter's early growth theory (Wong, Ho, Autio, 2005).

The idea that entrepreneurship and economic growth are very closely and positively linked together has undoubtedly made its way since the early works (1911) of Schumpeter (Dejardin, 2001). Schumpeter opines that entrepreneurial process is a major factor in economic development and the entrepreneur is the key to economic growth. Whatever be the form of economic and political set-up of the country, entrepreneurship is indispensable for economic development (Bayineni, 2005). Many researchers aim to detect and explain the relationship between the entrepreneurship and economic growth (development) (Baumol, 1968; Malecki, 1991; Wennekers, Thurik, 1999; Hughes, 2003; Boettke, Coyne, 2003; Karlsson, Friis, Paulsson, 2004; Wong, Ho, Autio, 2005; Acs, 2007; Montana, Nenide, 2008; Stough, Nijkamp, 2009; Naude, 2008; High, 2009; Ahiauzu, 2010; Lichtenstein, Lyons, 2010).

Entrepreneurs are responsible for a large share of technological innovation in products and production processes, driving economic transformation and international trade. Entrepreneurs establish new forms of organizations and employ new types of business methods. Economic theory must keep up with these critical developments by understanding the fundamental contributions of entrepreneurs. Such an understanding is essential for formulating economic policies that do not restrict productive entrepreneurs (Spulber, 2008).

As individual citizens it is important to understand that entrepreneurship significantly impacts our own lives and those of our fellow citizens as a vital source of new job creation and a source of a vast majority of new technology and products. Entrepreneurship also plays a key role in providing effective and innovative solutions to environmental and social problems. In many countries, particularly in the United States, many cultural institutions, universities, and others have received considerable donations from successful entrepreneurs who have contributed to the prosperity of their nation, community, or even globally. Examples are Bill Gates, who has been said to donate over 90 percent of his personal fortune to his foundation to address world health issues, and Ted Turner, who has given over a billion dollars to the United Nations. Many universities and foundations in the United States carry the names of successful entrepreneurs, for example, the Ford Foundation and the libraries built by Andrew Carnegie of US Steel. As a majority of firms are small, this has led to entrepreneurship often being associated with small firms. However, it is important to stress that even corporations can be entrepreneurial; in fact, enabling sustained innovativeness and competitiveness require firms to be entrepreneurial (Carsrud, Brännback, 2007).

An increase in the number of entrepreneurs leads to an increase in economic growth. This effect is a result of the concrete expression of their skills, and more precisely, their propensity to innovate. Schumpeter has already described this innovative activity, "the carrying out of new combinations" (this defines what Schumpeter means by "economic development", that is more than "economic growth"), by distinguishing five cases: "(1)

The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of a good. (2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially. (3) The opening of a new market that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before. (4) The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. (5) The carrying out of the new organisation of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position". Through his innovative activity, the Schumpeterian entrepreneur seeks to create new profit opportunities. These opportunities can result from productivity increases, in which case, their relationship to economic growth appears quite clearly. Moreover, the disequilibrium created by the entrepreneur can be propitious for additional innovations and profit opportunities (Dejardin, 2001).

W. Naude (2008) describes how process of entrepreneurship can influence economic development and growth. The focus of mentioned researcher was on how entrepreneurial activity, through the creation of new firms, can benefit economic development; (a) over the long-run by triggering a "take-off" from Malthusian stagnation, (b) by stimulating structural economic transformation from a predominantly traditional/agricultural economy to a modern/industrial economy, and (c) generate continued productivity increases through innovation-driven growth in advanced economies.

P. T. Leeson P. J. Boettke (2009) argue there are two tiers of entrepreneurship important for economic development. The lower one, which we call the "productive tier," is concerned with investments in productive technologies that improve productivity (innovation) and better service consumer needs (arbitrage). The higher one, which we call the "protective tier," is concerned with the creation of protective technologies that secure citizens' private property rights vis-à-vis one another (governance). In the developing world where governments cannot or do not protect citizens against private predation, "institutional entrepreneurs" devise private mechanisms of property protection, providing the security required for productive entrepreneurship to grow.

The functions of an entrepreneur with reference to the underdeveloped countries include wide range of activities has been provided by Kilby:

1. Management of scarce resources;
2. Dealing with public bureaucracy (concessions licenses, taxes);
3. Acquiring and overseeing assembly of the factory;
4. Industrial designing and engineering;

5. Marketing of product and responding to competitions;
6. Industrial new product;
7. Perception of market opportunities (novel or imitative);
8. Financial and production management;
9. Management of customers and supplies relations;
10. Management of scarce resources (Kumar, Poornima, Abraham, Jayashree, 2008).

The entrepreneur has an important role in helping the economy to deal with the effective diffusion and use of knowledge, innovation and change, and the associated risks and uncertainty. The question of whether entrepreneurs cause or just respond to these changes is strongly disputed but is fundamental to understanding their role in regional development and in theory (McQuaid, 2011). Entrepreneurship development is, first and foremost, human development (Macke, Markley, 2006).

After review of scientific literature, entrepreneurship can be tied to economic development by many aspects. Obviously, entrepreneurial enterprises can fill the niches of market with unconventional goods and services, propose innovative attitude to the consumer, his / her requirements, find creative resorts from difficult situations, changes behaviour of the large business

through dimension of competitiveness. From the perspective of macroeconomics, entrepreneurship changes competitiveness and power of all the country or region.

Conclusions

1. Probably every country is interested in its people's welfare, higher standards of living, political, institutional modernization, technological progress, growth of human capital etc., which briefly can be named as economic development. Relating to the fact, that economic development includes many different characteristics of country's socio-economic life, its definition isn't formatted in the concrete as well as the system of measurements which would enabling to evaluate the economic development of particular country. One of the established evaluation indicators' set of regional development level uses EUROSTAT.

2. Entrepreneurship can be stretchy related to the economic development. Countries which encourage entrepreneurship and allow business structures to operate without formal barriers and disadvantages, can achieve the economic progress, because entrepreneurship influence on competitive abilities, reduces unemployment, causes transformations in different sectors and etc.

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ENTREPRENEURSHIP AS THE ECONOMIC DEVELOPMENT DRIVER

Summary

The role of entrepreneurship in modern-day world's economy has become essential. The goals of promoting entrepreneurship and encouraging of entrepreneurs has entrenched in various countries programs of economy's strengthening.

Entrepreneurship is the key factor for the innovations and economic development. Entrepreneurs are considered as the agents of changes, who influence on the qualitative transformation of socio-economic environment. The new goods and services, new methods of manufacture, new markets, conquest of a new source of raw materials, creation of new organizations can be related with the actions of entrepreneurs. Innovations proposed by entrepreneurs help society to achieve higher stage of living standards. Consequently, the increasing number of entrepreneurial enterprisers determines not only growth of economy (GDP), but stimulates its development through innovations and changes in manufacturers and consumers perception, habits, activity.

The *object* of this paper is entrepreneurship as the economic development driver.

The *purpose* of paper is to stress the role of entrepreneurship in economic development.

The tasks of the paper are:

- 1) to explore the concept of economic development;
- 2) to analyze the entrepreneurship in economic development.

The following methods were applied in this article: systematic and comparative analysis of scientific literature, which allowed to study economic development, entrepreneurship and their interrelationship; logical deduction method was used aiming to explain the main features, linking together entrepreneurship and economic development; inference generation.

The *problem* of the paper can be tied to the changes of today economy, which is maintained not only by the mass-production securing the competitive prices, but to the new products, services and innovations in different manufacture, market areas too. Such situation requires searching most effective innovation drivers, so the importance of entrepreneurship becomes obvious in economic development processes of modern societies.

Constructing a definition of economic development is not only an intellectual exercise; it has also practical importance because such definition, if accepted, becomes the objective or the mission for economists, as well as a guide for the policies that they design and promote. In other words, economic policy may be very different depending on the adopted definition of economic development. Likewise, the orientation for the teaching of economics will depend on which definition gathers most consensus (Montenegro, 2004).

We may conclude that development is both a physical reality and a state of mind in which society has, through some combination of social, economic, and institutional processes, secured the means for obtaining a better life (Todaro, Smith, 2009). So, the development (progress) of countries is related to many different tasks. This is the reason why the economic development can't be identified as economic growth only. According to R. G. Holcombe (2007), economists tend to represent economic growth as growth in the level of income, but economic progress is much broader than that. To focus on income growth is to ignore the most important elements of economic progress. Changes in the characteristics of goods and services produced, and in the methods of production, are more significant for economic well-being than growth in the level of income.

W. Naude (2008) describes how process of entrepreneurship can influence economic development and growth. The focus of mentioned researcher was on how entrepreneurial activity, through the creation of new firms, can benefit economic development; (a) over the long-run by triggering a 'take-off' from Malthusian stagnation, (b) by stimulating structural economic transformation from a predominantly traditional/agricultural economy to a modern/industrial economy, and (c) generate continued productivity increases through innovation-driven growth in advanced economies.

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Entrepreneurship can be stretchy related to the economic development. Countries which encourage entrepreneurship and allow business structures to operate without formal barriers and disadvantages, can achieve the economic progress, because entrepreneurship influence on competitive abilities, reduces unemployment, causes transformations in different sectors and etc.

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AGENT-BASED APPROACH TO SIMULATION OF STUDENTS ATTITUDES

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Abstract

The paper presents agent-based approach to the research of dynamics of students or pupils attitude to some general behaviour standards in the society or the right understanding of some phenomenon. This attitude was measured in score points within range between 1 and 10. Students were modelled as groups of 12, 25 and 50 agents. In every day of the 180 model-days they occurred in 3 different environments –in classes, in breaks between classes and at home. During breaks agents exchanged ideas between themselves. In classes agents received high-value messages from teachers. At home they received randomly distributed messages from their parents. It appeared that students with low scores improved their scores by about 1,5 points during the academic year and the scores of maximal score owners decreased but less than by 0,5 point.

Keywords: agent-based, ABMS, social modelling.

Introduction

Societies and other real-world objects consist of many smaller parts or entities. In economics and in some other fields these parts are called agents. It appears that by investigating these separate objects it is not always possible to find knowledge about the entire society they make up. The reason is that agents interact and due to the interaction the society may expose complex behaviour or other properties that have none of the interacting agents (Plikynas, 2010). On the other hand, the changing environment, i. e. society, influences on the behaviour of the agents.

Until very recently we did not have the analytical tools needed for analyzing the dynamics of complex systems that large groups of interacting individuals represent (Hedstrom, 2009). But powerful computers and modern simulating paradigms, programming language possibilities and software packages have changed the situation. These computer programs enable to create virtual agents, who act and interact like real-world objects.

Agent-based modelling and simulation (ABMS) is a new modelling paradigm and is one of the most exciting practical developments in modelling. The agents are computer programs components that can in some sense learn from their environments and adapt their own behaviours in response to the changing environment. The fundamental feature of an agent is the capability to make independent decisions and their behaviour may become quite complex (Macal, 2007, Bonabeau, 2002).

Of special interest is the agent-based social simulation (ABSS) as a computational approach to social simulation defined by the interactions of autonomous agents whose actions determine the evolution of the system or society. Applications of such simulation lie in

the fields of artificial life, artificial societies, computational sociology, dynamic network analysis, models of markets swarming etc. (Dodig-Crnkovic, 2011).

The actions and interactions of virtual agents are determined by their behaviour rules that may be common to all similar agents but may be slightly different as well.

ABMS permits one to study how rules of individual behaviour give rise—or “map up”—to macroscopic regularities and organizations. It is the main scientific instrument in a generative approach to social science, and a powerful tool in empirical research (Epstein, 2007).

ABMS like many other research studies are based on initial data, assumptions and rules that represent initial properties and knowledge of the agents. The collection of these initial elements and making assumptions may tend to another different researchh. The Manchester Metropolitan University senior researcher Bruce Edmonds states that we can learn something useful even from simulations which include arbitrary or guessed elements (Edmonds, 2005).

The *object* of the research presented in this paper is the changes of pupils attitudes or opinions during one study year.

The *aim* of the research was to develop a model by agent-based *method* of pupils or students attitude to some generic phenomena or behaviour standards. Another tasks were to investigate with the model how does this attitude change due to the exchanging opinions or experiences among themselves, due to the influence of teachers during classes and due to the influence of parents at home.

The model

The attitude chosen to model was very generic, measured in *scores* ranging from 1 (minimal) to 10 (excellent). It can be the politeness of the first year pupil, the willingness of the student to do homeworks during the terms etc. The changes of the attitude of each student or pupil during the academic year may be influenced by other students of the group, by teachers and by parents. So there exist complex feedbacks in the group under consideration and it is unclear how the attitudes scores of each student can change during one academic year.

Each student of 25 students group was modelled as agent who had his own score and changed it over time. The assumption was that students came to the university or to the school with scores randomly distributed between 3 and 10, i.e. nobody had the worse initial scores. These initial scores were inherited at home from parents.

The modelling duration were 180 days, excluding holidays, Sundays and Saturdays, that is typical academic year duration for Lithuania's schools, and the model time unit was set to one day.

During each day the agent occurred in 3 different environments: classrooms, breaks between classes and home. The states of the agents in these environments are presented in fig. 1, called statechart. So each agent during a model day 4 times occurred in classroom and 3 times in break and at last at home.

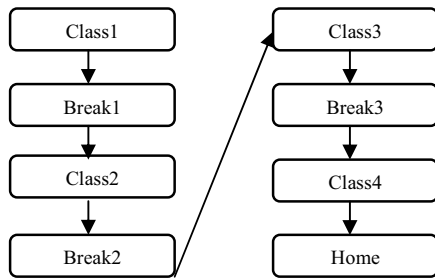


Figure 1. Statechart of the agent

During a class the agent accepted message from the teacher and improved his own score according to the rule

$$score := score + k_t * \Delta, \quad (1)$$

where

$$\Delta = score_t - score,$$

$score_t = 10$ was teacher's score and k_t - influence coefficient. The coefficient of influence was set to $k_t = 0,0042$ that corresponds to the assumption that teachers during 4 classes per day can improve the score at the end of academic year from 5 to 8 if interactions in another environments excluded.

During every break agents interacted between themselves and exchanged their opinions by sending a message containing agent's score to the random neighbour. Also each agent after receiving the message changed his own score by similar formula

$$score := score + k_s * \Delta, \quad (2)$$

where

$$\Delta = score_s - score,$$

$score_s$ - score of the other agent who has sent the message to the current agent, and coefficient k_s was four times smaller than k_t , i. e. $k_s = 0,001$ taking into account that breaks are 4 times shorter than classes. But the interactions given by (2) took place only if $|\Delta| < 3$.

This rule means that agents with significantly different attitudes did not communicate at all and ignored the message they received from too different agent.

In the state "home" agents accepted messages from their parents according formula (1).

Results

The model was run with 25 agents and the model time were set to 180 days. Each model-day the agent had 4 classes, 3 breaks and then entered the state that modeled his home. During each run the graphs of maximal, minimal and average scores of the group and the score of randomly selected students were drawn (fig. 2, fig. 3).

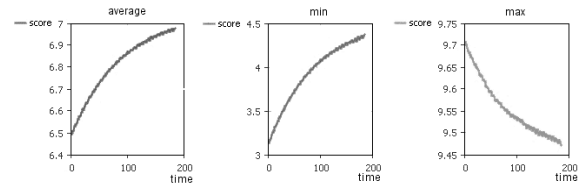


Figure 2. Dynamics of the average, minimal and maximal scores when the group contained 25 agents

It appeared that during one academic year the average and minimal scores of the group improved by about 1,5 points. It should be pointed out that the minimal and maximal scores at each moment may describe properties of different agents. The individual scores of various agents are given in the fig. 3.

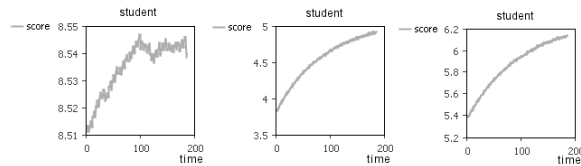


Figure 3. Scores dynamics of different students

Graphs in the both figures show that the main gainers were those students who came to the school with low scores. The maximal score within the group decreased but just by approximately 0,5 points. So one can conclude that the best students are not significant losers.

The simulations were repeated with twice smaller and twice larger groups, i.e. with groups containing 12 and 50 agents. The above given features remained similar - small scores increased more than by about 1.5 point, the average score of the groups increased by about 1 point and agents with the highest initial scores loosed scores just by 0,2-0,3 points.

Conclusions

Agent-based simulation enabled to investigate dynamics of very general characteristic of the behaviour of students or pupils when they occurred in 3 different environments – at school in classes, at school during breaks and at home. In every environment agents acted according different rules. In the classroom they definitely improved their opinions or social behaviour quality measured by scores in the scale between 1 and 10. During

breaks agents communicated between themselves exchanging attitudes and changing the scores. At home they accepted randomly distributed but constant during the academic year messages from the family members.

It appeared that the main gainers were those students who came to the school with low scores. The maximal score owners contained their high level almost stable despite to the fact that there were students with very various scores in the group and they interacted.

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Ojaras Purvinis

AGENT-BASED APPROACH TO SIMULATION OF STUDENTS ATTITUDES

Summary

The paper presents agent-based approach to the research of dynamics of students or pupils attitude to some general behaviour standards in the society or the right understanding of some phenomenon. The attitude was measured by the score within range from 1 to 10. To investigate the dynamics of attitudes an agent-based model was developed.

The model was run with 25 agents and the model time were set to 180 days. Each model-day the agent had 4 classes, 3 breaks and then entered the state that modeled his home. During each run the graphs of maximal, minimal and average scores of the group and the score of randomly selected students were drawn. It appeared that during one academic year the average and minimal scores of the group improved by about 1,5 points. It should be pointed out that the minimal and maximal scores at each moment may describe properties of different agents.

Graphs in the both figures showed that the main gainers were those students who came to the school with low scores. The maximal score within the group decreased but just by approximately 0,5 points. So one can conclude that the best students are not significant losers.

The simulations were repeated with twice smaller and twice larger groups, i.e. with groups containing 12 and 50 agents. The above given features remained similar – small scores increased more than by about 1.5 point, the average score of the groups increased by about 1 point and agents with the highest initial scores loosed scores just by 0,2-0,3 points.

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THE INSTITUTIONAL ENVIRONMENT FACTORS OF SELF-EMPLOYMENT IN TRANSITION ECONOMIES: THE CASE OF LITHUANIA

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Abstract

The article deals with topical issues such as the influence of institutional environment factors on self-employment in transition economies. The carried out literature analysis of institutional environment self-employment factors allowed us to identify the main trends where the influence of institutional environment factors on self-employment occur; it also allowed us to determine that the influence of institutional environment factors on self-employment can be threefold: positive, negative and unclear (positive and negative). Merely the positive impact on the start-up of self-employment have business support measures and simplified business start-up procedures. The negative impact on the start-up of self-employment have such factors as inequality in social guarantees, market entry barriers, the large size of the public sector. The duration of self-employment is negatively affected by business development barriers such as frequent changes in tax legislation, corruption, shadow economy and others. The influence of problem areas (for the start-up of self-employment and its duration is strict labour market regulation, for the duration of self-employment is business support measures) on self-employment was investigated by expert evaluation method. According to experts, strict labour market regulation influences the self-employment only negatively, while the business support measure is the factor that lengthens the duration of self-employment.

Keywords: self-employment, transition economy, institutional environment factors of self-employment.

Introduction

Relevance of the topic. Early economists (Oxenfeldt, 1943; Knight, 1921, Blau, 1987) have argued that in order to reduce the unemployment especially among the discriminated labour force, the government of a country should focus on the promotion and support of a business as well as self-employed persons. The influence of self-employment on entrepreneurship is undoubted and acknowledged by European Union documentation as well as by strategy and planning documents of Republic of Lithuania, program of the Government of the Republic of Lithuania and others. Self-employment and small and medium business are treated as the main engines of economic growth (Lofstrom, 2009).

Institutional environment of self-employment has the influence on the level of self-employment. Governments of the countries, imposing particular tax tariffs for a self-employed person (Schuetze & Bruce, 2004; Benz, 2009, Torrini, 2002), flexibly regulating different measures of the entry to/exit from/the market (Djankov, et al., 2001; Djankov, Murrell, 2002 and others), creating and developing business-favourable competition and social security policies (Torrini, 2002; Benz, 2009 and others) and ensuring flexible regulation of labour market (Stel, Storey, Thurik, 2007) can increase the number of the self-employed. The analysis of the scientific literature (Schuetze & Bruce, 2004; Benz, 2009; Djankov et al. 2002; Klapper, Leaven & Rajan, 2004; Verheul, Van der Kuip, 2003; Stel, Storey, Thurik, 2007; Torrini, 2002; Djankov, Murrell,

2002 and others) has revealed that institutional environment of self-employment is usually analysed by scientists considering the following factors of self-employment: tax policy, labour market regulation, social policy, regulatory measures of the entry to/exit from/ the market, competition policy, public sector size.

So far, the literature has in more detail analysed the small and medium enterprises (SMEs) and the institutional environment factors that influence their owners' decisions. For example, such scientists as Djankov, La Porta, de Silanes, Shleifer (2001), Štreimikienė, Dapkus, Šivickas (2007), Šivickas, Simanavičius, Pukis (2010), Simanavičienė (2003), Adamonienė, Trifanova (2007) have determined the issues that the small and medium enterprises (SMEs) face; and have identified the entry barriers. Business support opportunities in transition countries were analysed by Tamosiūnas, Lukosius (2009), Grublienė, Lengvinienė (2011), Mačerinskienė, Ivaškevičūtė, Sabaitė (2002), Savanevičienė (1998), Bartkus (2010) and other scientists.

Unfortunately, scientific literature lacks the analysis of institutional environment factors that influence self-employed person's business both in developed countries and in transition economies. Neither scientists nor country's business support programmes identify separate support or other promotion measures for the self-employed person. The lack of self-employment support can be explained by the following assumptions:

- in both statistical data bases and employment support laws the self-employed person is classified to small and medium enterprises (self-employment is treated as a form of entrepreneurship), therefore common business support and promotion measures for small and medium enterprises and self-employed persons are applied;
- a business of one person provides less benefit to the national economy than small and medium enterprises. However, it should be emphasised that a person running a business not only escapes unemployment but also in case of success develops the business to small and later to medium size providing work places to other persons.

The object of the article is to determine the influence of institutional environment factors on self-employment in transition economies.

Tasks:

1) to determine the main institutional environment factors influencing the level of self-employment and to identify the impact of institutional environment factors on the entry and duration of self-employment;

2) to determine by the method of expert evaluation the influence of unclear institutional environment factors on the start-up and duration of self-employment in transition economies (case of Lithuania)

Research methodology includes a systematic literature analysis, expert evaluation method.

Institutional environment factors of self-employment and its impact on the self-employed person

The carried out analysis of self-employment factors allows us to identify the main trends where the influence of institutional environment factors on self-employment occur (Schuetze&Bruce, 2004; Benz, 2009; Chapman, Gregory, Klugman, 1998; Goey, 2004; Djankov and others 2002; Klapper, Leaven&Rajan, 2004; Desai, Gompers&Lerner, 2003; Verheul, Van der Kuip, 2003; Stel, Storey, Thurik, 2007; Torrini, 2002; Djankov, Murrell, 2002): tax policy, labour market regulation, social policy, regulatory measures of the entry to/exit from/ the market, competition policy, public sector size.

The government by setting certain tax rates for self-employed individuals can reduce/increase the self-employment. Usually, the labour market regulation includes unemployment compensation, employee protection, union density and influence, bargaining coverage rate, minimum wage setting. The influence of labour market regulation measures on self-employment is grounded both theoretically and empirically (Grubb and Wells, 1993; OECD, 1999; Carrasco, Ejrnæs, 2003; Verheul, Wennekers, Audretsch, Thurik, 2001): in countries that have a high level of employment protection, enterprises (employers) tend to use the services of independent contractors, agents and others

thus avoiding the restrictions of employment. According to this view, the higher the employment security guarantees in the labour market, the greater should be the number of individuals operating on the one person funds, however the number of employees employed in enterprises reduce. On the other hand, more strict labour market regulation increases the corruption and the shadow economy, resulting in increased illegal activities among self-employed persons (Djankov and others, 2001). In practice, there are three types of social security systems (Baenen and Visser, 1996): universal, general and categorical. With a universal social security system, social protection for all employees equal, i.e. employees and self-employed persons are insured under the same social security guarantees, which mean that the self-employed persons are not encouraged through the prism of social guarantees. If the country has a general social security system, the self-employed and employees are insured differently, and if the social differences between the insured are significant, then social policy can either contribute or not contribute to the increase of the self-employment rate. The categorical social security system separates the self-employed according to the business field. The mentioned social security systems vary in different countries.

World Bank in order to assess the business environment in different countries, since 2004 conducts a survey of the annual business climate by which the business environment is ranked and evaluated according to the main indexes: starting a business, dealing with construction permit, registering property, getting credit, paying taxes, protecting investors, enforcing contracts, trading across borders, closing a business. In order to compare the opportunities of business start-ups and closing in the developed and the transition economies, Table 1 illustrates indexes according to previously selected characteristics.

As seen in Table 1, in countries of transition economies business start-up requires longer term and higher costs. For example, in order to open a company account, the minimum amount of capital (per cent) contributed is on average 9.13 times higher than in developed countries, business registration time (days) is on average 2.22 times longer, the number of procedures is an average 1.33 times higher, the business registration cost (percent) is on average 6.66 times higher. Business closing in transition economy countries takes more time than in developed ones. Business closing duration (in years) is longer on average 2.64 times, bankruptcy costs (in percent) is on average 2.28 times higher. The conclusion is that there are more administrative barriers for business start-up/closing in transition economy countries.

In addition to these obstacles experienced during business start-up/closing, scientists indicate also other business barriers resulting in transitional process from a central planned economy to market economy: too high taxes, frequent changes in tax policy, uncertainty of tax policy, a large number of tax inspections, corruption in country and regional levels,

customers delay payments, mafia, racketeering, and so on. (Aidis, 2005); low purchasing power, lack of qualified staff, lack of support for financial institutions (Aidis, Welter, Smallbone & Isakova, 2007); black-market competition, bureaucracy, inefficiencies in the patent, licensing procedures, and so on. (Bitz, Nito, 2005); high credit interest rates, high taxes and so on (Anderson, Pomfret, 2001); financial failure, lack of management skills and the initial business knowledge, lack of information about support programs and so on (Saar, Unt, 2006); weak law enforcement, slowness of legal operations, political instability, low administrative efficiency, political instability and so on (EBRD, 2009); imperfections in the legal framework, lower than the employee's social security, lack of trade unions providing support for self-employed persons and so on (European Foundation, 2009).

Table 1

Comparison of business start-ups and closing procedures in the developed and the transition economies (according to World Bank „Doing Business 2011“ report)

Country*	Starting a Business				Closing Business	
	Procedures (numbers)	Time (days)	Cost (% of income per capita)	Paid in Min Capital (% of income per capita)	Time (years)	Cost of estate (%)
Estonia	5	7	1,9	25,7	3	9
Hungary	4	4	8,2	10,2	2	15
Latvia	5	16	1,5	5,9	3	13
Lithuania	6	22	2,8	36,1	1,5	7
Poland	6	32	17,5	14,7	3	20
Republic of Slovakia	6	16	1,9	22,2	4	18
Slovenia	2	6	0	45	2	4
New Zealand	1	1	0,4	0	1,3	4
United Kingdom	6	13	0,7	0	1	6
USA	6	6	1,4	0	1,5	7
Denmark	4	6	0	0	1,1	4
Canada	1	5	0,4	0	0,8	4
Norway	5	7	1,8	20	0,9	1
Ireland	4	13	0,4	0	0,4	9
Australia	2	2	0,7	0	1	8

* - countries investigated are the countries of the Central Europe with transition economies (according to European Bank for Reconstruction and Development (EBRD) classification) and that joined EU in 2004. Developed countries belong to top ten according to World Bank's index 2011 *Easy of Doing Business*.

It should be noted that some of the barriers (for example, lack of business tradition, the unstable macroeconomic situation in the country, unfavourable credit approval policies, etc.) have a greater impact on business start-ups, while others (frequent changes in tax laws, bureaucracy, corruption, etc.) on the development of the business. According to EBRD (2009), Bitzenis, Nito (2005), Aidis (2005), Dana (1994) one of the key issues in transition economy countries are corruption and shadow economy. These business challenges are also faced by developed countries, but the magnitude of the problems is much less. According to Startiene, Trimonis (2009) the level

of shadow economy in USA was from 0 to 10 percent, United Kingdom, New Zealand, Norway 10-20 percent, while in Slovenia and Hungary 20-30 percent, Lithuania, Latvia, Estonia 30-40 percent of GDP. As *Transparency International* 2010 states, the developed countries according to corruption index were ranked in between 1 and 22 place (for example, New Zealand took 1st (9,3³) place, Norway 10th (8.6) and so on among 178 countries of the world), while the analysed transition economy countries were ranked from 26 to 62 place (Lithuania took 46th place (5); Latvia 59th (4,3); Estonia 26th (6.5)). Another common issue of the transition economy countries is the lack of experience in providing banking credits to the private sector, lack of organizational skills in case of financing the business (Pissadires, 1999). The evidence suggests that state owned banks continued to favour state owned firms and, to some extent also large privatized firms by providing soft loans (Lizal and Svejnar 2002) but rarely lent to the *de novo* private sector, particularly at the start of the transition process (Filatotchev and Mickiewicz, 2006).

In conclusion, although transition economies are already advanced in transition period, however, face greater difficulties in starting and developing a business:

1. Higher government interference⁴ to business than in developed countries. In transition economy countries business freedom index is on average 0,8 times smaller than in developed ones.
2. Higher level of corruption compared with developed countries.
3. More sensitive response of self-employed to environmental changes.
4. Lack of experience in making business-friendly tax systems, therefore the transition economies are characterized by frequent changes in taxation, legislative business base.
5. Low administrative efficiency (slowness of legal operations, less effective procedure of issuing business licensing, and so on.)
6. Larger-scale illegal business competition (shadow economy) than in developed countries;
7. Lower consumer purchasing power (Lithuania, Latvia, Poland are attributed to the higher than average income countries, while developed countries such as the US, UK, New Zealand are treated as high-income countries);
8. Lack of support funds for business investment, inefficient use of business start-up support due to lack of experience;
9. Lingering negative attitude to the stereotype of the entrepreneur;

³Corruption index value varies in range from 10 to 0, where 10 means there is no corruption and 0 a completely corrupted country (according to data of Transparency International).

⁴ According to Papaconstantinou, Tsagkanos, Siriopoulos (2008) the quality of government that is expressed through bureaucratic structure is reflected at the level of economic freedom of every country we use as proxy of bureaucracy the variable. The index of economic freedom is published annually by the Wall Street Journal and the Heritage foundation. The higher the score of this index, the lower the level of government interference.

10. Intensity of unemployment is higher and unemployment rates are less effective.

Both scientific papers and various legal documents (such as the Law on Employment Promotion of Republic of Lithuania) emphasise and recognise the ed focus on supporting self-employment, encourages to examine in greater detail some of the existing forms of self-employment support and barriers, which are usually faced in starting and developing the businesses. Despite the importance of SMEs in shaping and maintaining competition in the economy, being small and with limited resources, small businesses and especially self-employed individuals cannot compete with large companies, therefore countries have to provide more favourable competitive conditions for SMEs so that they become fully fledged competition players. Šivickas and etc. (2010) argues that the EU has two SME promotion policy trends. On the one hand, there is the continuous improvement of the legal and economic business environment, regulation is being reduced, business conditions liberalised, government services and functions privatised. On the other hand, there is the creation of new financial support and development tools and programs for SMEs to promote SME development and competitiveness growth, workplace creation and reduction of regional differences by direct subsidized loans or tax incentives.

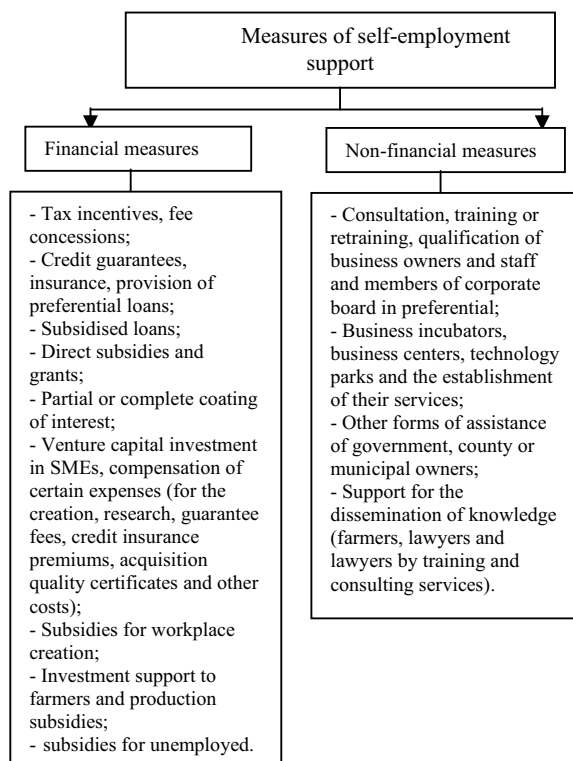


Figure 1. Measures of self-employment support

The main SME policy tool is the support for certain size enterprises (Mažylis, 2006). In practice, there are the following widespread measures of self-employment support: self-employment promotion with the aim of engaging more people; funding the

unemployed in order to motivate them to become self-employed and mobilising efforts to reduce false employment (Cueto, Matthew, 2006). In order to systemise the existing support measures of self-employment including SMEs sector (Adamonienė, Trifanova, 2007; Tamošiūnas, Lukošius, 2009; Evans and Leighton, 1990), as the self-employed operating under a business license or certificate of individual activity is treated as o SME; farmers (Jasinskas, Simanavičienė, 2008), lawyers and their assistants (the Lithuanian Bar Association, 2010), self-employed persons of various categories (Block, Sandner, 2009; Baumgartner Caliendo, 2008; Henriquez, Verheul, van der Knaap, Bischoff, 2001; Cueto, Matthew, 2006) are grouped in terms of financial and non-financial characteristics (see Figure 1).

As Figure 1 shows, governments of different countries support the SME promotion, sponsorship and full support. According Tamošiūnas, Lukošius (2009), Lithuania, like other transition economy countries, due to the lack of financial resources support SMEs according to their ability. Thus, both the business developed by one person and the owner of SME have a good supply of support measures for business development. There are the following financial support trends in developed and transition economies: self-employed person is generally supported through tax incentives and subsidies to the unemployed, while the employers through the granting of credit guarantees, subsidies for workplace creation, venture capital investment and so on. Unfortunately, in many instances government's business financing support programs do not give the desired effect. According to Dawson, Henley, Latreille (2009) not knowing the motives a person that has chosen self-employment, sponsorship programs and measures can encourage to start up business to which the person is not well prepared, both financially and in terms of knowledge. This results in short-term employment, support is exploited inefficiently and persons come back to the ranks of unemployed. Plougmann (1998) noticed that most self-employment support programs focus on encouraging the unemployed to start their business, but most of them lack the motivation and skill required to become self-employed person. 2/3 of business start-ups collapse in four years. The researchers tried to justify the rapid dynamics of self-employment in different countries and determined possible mistakes in government business support policy, which are systemised in Table 2.

It can be emphasised that the transition economy countries are still lingering negative attitude towards business, there still exist inequality of social guarantees between employees and the self-employed persons, discrimination of labour force, particularly women with young children, disregard of the interests of ethnic minorities, lack of information about the efficient use the support; and these are the main incentive problems of self-employment, the determination of which by application of certain measures could raise self-employment.

Table 2

Self-employment support mistakes

Author	Political gaps in self-employment support
Plougmann (1998); Verheul, Wennekers, Audretsch, Thurik, (2001)	- the unemployed persons rather than self-employed that face problems developing own business were mainly promoted and encouraged; - government's inability to adapt necessary support measures at a particular stage of self-employment.
Dawson, Henley, Latreille (2009); Noorderhaven, Thurik, Wennekers, Van Stel (2004); Hundley (2006)	- self-employment support measures should be applied generally, not classifying supported persons seeking to become self-employed into certain groups according to demographic characteristics and business motives, i.e. the "pull" and "push" factors; - too little attention is paid to the preparation of a business plan.
Spencer, Gomez (2004); Zhang, Zhang, Rozelle, Boucher (2006); Verheul, Wennekers, Audretsch, Thurik, (2001)	- governments pay too little attention to the promotion of the self-employment and formation of positive image of the self-employed person in the society, i.e. for example, only a small number of countries have "the entrepreneur or self-employed person of the year" elections (honours); puts little stress on the positive benefits of self-employment to the country in its communications policy; - in case of business failure, the society of many transition economy countries maintain that it is only a personal problem of the entrepreneur, while the US accepted that the failure of the business is just "an unsuccessful attempt to create something good." The government fails to take any action to mitigate these provisions.
Rissman (2003); Carrasco, Ejrnæs (2003)	- excessive and long-term unemployment benefits are paid.
Henriquez and others (2001); Tervo (2008)	- the failure to provide equal social security, unemployment benefits for employed and self-employed people.
Williams (2004); Carrasco, Ejrnæs (2003)	- although it is recognized that care of very young children (from 0 to 2 years) have negative impact on women's self-employment, the government almost disregards this problem and does not make it possible for women to work part-time.
Tervo (2008)	- not enough attention is paid to developing entrepreneurship in rural areas.
Parker, Robson (2004)	- poor dissemination of information about performance of government assistance for self-employment.

Thus, as we see the government can affect self-employment rates in different directions in the country, therefore on its implemented measures largely depends the number of self-employed persons in the country. The carried out analysis has identified the following problem areas of institutional environment factors:

* *strict labour market regulation* (determination of minimum wage, setting of hours work, high level of social protection for workers, high labour taxation and so on) only relatively contributes to the growth of the number of the self-employed. Under unfavourable conditions of employment, the number of employers providing workplace for others reduces;

* *support programs* only partly increase the number of people seeking business. They do not guarantee business survival. Thus, the support

programme only temporarily raises the level of the self-employment.

In order to determine the impact of unclear institutional environment factors on the self-employment, the following hypotheses were formulated:

Hypothesis 1: The strict labour market regulation is one of the main obstacles to starting and developing business in the transition economy countries.

Hypothesis 2: In transition economy countries, a positive impact on self-employment has the increased number of business support measures supply (financial and non-financial), but there is a lack of information making it difficult to choose among them the most suitable one and use the support.

The empirical analysis results of unclear institutional environment factor impact on self-employment

In order to determine the impact of each unclear institutional environment factor on the self-employment, a qualitative expert assessment method was used. According to the data of European Foresight Monitoring Network (2008), the expert assessment method is one of the most popular insight methods. Expert interviews were carried out both directly (person interviewed) and indirectly (telephone, e-mail support) by means of pre-prepared questionnaire. In addition to creativity, the approach to the examination, thinking flexibility, reliability, self-criticism and other characteristics, the scientific literature (Augustinaitis, Rudzkiene and others, 2009) especially emphasizes the importance of expertise. Therefore, the investigation has been oriented not to the large scope of the respondents, but to the expertise, years of experience in the self-employment, knowledge of the environmental conditions and issues of the self-employment. In this way, according to the above-mentioned criteria, the expert group (total 30 persons), divided into three sub-groups, and meeting the following requirements was formed:

1. the first subgroup of 18 individuals was composed of self-employed persons who were directly related to the analysed issue, operating under a business license/certificate of individual activities and whose work experience in business is not less than 5 years. Physical persons engaged in individual economic activities (farmers) have not been accepted into the group of experts due to specificity of their activities and researches already carried out in this area (Vaznonis, 2009; Jasinskas, Simanavičienė, 2008).
2. the second subgroup of 6 persons composed of persons who were indirectly related to the analysed issue, but in business environment, the most competent about self-employment issues, barriers and business conditions because they represent and defend the interests of the self-employed. This sub-sub-group consisted of presidents/persons working

for Lithuanian Small Business Association, National Small Business Association, Association of Business Centers, Kaunas Region Small Business Association presidents who are responsible for individual activities, an expert of Free Market Institute, and whose experience in their work is not less than 5 years;

3. the second subgroup of 6 persons composed of persons who were indirectly related to the analysed issue, i.e. the persons who started their activities from business license/certificate of individual activity and now already acting as employers in the market.

In the questionnaire, the experts had to assess the impact of unclear institutional environment factors on Lithuanian self-employed persons. Unclear institutional environment factors were determined by the carried out theoretical analysis and have unclear (positive and negative) impact on the start-up and duration of the self-employment. The selected experts were asked to evaluate each factor in scale from 1 to 5. "Strongly disagree/totally irrelevant" had a numeric value 1, "strongly agree/ completely important" had a numeric value 5. Depending on the strength of the consent, experts were able to choose the intermediate numerical values of 2, 3 or 4.

The calculated frequencies of expert choices and Cronbach's alpha⁵ coefficient (0,706) allow as to make the following expert conclusions:

- hypothesis 1 was confirmed. 90 percent of experts maintain that strict labour market regulation is one of the key bottlenecks to business start-ups and development from the individual self-employed person to the employer (see Figure 2):

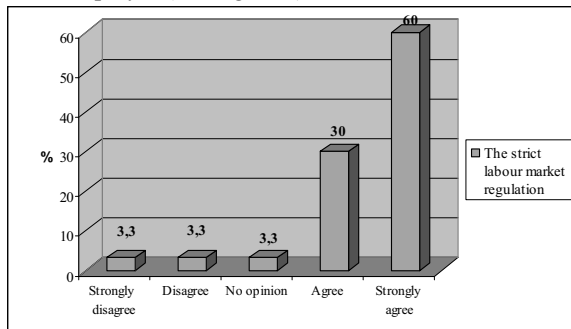


Figure 2. The summary of expert choice frequency for hypothesis 1, percent

- hypothesis 2 was also confirmed (see Figure 3):

Cronbach's alpha coefficient is based on the correlation of individual questionnaire questions, and assesses whether all scale research questions adequately reflect the analysed value and allows to specify the number of required questions in the scale. Some scientists, for example Nunnally and Bernstein (1994) argue that the Cronbach alpha coefficient should be not lower than 0.7, other scientists, for example Malhotra and Birks (2003), argue that the critical threshold for reliability of questionnaires is 0.6.

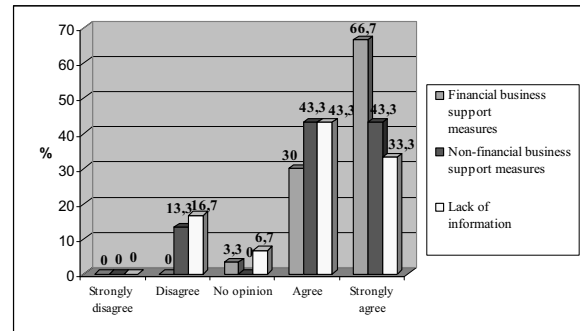


Figure 3. The summary of expert choice frequency for hypothesis 2, percent

96.7 percent of respondents noted a positive effect of financial business measures on the self-employment duration; and 86.6 percent of experts agreed that non-financial business support measures have also a positive effect on the self-employment duration. 76.6 percent of survey participants agreed that the lack of information could lead to self-employed person's inability to choose most suitable forms of business financing.

Conclusions

Institutional environment factors such as tax and social security policy, labour market regulation, the entry/exit to/from the market regulation, SMEs support measures, size of public sector were determined. The carried out scientific research results showed that the impact of institutional environment factors on the self-employment may be threefold: the positive impact on the start-up of self-employment have business support measures and simplified business start-up procedures; the negative impact have such factors as inequality in social guarantees, market entry barriers, the large size of the public sector. Business development barriers negatively affect the duration of self-employment while no factors were determined having the positive impact. The unclear field that may have both positive and negative impact on the start-up and duration of self-employment was determined as strict labour market regulation; and on the duration of the self-employment as business support measures.

1. Expert assessment method showed that in the transition economies strict labour market regulation has a negative impact on the self-employment while business support measures have a positive impact on the self-employment duration.

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INSTITUTIONAL ENVIRONMENT FACTORS OF SELF-EMPLOYMENT IN TRANSITION ECONOMIES: THE CASE OF LITHUANIA

Summary

The article deals with little addressed issues in literature, i.e. institutional environment factors of self-employment in transition economies. Sources of scientific literature mainly examines and delves into the institutional environment factors affecting the start-up of the self-employment, their impact on the self-employed person, therefore this article aims to draw attention to how distinguished institutional environment factors can affect the self-employment duration, i.e. to extend or shorten it. To choose the subject also encouraged the fact that national government business support programs or other business support measures in both transition economy and the developed countries are not separately identified to promote the self-employed persons or employees. The lack of self-employment support can be explained by the following assumptions: 1) in both statistical data bases and employment support laws the self-employed person is classified to small and medium enterprises (self-employment is treated as a form of entrepreneurship), therefore common business support and promotion measures for small and medium enterprises and self-employed persons are applied; 2) a business of one person provides less benefit to the national economy than small and medium enterprises. However, it should be emphasised that a person running a business not only escapes unemployment but also in case of success develops the business to small and later to medium size providing work places to other persons.

The article raised the aim to determine the impact of institutional environment factors on self-employment in transition economy countries. In order to reach the aim, the following tasks were set: 1) to determine the main institutional environment factors influencing the level of self-employment and to identify the impact of institutional environment factors on the start-up and duration of self-employment; 2) to determine by the method of expert evaluation the influence of unclear institutional environment factors on the start-up and duration of self-employment in transition economies (the case of Lithuania).

In order to respond to the aim, primarily the main differences of self-employment policy in transition economies and developed countries were determined. According to European Bank for Reconstruction and Development (2011), transition economies are characterised by such business barriers as lack of skills starting and developing a business; high level of corruption and low efficiency of business administration. In addition to the mentioned differences, the Heritage Foundation (2011) results showed that the governments of transition economy countries tend to have more control over the business than the governments of developed countries. The fact is confirmed by Business Freedom Index 2011 which was on average

0.8 times lower in transition economies than in the developed ones. The fact that the start and development of the business in transition economies are more difficult than in the developed countries is confirmed by the World Bank's annual business environment survey of 183 world countries: business longer start-up procedures, higher costs and duration; higher business closure costs and a longer duration; lower consumer purchasing power (Lithuania, Latvia, Poland are attributed to the higher than average income countries, while developed countries such as the US, UK, New Zealand are treated as high-income countries). Other sources (European Fund, 2009; Aidis, 2005; Aidis, Welter, Smallbone, Isakova, 2007; Bitzenis, Nito, 2005 and others) maintain, that in transition economy countries the self-employed are more sensitive to environmental changes; they lack experience in making business-friendly tax systems, therefore the transition economies are characterized by frequent changes in taxation, legislative business base; larger-scale illegal business competition (shadow economy) than in the developed countries; lack of support funds for business investment, inefficient use of business start-up support due to lack of experience; lingering negative attitude to the stereotype of the entrepreneur; Intensity of unemployment is higher and unemployment rates are less effective (unemployment affects consumption which determines the entry of business and duration). Summarising the determined characteristics of self-employment in transition economies and developed countries, it could be argued that to establish and develop own business is more difficult in the transition economies.

The scientific literature allow us to define the main directions where institutional environment factors influence the self-employment: tax and social security policy, labour market regulation, the entry / exit to/from the market regulation, SMEs support measures, public sector size. The carried out scientific research results showed that the impact of institutional environment factors on the self-employment may be threefold: the positive impact on the start-up of self-employment have business support measures and simplified business start-up procedures; the negative impact have such factors as inequality in social guarantees, market entry barriers, the large size of the public sector. Business development barriers negatively affect the duration of self-employment while no factors were determined having the positive impact. The unclear field that may have both positive and negative impact on the start-up and duration of self-employment was determined as strict labour market regulation; and on the duration of the self-employment as business support measures.

In order to determine the impact of unclear institutional environment factors on the level of self-employment in Lithuania, a qualitative expert assessment survey was carried out. 30 experts directly and indirectly related to the issue analysed were selected. The calculated frequencies of expert choices and Cronbach's alpha coefficient (0,706) allow as to confirm the formulated hypotheses: hypothesis 1, strict labour market regulation, is one of the key bottlenecks to business start-ups and development in transition economies; and hypothesis 2, that in transition economy countries, a positive impact on self-employment has the increased number of business support measures supply (financial and non-financial), but there is a lack of information making it difficult to choose among them the most suitable one and use the support. Thus, expert assessment method showed that in the transition economies strict labour market regulation has a negative impact on the self-employment while business support measures have a positive impact on the self-employment duration.

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ELDERLY PERSONS PROFESSIONAL ACTIVITY – SUBSTANTIVE ISSUES AND METHODOLOGICAL CHALLENGES

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Abstract

Population ageing and mass withdrawal of persons around retirement age from the labour market constitutes a serious threat for European Union economy, especially in the so-called new member states. The coming years are expected to bring a considerable increase in public spending on pensions and health care, as well as changes in the structure and size of consumer demand and an increase in the number of socially excluded individuals. The study focuses on the issues of low professional activity of the elderly in Poland and feasible measures with a view to changing this state of affairs. The first part of the study presents the trends in demographic changes in the European Union, with special emphasis on the situation in Poland. The next part reviews the literature concerning the factors determining the professional activity of the elderly in Poland. The study concludes with a presentation of a pilot study carried out by the authors in order to identify the factors that influence the duration of professional activity among people over 55 years of age with a considerable knowledge and experience potential.

Keywords: demographic changes, ageing society, professional activation of the elderly.

Introduction

The process of European population ageing is gaining momentum. Initially, the demographic transformation involved above all the “old” EU Member States, but nowadays this phenomenon is equally seriously affecting the Central and Eastern European states, including Poland. Poland exceeded the demographic old age threshold⁶ in 1967. In 2010 people over 65 years of age accounted for ca. 13% of the country's population, and, according to OECD forecast (*World Population Prospects*, 2008, pp. 121, 735), in 2050 elderly people (over 65 years of age) will make up 50% of the total population of Poland.

An increase in the share of the elderly in total population in Poland accompanied by low professional activity of people around retirement age⁷ entails, amongst others (*The 2009 Aging Report*, p. 47): considerable reduction in labour resources (a drop by more than 30% in 2007–2060), an increase in the number of pensioners and the amount of public spending on pension benefits, reduced consumer demand due to the increase in the number of people with low income, a growing number of people requiring care (an increase by 134% in 2007–2060), increased public spending on health services (an increase by 33% in 2007–2060), including long-term care (an increase by 184% in 2007–2060).

In order to mitigate the anticipated consequences of population ageing, active ageing programmes (Ala-Mutka et al., 2008) are being introduced at the community, state and regional levels, in Poland as well as in other Member States, having an impact on the elderly in the vocational aspect (steps that encourage the elderly to prolong their participation in the labour market), social aspect (steps that promote participation in the local community life) and individual aspect (steps that promote preservation of good health and self-reliance). Although chiefly aimed at the elderly, they are also addressed to other target groups. The programmes have been developed to counteract the effects of ageism on the one hand, and, on the other, raise the awareness of the occurring demographic changes and include the elderly in the social and economic processes.

The aim of this study is to characterise the population ageing process in Poland and identify the factors that determine the professional activity of the elderly and the feasible measures for activation of this social group.

The study consists of three main parts. The first presents statistical data demonstrating the trends of demographic changes in Poland in comparison with other European Union member states. The second part consists of a review of literature concerning the role of the elderly in contemporary society, their position on the labour market and the factors that influence the professional activity of elderly Poles. The third part presents the results of a pilot study carried out as part of the Best Agers project⁸, on the determinants of the professional

⁶ According to UN standards, this means a 7% share of people of 65 or more in the overall population structure.

⁷ The age around retirement is assumed to be between 55 and 70, thus encompassing five-year periods before and after the attainment of the formal retirement age, that is, 60 for women and 65 for men in Poland.

⁸ Best Agers project website: www.best-agers-project.eu

activity of elderly people in Poland. The results of the pilot study and the currently conducted extended study are supposed to help to optimise the measures for the increase of the professional activity of elderly people in Poland. Selected recommendations in this regard, formulated on the basis of study results, are presented in the summary of the article.

Demographic changes in the European Union

Since the beginning of the 20th century, European Union countries have been experiencing adverse demographic changes: decreasing birth rate and ageing population. Over the past two decades the group of young people, below the working age, has decreased considerably, while the population above the working age and its share in the overall population has increased. Between 1990 and 2010 the adverse changes have been occurring at the fastest rate in Germany, Italy, Lithuania, Latvia and Slovenia, where the share of people above working age has grown by more than 6%, and in Poland and Romania, where the share of people below the working age has dropped by more than 10% (*Demography Report 2010*, p. 75).

The forecast for the coming years is no less pessimistic. Even though over the next five decades the overall European Union population will increase from 495.4 million in 2008 to ca. 505.7 million in 2060, the growing trend will only continue until 2035. That is when the European Union population will reach its peak at 520.7 million. Later on it will start to decline – by a total of ca. 3% by 2060.

The forecasts predict that the worst demographic crisis, that is, decrease in population, will affect Central and Eastern European countries – the “new” EU Member States, as well as Germany. Other Member States will experience an overall increase in the population or a slight decline (Figure 1).

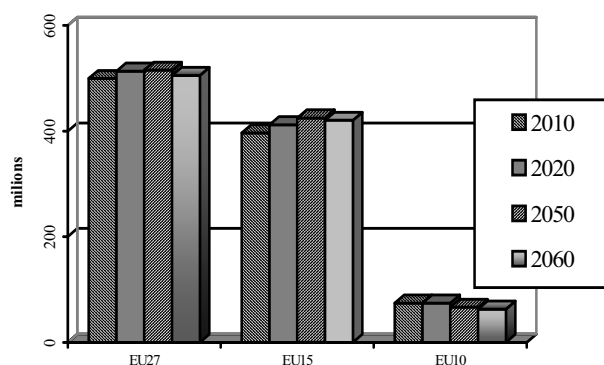


Figure 1. Population changes in the EU27, EU15 and EU10 – forecast for 2010–2060

Source: Authors' compilation based on (*The 2009 Aging Report*, p. 11).

The coming decades will also bring changes in the age structure of European Union population. The European community is going to age at a faster rate than today. This is connected with the so-called baby boomers

generation⁹ exceeding the working age and reaching old age. United Nations' forecasts predict that the share of people over 80 in the overall European Union population will have doubled by 2050 to reach ca. 10%.

The recent years in Poland have brought an increase in life expectancy, a decrease in the number of children (0–17 years of age) in the overall population and an increase in the number of people of immobile age¹⁰ and post-working age (Table 1).

United Nations' forecasts predict that the share of people of immobile working and post-working age in the overall Polish population will increase over the next few decades from 41.9% in 2010 to 56.7% in 2050.

Professional activity of the elderly in Poland

With a view to reducing the costs of population ageing, as one of the aspects of the active ageing concept, the European Union promotes labour market inclusion of people around retirement age (*Provisions of the Stockholm European Council of March 2001 and the Barcelona European Council of March 2002*). Poland has one of the lowest rates of professional activity of people over 55 in the European Union (Table 2).

More than half of Poles between 55 and 59 (52.58%) are professionally inactive. In the 60–64 age group the percentage of professionally inactive people exceeds 80%. Women withdraw from participation in the labour market decidedly earlier: more 2/3 of women between 55 and 59 are professionally inactive, with about 90% of professionally inactive women between 60 and 64 years of age. As for men, between about 1/3 of the population between 55 and 59 are professionally inactive, compared to more than 72% (*Economic activity of Polish population in 1st quarter of 2010*) in the age group between 60 and 64. From the angle of macroeconomic consequences it is an alarming fact that in the age group of 5 years preceding the retirement age a mere 1/3 of citizens of both sexes remain professionally active¹¹ (Table 3).

The inactivity of the elderly results above all from permanent withdrawal from the labour market caused due to retirement or poor health and disability. The average age of retirement is 58 (*Raport o kapitale intelektualnym Polski*, 2008, p. 126). More than 60% of people over 55 are taking advantage of pension entitlement compared to 90% of people aged 65+.

⁹ People born between 1946 and 1964 (in the post-war baby boom period), currently between 45 and 65 years of age.

¹⁰ Division into age groups with regard to labour market participation is as follows: mobile age – men and women between 18 and 44; immobile age – men between 45 and 64, women between 45 and 59; post-working age – men aged 65+ and women aged 60+ (*Przejście z pracy na emeryturę*, 2007, p. 14).

¹¹ In Poland the statutory retirement age is 60 for women and 65 for men.

Table 1

Forecast age structure of Polish population until 2050

Period	Overall population [thousand]	Population with respect to age group as a percentage of the total					
		0–14	15–44	45–54	55–64	65–79	80 or more
2010	38,038	14.6	43.8	14.5	13.9	10.1	3.4
2020	37,497	14.5	40.7	12.9	13.6	14.1	4.2
2030	36,187	13.2	35.0	16.9	12.5	17.1	5.3
2040	34,204	12.1	31.4	15.0	16.9	16.3	8.3
2050	32,013	12.7	30.6	11.4	15.3	21.5	8.5

Source: Authors' compilation based on (*World Population Prospects*, 2008, pp. 121, 735).

Table 2

Professional activity and employment rate in Poland according to sex and age group, UE15, NMS9 in 2008 (%)

Age group	Professional activity rate								
	Poland			EU15			NMS9		
	Overall	Women	Men	Overall	Women	Men	Overall	Women	Men
15–64	64	57	71	72	65	80	66	59	73
15–24	33	30	37	48	45	52	31	26	36
25–44	86	79	93	86	79	93	84	76	91
45–54	76	71	81	84	76	92	82	78	86
55–64	33	22	47	50	41	59	45	36	56
Age group	Employment rate								
	Poland			EU15			NMS9		
	Overall	Women	Men	Overall	Women	Men	Overall	Women	Men
15–64	59	52	66	67	60	74	62	56	68
15–24	27	24	31	41	38	44	26	22	30
25–44	80	73	88	80	73	88	79	72	86
45–54	72	67	77	79	71	87	77	74	81
55–64	32	21	44	47	39	56	43	34	54

NMS9 – Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Slovenia, Bulgaria and Romania.

Source: (Bukowski, 2010).

Table 3

Professionally inactive population in Poland in the 1st quarter of 2010
divided with regard to reasons for inactivity and age group.

Age group	Overall	People not seeking employment						People seeking but not ready to take up employment	Other professionally inactive
		Total	With regard to reasons for not seeking employment						
			Discouragement by the futility of seeking employment	Studies, raising qualifications	Family and household duties	Drawing a pension	Illness, disability		
	[thousand]	[thousand]	[%]	[%]	[%]	[%]	[%]	[thousand]	[thousand]
45–54	1160	1132	13.07	–	22.08	11.57	53.28	17	12
55–64	3191	3177	3.68	–	5.25	63.74	27.33	8	7
65 or more	4904	4904	0.18	–	1.28	86.6	11.94	–	–

Source: (Economic activity of Polish population in 1st quarter of 2010).

Factors that influence the professional activity of elderly Poles — literature review

The rapid growth in the number of elderly people in the population leads to a series of consequences for the population and, more generally, for the whole economy. EU documents (*Meeting the challenges connected with population ageing in the EU*, 2009; *Increasing the employment of older workers and delaying the exit from*

the labour market, 2004; *The 2009 Aging Report*) and studies (Chłóń-Domińczak, 2003, pp. 34–40, 51; Szatur-Jaworska, 2002) above all point to the macroeconomic consequences of population ageing, such as increased public spending on account of a growing number of pensioners and the resulting payment of pension benefits. Some authors give an analysis of the consequences of demographic changes from the angle of labour market

situation, mainly focusing on decreasing labour resources due to low professional activity of the elderly (*Ageing and employment: identification of good practice to increase job opportunities and maintain older workers in employment*, 2006; Kryńska, 2006; Rosner & Stanny, 2008, pp. 12–15), exploiting the knowledge and experience potential offered by the elderly (*Raport o kapitale intelektualnym Polski*, 2008, pp. 122–137) and the threat of the so-called competence gap between generations (Piktialis & Greenes, 2008). One of the macroeconomic effects of population ageing given consideration is the development of silver economy (Heinze & Naegele, 2009; Kunz, 2007).

Whereas the threats to the labour market resulting from progressing population ageing seem to be accurately identified in the literature, the actual situation of the elderly in Poland and the factors determining their active participation in public life have not been thoroughly investigated.

Polish people usually use stereotypes with regard to the elderly and attribute stereotypical social roles to them (Staręga-Piasek, 2006, p. 127). According to K. Rejman (Rejman, 2010, p. 78) the social stereotype of an old person is someone ailing, decrepit, unable to work, without any means of support, requiring constant assistance, care and nursing, socially isolated and separating themselves from community life and the society in general. J. Staręga-Piasek (Staręga-Piasek, 2006, p. 128) mentions other stereotypical images of old people and their social status:

- the elderly are the poorest social group,
- the elderly are a burden for the society and the state budget,
- the government is not pursuing any social policy aimed at old people,
- retirement becomes an obligation on reaching retirement age,
- old people are not just susceptible to social exclusion, but they are in fact an excluded social category,
- old age is a period in life that is riddled with hardships.

C. Tibbitts (Tibbitts, 1960) and B. Synak (Synak, 1992) identified the basic needs of the elderly, whose recognition and fulfilment determines the economic and social activity of this age group (Table 4).

In his study report commissioned by the Ministry of Labour and Social Policy, W. Ogrodnik identified the reasons for premature withdrawal of the elderly from the labour market (Ogrodnik, 2008):

- economic reasons – with poor prospects of a well-paid and secure job, retirement is viewed as a relatively safe solution (protection against job loss, unemployment, loss of all income); also, it is common to earn extra money to supplement one's pension,
- apprehension about changes in the pension system and of the loss of previously granted rights,
- absence of alternative professional development paths for people reaching the retirement age,
- dislike of current job, lack of work ethos,
- outside pressure.

Table 4

Needs of the elderly

C. Tibbitts
<ul style="list-style-type: none"> – the need to engage in socially useful activities – the need to be regarded as part of the society – the need to have more quality time – the need for social contact – the need to be regarded as a human individual – the need for appropriate mental and intellectual stimulation – the need for health protection and access to health care – the need to maintain the correct lifestyle and rhythm of life, including contact with family – the need for spiritual satisfaction
B. Synak
<ul style="list-style-type: none"> – the need to belong – the need for usefulness and recognition – the need for independence – the need for safety – the need for life satisfaction

Source: Authors' compilation.

A diagnosis of the reasons for early professional deactivation of poles has also been given by Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń (Wiśniewski, 2009) and the Central Statistical Office (*Retirement from work*, 2007). Even though they were conducted using different methods and different target groups, both studies identified the following reasons for permanent withdrawal of the elderly from the labour market:

- poor health,
- reaching the retirement age,
- difficult economic situation of the employer,
- risk of losing one's job with low chances of finding a new one,
- having to look after a sick family member,
- instability of the retirement laws.

The study results also made it possible to successfully identify the reasons for continuation of professional activity. These included above all income factors, mainly the threat of lower income and the related anxiety about the family's and one's own security and the worry about becoming useless and redundant, that is, the apprehension about the loss of one's life purpose and exclusion.

Results of Authors' studies

In April and May 2011 a pilot survey was carried out among the participants of the University of the Third Age active at the University of Gdańsk, whose results were supposed to help answer questions such as what factors influence the professional deactivation of people around the retirement age, especially ones having considerable knowledge potential, i.e. completed secondary or higher education and medium-length or long work experience.

A 25-item questionnaire, including 9 multiple choice questions and 16 single choice questions, was used in the survey.

The respondents included 172 people over 50, most of them women (132). 93.61% of the respondents completed at least secondary education, and 78.5% had at least thirty years of work experience. Over 88% of those questioned declared that they were drawing pension benefits only 5% of the group were pensioners who were still employed.

The results of the survey partly correspond to the previously quoted ones, carried out by other centres.

Among the factors influencing their decision to withdraw from the labour market and choose retirement the University of the Third Age participants indicated above all:

- reaching the formal retirement age – 48%,
- organisational changes in their current workplace – 27.33%,
- the wish to have more free time – 26.16%,
- state of health – 22.7%

Interestingly, more men (15.63%) than women (13.24%) indicated their family situation, including the necessity to look after a family member, as the reason for withdrawal from professional activity. Moreover, bad atmosphere at work induced more women (14.71%) than men (9.38%) to retire.

Some of the factors that have the greatest influence on the decision to continue professional activity by people at or above the retirement age mentioned by the respondents were: doing an interesting job, friendly

atmosphere at work and the payment conditions offered by their current employer. The results obtain vary considerably depending on the sex of respondents. For men, the primary motivation for continued employment is the opportunity for contact with people (40.63%), and for women it is an interesting job (41.18%) (Figure 2).

The respondents were also asked about the impact of ageism on the decision of elderly people to withdraw from the labour market. We speak of age discrimination if an elderly person receives worse treatment than others in the same or similar situation on the grounds of age and for no other reason. Unequal treatment in the labour market may apply to: access to work, working and payment conditions, participation in training programmes or termination of employment (Jaroszewska-Ignatowska, 2005).

According to 25% of the respondents, signs of age discrimination in the workplace are the main cause of frustration of the professionally active elderly and contribute to their decision to retire.

62.21% of the respondents confirmed that age discrimination in employment existed in Poland. 9.89% said that the phenomenon did not exist, and the remaining group had no opinion about this matter. More than 65% of the respondents pointed out that working elderly people were accused of “taking jobs away from the young”, while only 28% agreed that elderly persons were well regarded by their colleagues at work.

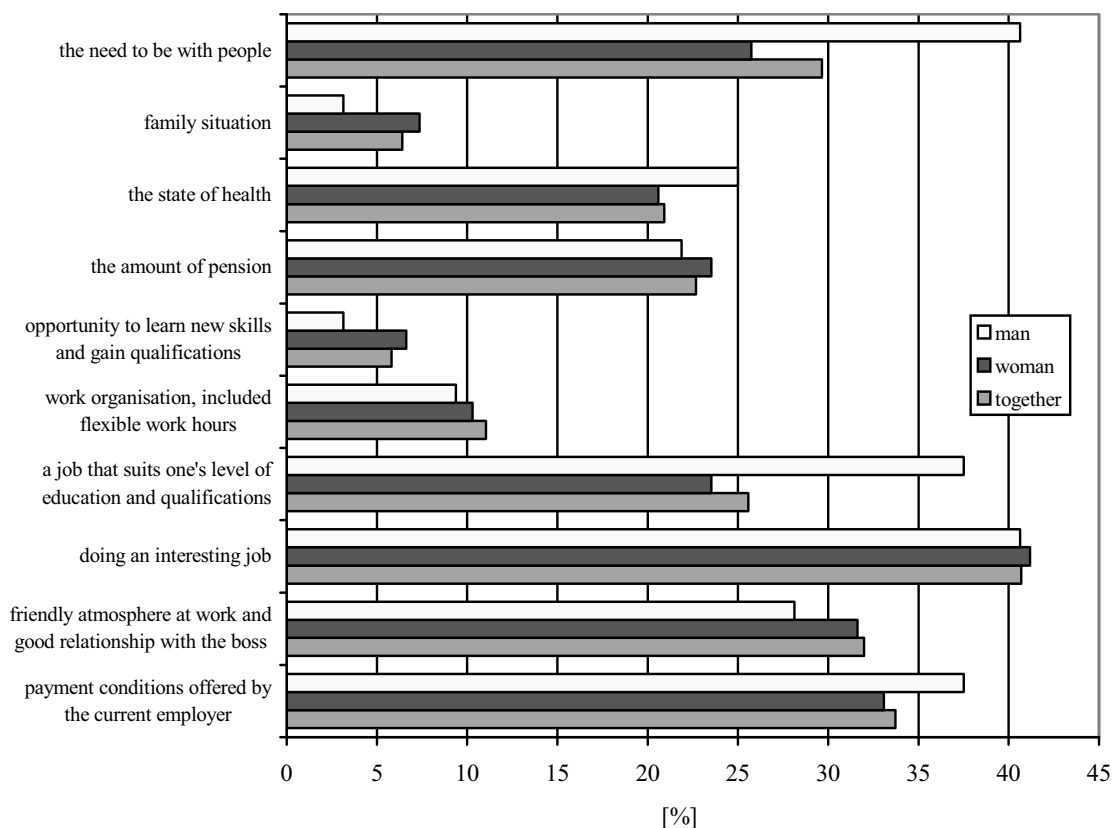


Figure 2. Factors that influence the decision to remain professionally active despite reaching the retirement age
Source: Authors' compilation.

Summary

In the age of decreasing labour resources, neither Polish economy nor Polish enterprises can afford to lose the human and intellectual capital of the elderly employees. The elderly are a source of knowledge, skills and experience, some of which are unique. Moreover, thanks to work experience gained over many years, they generate new solutions in companies and initiate innovations. Thanks to many years of experience, elderly employees are able to build up trust in the relations between companies and public and private partners.

Boosting the professional activity of the elderly (Table 5) includes all the measures aimed at increasing the participation of people around retirement age in the labour market. These actions must be comprehensive, targeted and implemented by different types of institutions.

Increasing the professional activity of the elderly consists of (Kryńska, 2011, p. 331):

- professional activation of persons previously inactive for various reasons who decided to start working at a later age,
- professional reactivation of people who remained professionally inactive for a long period of time, whose withdrawal from participation in the labour market resulted from illness, family obligations, acquisition of entitlement to early retirement benefits etc.,
- keeping professionally active people in the labour market for as long as possible,

- professional activation of unemployed elderly persons.

Principal measures promoting continuation of the professional activity by the elderly include:

- introduction of more restrictive rules of the pension system (acquisition of pension entitlement is the main reason for withdrawal from the labour market),
- disease prevention and access to hi-tech medical services contribute to maintaining good health at an advanced age,
- development of forms of education adjusted to the needs of the elderly and their employers,
- development and promotion of flexible forms of employment,
- formal solutions and ethical codes that prevent manifestation of ageism.

For the economy, premature withdrawal from the labour market means a waste of intellectual and social capital generated by the elderly.

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Table 5

Forms of professional activation of the elderly

Forms of professional activation of the elderly	Description
Improving the level of education and vocational skills by further education	<ul style="list-style-type: none"> – individualisation of the educational pathways by diversifying the forms and methods of learning new skills or upgrading the existing skills and knowledge – individualisation of syllabuses taking into consideration unequal levels of education and vocational skills – creating the need to invest in oneself by elderly people
Non-standard forms of employment	<ul style="list-style-type: none"> – activating the so-called transitional labour markets, which create conditions for participation in the labour market in a situation very different from typical employment, that is, in the conditions of transitional employment – development of forms of employment such as part-time employment, work during public holidays, work on short-term contracts, a combination of paid and unpaid employment
Increasing the appeal of work as a source of income as opposed to alternative sources of income	Limiting the opportunities for the acquisition of social security benefits and early retirement pensions by ineligible persons
Elimination of discriminatory practices of employers	<ul style="list-style-type: none"> – elimination of barriers to job access – harnessing older employees' knowledge – inter-monitoring models – intergenerational teams

Source: Authors' compilation based on (Kryńska, 2011, pp. 332–235).

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Anita Richert-Kaźmierska, Marcin Forkiewicz

ELDERLY PERSONS PROFESSIONAL ACTIVITY – SUBSTANTIVE ISSUES AND METHODOLOGICAL CHALLENGES

Summary

Population ageing in Europe and mass withdrawal from professional activity leads to a number of adverse phenomena, such as increased public spending, reduced consumer demand and the growing problem of social exclusion. The study focuses on the problems of population ageing in Europe as well as on the feasible steps that may be taken with a view to professional activation of the elderly. The first part is concerned with the trends in the demographic changes occurring in European countries. Further, the article presents the factors that encourage elderly people in Poland to continue their participation in the labour market and shows the most common solutions aimed at professional activation of the elderly (especially at 55 or over – 55+). The factors were identified by the authors in the course of a study on the students of University of the Third Age in Gdańsk.

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INDIVIDUAL AND COLLECTIVE LEARNING OF THE UNIVERSITY TEACHER WHILE IMPLEMENTING THE STUDY PROGRAMME: METHODOLOGICAL ASPECTS

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Abstract

The article analyses the expression of individual and collective learning and their interplay in the activity of university teacher while implementing the study programme. The problem of the research is what dimensions of the individual and collective learning characterize the activity of the university teacher in the field of programme implementation.

The article consists of three parts. The first part properly analyses theoretic aspects of individual learning, breaking down individual learning from the perspectives of the sciences of psychology, education and management. The second part analyses the theoretic aspects of the collective learning from the perspectives of the sciences of sociology, education and management. The third part sifts the criteria of individual and collective learning of the university teacher while implementing the study programme by expressing the reality and the potential of the educational interaction between the university teacher, the student and more distant environment.

Keywords: individual learning, collective learning, study programme.

Introduction

Concernment of the research. Rapid development of the technologies, encouraging requirements for the employees, wide spectrum of the higher schools raise new challenges for the universities, multiply inner competition (Jarvis, 2006, Hinchliffe, 2006). The teacher is the kingpin of the university as an organization. He, while implementing concrete study programme¹², in each step must put so much inner confidence, personal initiative and knowledge dormant deep in his consciousness, that a student after finishing this study programme could say that he not only got what is necessary in the practice of his speciality, but he also took a part in the creation of new corporate model of thinking, he was developing his world-view, which reflects the process of collaboration, discoveries of learning, the spirit and the philosophy of the university. In other words, the university teacher while implementing study programme has to enable and inspire the student to learn, to connect the activity in different spaces of life as continuous process of creation. The association between the activity and learning admits the teacher simultaneously to become the learner (Senge, 2008, Merriam, Caffarella, Baumgartner, 2007). His professional activity during implementation of study

programme is a continuous learning process (Hargreaves, 2008, Moon, 2004, Nonaka, 2004, Ramsden, 2000). Study programme consists of several phases (creation, performance, evaluation, analysis) and levels of existence. The first or umbrella level is the idea, the concept of the study programme, expressed in the objectives, study results, methodical/didactic system and so forth. Next level is composed of modules – structural elements of the programme, which establish real background for acquiring study results. In each phase of study programme implementation: generating objectives and the learning outcomes of the study programme, designing the module study results and module didactic system, which connects the methods of teaching and assessment and grounds the way the students will acquire and demonstrate the predictable results of pursuant degree and (or) qualification, the university teacher should be an active participant and active learner. In the conceptual level of the study programme the teacher is the member of discussions, the generator of ideas and alternatives, that is to say he operates with the other participants of the programme and he is learning more collectively. In the level of module he is the direct creator and at that point he is learning above all individually.

The activity of the university teacher and the shift of its essence are also being continuously analyzed also in the studies of Lithuanian scientists, who are taking an active part in higher education reform, lasting over twenty years. Kundrotas (1996) was analysing the organization of the studies of higher education, Milišiūnaitė (1998) – education of the scientists, Kraujutaitytė (1998) – the democracy of the higher

¹² Study programme is a teaching/learning plan, connecting content of study and the system of manners of activity of university teachers and students, dedicated to embody the planned means of educational institution(s), in order to maintain posed learning objectives and scheduled study results (Jucevičienė, Simonaitienė, 2007).

education and the contractual intercourse, Šveikauskas (2000) – the interaction between the traditional and modern features of the higher education, the activity of the university teacher, Lepaitė (2001) – the development of competence while exercising study programmes, Baranauskienė (2002) – the reflective activity of the university teacher in the context of the higher education paradigm shift, Stanikūnienė (2007) – the educational competence of the university teacher and its ratio with the learning environments. For analysis of teaching in university is significant study of Baranauskienė (2002), displaying the shift of the paradigm of higher education and its expression through reflective study practice. Tautkevičienė (2002) discloses the shift of paradigms in the university, highlighting the importance of enabling the learning university environment – library. The authors who analyze higher education (Stanikūnienė, 2005, Jucevičienė and Karenauskaitė, 2003, Duke, 2002, Jucevičienė and Tautkevičienė, 2002, Šiaučiukėnienė and Kaminskienė, 2002, Jucevičienė and Lipinskienė, 2001, Jonassen and Land, 2000, Scott, 2000, and others) pay much attention for analysis of competence of university teacher, but there is a lack of research of the dynamics between individual and collective learning of the university teacher, what features are archetypal for individual and collective learning, how do those learning types express in the activity of the university teacher by implementing the study programme. Those questions are significant in theoretic and practical levels and the search for the answers constitutes the scientific problem represented in the article.

The aim of research: to ground the characteristics of the individual and collective learning of the university teacher while implementing the study programme.

The methods of research: literature analysis, theoretic modelling.

The article is composed of three parts. The first part properly analyses theoretic aspects of individual learning, breaking down individual learning from the perspectives of the sciences of psychology, education and management. The second part analyses the theoretic aspects of the collective learning from the perspectives of the sciences of sociology, education and management. The third part goes deep in the dynamics of both types of learning while embodying study programme and extracts the criteria of the research.

Theoretic aspects of individual learning

Individual learning empowers to disclose the intellectual capabilities of each member of the society, unique experience. It is an inexhaustible source of innovations, new possibilities and solutions. The phenomenon of individual learning must be analysed holistically, taking into account the contribution of the sciences of psychology, management and education in the researches of learning.

Psychological perspective of learning according to the level of the self-sufficiency and the connectivity between the experience of life and learning of a person is

divided into behaviouristic, cognitive and constructive learning. Behaviouristic theory of learning emphasizes learning of a human based on exterior signals, that is to say, the learning is controlled by the environment (other human). Cognitive learning theory expands the self-control of a person over learning process, sets off personal initiative of a learner, responsibility and the unique model of thinking. Cognitive explanation of the learning combines inner models of thinking composed by the learner self. The main components of the learning are the information to be learned, perception and storage of prior information and knowledge of the learner. Cognitive theories of learning unlike former theories do not demand the control or prediction of overall human learning activity, but are focused into miniature models of thinking, accommodating own spirit of learning (Merriam, Caffarella, Baumgartner, 2007). Nevertheless that is not enough when trying not only to solve particular problem, but to frame own personality, the implication of activity and life. That is what constructive learning theory is based on. Its key is that learning human constructs the meaning of his activity, gives sense to his experience. In the centre of constructive learning theory stands learning person. If in behaviouristic learning an impact on learning process and result of an environment, other person plays a role, in cognitive – person generates his own thinking system and is responsible for it, so in the cognitive learning most important is not what and how is learned, but how that changes personal features, empowers personal perfection. Constructive learning theory not only releases the unique of a person and charges to take responsibility, but also appreciates learning experience as a source for development of personality. Learning experience becomes crucial not only in solving concrete problem experienced by learner, but also in attempting to assess and give sense to all the activity of life.

According Vygotsky, learning is constructive, shifting the personality of a learner, it is integral and constant, the knowledge is not terminative, it is connected with social context and activity (Marcum, 2006).

If psychological perspective of individual learning emphasizes human psychic, intellectual processes, promoting him to learn and improve, *management dimension of individual learning* actualizes the human *activity, practice and its deep analysis*. Management perspective focuses on learning dormant in the situations of activity, when person practices, not in his mind as speculated concept (Merriam, Caffarella, Baumgartner, 2007). Management dimension of individual learning discloses and combines some perspectives: systemic, scientific analysis of experience, raising questions concerning experience, evolution of hypotheses, intellectual activity while examining them and contextual, practice based intuitive knowledge. The person is being stimulated to supervise and perfect his activity, search for new connections between phenomena. Jarvis assigns two types of learning from practice (activity): non-reflective learning, expressing reconstruction and repeating of experience or doing what we are told and reflective learning when we plan, observe, reflect the experience. Reflective learning covers consciousness of human, he constantly comes back to the past, attempting

to practice successfully, to improve in the future. Practicing such learning, he not only becomes self-contained, but also original, his solutions are different and even surprising in each situation. The essence of the reflection process is fixation, remembering of an personally actual event, rejecting subjective interpretation in order to generate effective solution, modelling new solution, based on own former practice, the experience of his community of practice, the experience of the members of social network, solutions from different contexts, adaptation of taken solution into the practice. In other words, a man looks back, takes the experience, which conditioned success in other situation or context, combines it in one's mental and activity model. Anyway, we experience new senses when faced with wider range of activity, acknowledge social life, gather practical knowledge and skills (Jarvis, 2006). Individual reflection of a man is not isolated from social world, where he lives, works, learns. Usually reflection is "mirror" reaction at the points of view of the others (Berger, Luckmann, 1999). Human reflects the object that exist in the natural environment, connects with the activity of the others. The dimension of individuality in the process of reflection shows up due to reflecting alone, construction and improvement of personal mental and activity model.

Experimental learning (human experimentation in the environment) and reflective practice (thinking about practice and studying it, checking in activity) present the most perfect form of learning. Reflective learning demands conscious efforts from the learner, thinking of an experience, recreation of former events, search of new connections is not possible without deep contemplation, active intellectual efforts, and extra expenditure of time. A man perfects his activity with the help of reflection. He reasons, analyses what is relevant for him in order to take objective solutions of everyday life. Reflection empowers the becoming of a human an active learner, critically thinking personality, aiming not to store the individual knowledge, but to know and to enrich the environment (the space) he lives in.

Educational perspective of individual learning actualizes learning as an integral part of human life, evident all life long and wide and in all life spheres (Jarvis, 2006, Niemi, 2003). Marcum (2006) anatomizes the dynamic learning. Dynamic learning is the involvement and reflective partnership in the process of discoveries of life, where the new knowledge is being composed and the competence, important for a human in the personal, technical and social contexts is being raised. In those contexts (in all the fields of life) the experience is being gained in formal and non-formal ways (at the university, special courses, in spare time, while communicating with the colleagues, etc.). In that way a person dynamically learns what is important namely for him. Most frequently the contexts of activity (learning environments) are related with learning and professional activity, but the dimensions of human spare time, religion, civil activity are also newsworthy. Some people have spectacular competence, much knowledge in fight field, demonstrating the richness and the depth of the human possibilities. Learning context (environment)

might be tight as a laboratory task or wide as lifestyle Marcum, 2006).

No matter how numerous were the learning resources of the learners – creativity, readiness, ability and tendency to learn – they are not endless. Successful learning requires rich educational environments to constantly inspire the teachers and the learners (Senge, 2008). In the motivating learning environments the learning resources are better used and updated because a man permanently discovers new stimulants to learn. As Merriam, Caffarella, Baumgartner (2007), Niemi (2003) state, a person extends his competence, widening the knowledge, necessary in everyday activity, utilizing different spaces.

Marcum (2006) names the environment as a context where person acts (in the professional and personal life). **Educational environment** is a dynamic informational space of learning activity, composed and affected by educator (teacher, human resource manager or other educational impact shaping man) and determined by the educational aim, corresponding content, promoting its mastering forms, methods and means, other things and subjects in that environment, having any impact on educational information and/or spread of it to the learner. **Learning environment** is a dimension of an individual level. That is a learning environment of each learner, made according to his learning objectives, abilities, demands, experience (or at least one of the factors) and the surrounding environment (Lipinskienė, 2002, Tautkevičienė, 2004, Jucevičienė, 2008). The learner pragmatically evaluates educational environment, using its elements beneficial for implementing his discoveries of life. He learns dynamically, reflecting on how certain environment permits him to implement personal, professional and technical goals (Marcum, 2006).

The analysis of an individual learning educational dimension permits to disclose educational processes in each sphere of human activity. Searching for the solution of the problem, successful activity, he seeks (even unconsciously) the environment with the maximum level of important information, other learning resources. Learning becomes not standardized, but individualized process. Each one individually analyzes his learning demands, objectives, competence, motivation, that are always original, sometimes hardly expressible, decides where and how to strive for improvement. He discovers own learning space (environment) utilizing educational environment designed for him or some elements of it or creating own learning environment himself.

In other words, individual learning might be described from the *psychological, management and educational* perspectives (dimensions) and can be divided into those characteristics: *human learning is raised by the environmental factors; learning as construction of model of thinking (which would help to overcome the problem); learning as a perfection of personality; experimental learning; reflective practice (activity); creation of contextualized situational and actual in the practice knowledge; contextual dynamism of a learning; the importance of rich educational environment.*

Theoretic aspects of collective learning

Talking about the learning society and its constructs, the learning not only on the individual level by construction the personal knowledge, but also on the collective (group, organization) – collective knowledge is being emphasized (Jucevičienė, 2007). The focus on superiority of collective learning to individual (Elkjaer, 2003), is being related with the establishment of constructionism in the social sciences (particularly – in education) (Laroche, 1998; Berger, Luckmann, 1991). The main weakness of individual learning is the lack of wider context, interrelations with the surrounding people while innovating their cognitive structures (mental models). While learning individually, very important field of knowledge is unappreciated: the other people and their perception and interpretation of the phenomenon, situations, the knowledge, which might be not verbally expressed, but important for taking key solutions. The main philosophic ground for collective learning is striving not to recognize, but to be involved. The theory of collective learning enables a person to discover new possibilities and new learning resources, connected with the particular situation. This situational look transfers the learning from the level of individual mind into the sphere of social interaction, activity, practice (Cook, Brown, 1999). Collective learning takes place when people communicate in the social area, when they establish significant social interfaces. The social learning theory, which describes the processes of collective learning, admits to answer the question what exactly proceeds when people from the individual level of learning step into collective. If individual learning theory is trying to understand the practice, to learn about it as much as possible, collective learning theory stresses a man as a piece of practice.

Learning is a social phenomenon, realized through the social interaction (Marcum, 2006), McCarthy, 2008). If individual learning licenses the spread of unique individual personality, perfection of conception and expression of own identity, collective learning broadly stresses *social interaction*. Collective learning is not being perceived as specific, determinate, purposive activity. That is far more omnipresent part of personal proceeding. Collective learning is a dynamic process of common knowledge creation, erecting the effect of synergy, community feeling, shared perception and sense of activity, expressed and implicit knowledge, characterized by commonness and consolidating relationships (Gubbins, MacCurtain, 2008; Cross, Armstrong, 2008). Knowledge in the context of social learning is grasping the reality, corresponding experience and emotions, connected with the object (Yang, 2004). Learning becomes a collectively built part of social reality; learner becomes practician of this reality (participant and composer). Learning becomes more practical, related with the expansion of identity than cognitive (epistemological).

Social interaction, requisite for collective learning, takes place in everyday confrontation situations with the other. The fundamental experience about the others we

gather in the confrontation situations. Therein we recognize and rate the subjectivity of the other person, reflecting and revising our statements towards him. That is to say, in the confrontation situation we are able to grasp the subjectivity of the other with reference to maximum amount of attributes. The other is being faced in the situation of confrontation, thus realizing „who he is“. The homogeneity of the people restricts the foundation of new perspectives and ideas (McCarthy, 2008). People with different identities are able to compose successful learning collective, as in confrontation situations they constantly enrich their knowledge, newly acknowledge the other person and gain new experience. Collective learning is not feasible without communication process among people. Communication includes the signs and the codes. The signs and the codes are being transferred and are available for the others, this transmission and acceptance of the signs and codes (communication) is the operation of social relationships (Fiske, 1998). The forms of collective learning (dyad, group, network) in the means of communication process appear to have different anonymity. That determinates the equity and objectivity of the interpretation of outgoing information. Learning in dyad, mutual anonymity almost vanishes, there is big expectation to interpret minds of the other correctly, an empathic connection emerges, confidence with the common activity and safety. Learning in the group, enlarges level of anonymity with regard to other members of the group, as not all the members know each other properly, can not foresee their minds, empathic closeness decreases. Learning in network, most of the members may be nameless for the others, the objective interpretation of their minds and actions is less probable.

In order to perfect organizational learning it is not enough to document, store, codify the knowledge, this knowledge must be shared, discussed, renewed (Mittendorff, Geijsel, Hoeve, Laat, Nieuwenhuis, 2006). The *management perspective* of collective learning analyzes organizational learning and community of practice as ground for learning from common activity. Organizational learning is the process of recognizing the problems and creation of knowledge necessary for their solvation (Nonaka, 2004). Organizations stimulate learning, thus it results in active knowledge, being used by practitioners (Argyris, 2004). When individuals express their mental models and actively share them, the activity of organization becomes more coordinated, the organizational learning takes a start. Organisational learning is more complex and dynamic than total individual learning within organization. Shared mental models are the formations of learning and experience, enabling rapid evaluation of situations, representation of ideas, prediction and making the solutions (Sadler – Smith, 2008). Organisational learning is the process of shifting collective convictions (shared explicit technical knowledge, social norms: practical implicit knowledge, shared valuables) (Yang, 2004). Defensive routines supply an organizational learning friendly climate. They enforce the manifestation of activity, eliminate feeling of discomfort by supplying safety and stability.

Evermore people are being associated into the communities with specific cultural experience, revealing their collective learning (Starkey, Tempest, McKinlay, 2004). Community of practice as a system of social learning can exist inside or outside the organization. Organization might foster and cherish the community of practice, but it can also refuse the control over community of practice at all (Wenger, 2004). Community of practice, not an individual is a fundamental unit in contemporary organization. Within communities of practice the shaping of social norms, formation of intersubjectivity, intensification of identity take place (Plaskoff, 2003). Communities of practice are component parts of social learning system (in the frames of organization – organizational learning). They are the „containers“ of competence, constituting this system. The members of community of practice commonly decide what structures the competence in particular context (competence of reliable doctor, gifted photographer, popular student, etc.) (Wenger, 2004). Organization in order to promote the activity of communities of practice should institute learning-friendly culture, maintain them, afford necessary resources (time for reflexion, space to meet) (McCarthy, Garavan, 2008). Within the organization the learning communities of practice might be initiated purposely as means of knowledge management, maintaining and stimulating organizational learning (Mittendorff, Geijssels, Hoeve, Laat, Nieuwenhuis, 2006). The communities of learning enable to disclose full, not necessarily evident, potential of the employees, which is crucial when striving for creation of innovations, better proceeding results. Community of practice is a space for reasoning. A person must have time for reflection of his activity, meeting with other members of community of practice, being ready to share the knowledge and having enthusiasm to listen. Community of practice requires place and time in order to initiate and implement meaningful initiatives, establish and cherish common goals, culture of collaboration (Gubbins, MacCurtain, 2008).

Managemental dimension of collective learning discloses the communities of practice as urgent component for initiating and maintenance of collective learning. Within community of practice is being raised common identity, trust, feeling of safety. In such a surrounding the members of organization have been created a climate not only to separately perfect the mental and activity models, but also to *create shared activity model while actively experimenting, sharing the knowledge*. The result of organizational learning is an active knowledge, made in communities of practice, from the experienced activity, expressing implicit or even tacit knowledge.

Implicit, non formal learning processes are hardly exhibiting; people purposely do not name and perceive them as learning. Implicit learning generates tacit knowledge, which is specific, context related, personal, hardly transferable. Tacit knowledge and its turnover is the key valuable of community of practice and a sign of identity. Tacit knowledge is very important, powerful in the process of learning and creation of innovations, those

processes are being annotated by the *perspective of educational science*.

The target of collective learning is the creation of shared mental model. Mental models are what is learned explicitly, intercepted implicitly, not directly. That is the reason why the models are difficult to articulate, express and share with the others. The expression of mental models insists shared language, understandable for all the members of community (Kim, 2004). Common language, activity and culture present shared consciousness. It is being formed in particular time, place, in specific collective (Marcum, 2006). Collective of people, learning together, generates the models of common solutions, key concepts. In order to sustainably transfer individual mental perspectives into common mental model, one needs common sense, sociality of the collective members. The concentration of individual mental models is not a creation of collective mental model. This creation requires the connection between fragmentary individual mental models and organizational learning. The knowledge is being instituted while shifting tacit and explicit knowledge (Kim, 2004). Frequently the third type of knowledge - implicit, is being parted, taking middle position between tacit and explicit knowledge¹³.

When people learn together, they become like a swarm of birds or traffic flow, they share the knowledge, the wider it spreads, the wider generalizes own culture and strengthens impact of collective (Marcum, 2006). Sociability in the process of learning is essential element of knowledge creation, admitting to objectivise, to set to the reality shared mental model and spread notice about self in the wider context, thus enlarging an impact of own social unit in the society. Mental process is constantly reshaping net, where matters all the experience, gained in different spaces. The knowledge is being generating not to recognize the world, but to improve it. People, feeling the lack of particular skills, start learning in order not to lack the competence and not to become the losers in the contest of competition (Marcum, 2006).

Collective knowledge creation proceeds when unlike individual all the knowledge creation variations solidly work making continuous cycle. This cycle is composed of volatile versions of shifting the knowledge. *Socialisation* usually is initiated with organizing the team, foundation space for interaction. This enables the partners to share experience and predictable possibilities. *Externalization* takes place when significant dialogue

¹³ Knowledge is a social construct, constituted of three different layers – explicit, implicit and tacit knowledge. Knowledge is perception of a person about the world, based on analogy of intellection, personal experience, and emotional impact of exterior objects. *Explicit knowledge* includes perception of a human about the world, expressed formally and systematically. That is codified knowledge, permitting to part truth from lie. *Implicit knowledge* is practice related, it covers learning, which is not straight expressed or demonstrated. In most cases, we know more than we think we do. Implicit knowledge is personal and context-related. They are hardly formalized and communicated. This knowledge operates in practice, are based on research and inclusion. implicit knowledge exists in manner, activity, experience. *Tacit knowledge* is set as a reaction to exterior world. It relates with emotions and is grounded by moral valuables. This knowledge is organized from the feelings and emotions, challenged by frame objects and situations. Tacit knowledge involves desirable view of a future, striving for disengagement from the nature and social restrictions (Yang, 2004).

occurs. With the help of metaphors, the learners express their notions, disclose hardly communicative tacit knowledge. Commonly landscaped concepts are being combined with exterior knowledge in order to increase concreteness, objectivity, possibilities of expansion – follows *combination* of knowledge. This process insists coordination among team members, other sections of organization, documentation of produced knowledge. During interactive process, while trying and mistaking, sets experimentation, concepts are being expressed and perfected till assume specific shape. This is learning by doing. Acting together, learners share explicit knowledge, while interaction, trying and mistaking, it turns into tacit knowledge, that shift is called *internalization* processes. Individual tacit knowledge is key source for collective knowledge creation. Externalization of this knowledge is therefore often emphasized, then goes widening the knowledge, involving all the four knowledge shift variations (Nonaka, 2004).

The educational dimension of collective learning analyses the process of collective knowledge creation, grounded on dynamics of tacit and explicit knowledge. This process opens with the particular experience, its transference into social scope, experimentation in this sphere, examination of mental model, finally new knowledge is being personally reflected and involved into everyday activity. This cycle is continual, however each time gathers new quality concerning new experience, expanding amount of the joint learners, reforming *meta* learning skills.

Summarizing this section, it is essential to mention that the ultimate formations of collective learning are the networks, which can function, depending on size and purpose, as therefore described communities of practice or networks of practice. Groups are somewhat less in size formations, where learning processes. The least possible composition of collective learning is dyad (pair) of the learners.

In short, collective learning can be characterized from *social interaction, managerial and educational* perspectives (dimensions) and abstracts into given characteristics: *recognition, assessment and perception of subjectivity of the other person on the situation of confrontation; the ratio between the level of anonymity and equity of interpretation; cultural norms of community of practice; constant foundation of shared model of activity (unifying and recreating the knowledge); creation of shared mental model based on dynamics of tacit and explicit knowledge.*

The dynamics of individual and collective learning in the activity of university teacher in study programme implementation

The concept of study programme is being analysed by Lithuanian and foreign scientists: Jucevičienė (1989), Lepaitė (2001), Jucevičienė, Simonaitienė (2007), Laužackas (2007), Reddy, Ankiewicz, Swardt, Gross (2003), Barnett (1997), White (2004). According Jucevičienė, Simonaitienė (2007), study programme is a teaching/learning plan, unifying the study content, the

system of teacher's and student's activity methods, intended to realize the landscaped means of educational institution(s) with the purpose to maintain posed learning objectives and planned study results. Study programme includes the questions: *what is taught? Why is that taught? How is that taught?* More generally, study programme encompasses all the activity in order to maintain marked objectives and study results.

The cycle of study programme implementation is composed of arrangement, realization, assessment, improvement and other phases. In the arrangement phase the conceptual idea of study programme is being incubated and grounded, foreseen and formulated study programme objectives and learning outcomes, which correlate with the objectives and mission of the institution. In this phase should be reflected the level of the programme, that is to say, its intellectual challenges and strengths, its location in the structure of qualifications, balancing the strategy of complexity of the programme. In other words, the programme should gradually gain more complexity and demand correspondingly more, taking into account the possibilities to face, from awarded students of the programme, reflecting desirable study results stated in the programme. Within this phase should be reasoned the system of study and study achievement assessment, disclosing the way the students are going to meet and demonstrate the predictable study results of acquiring degree and (or) qualification; responsibly measured the potential of material and human resources necessary for the programme. This is the conceptual layer of the study programme. Further level is the anticipation of structural programme elements of the content (modules¹⁴), warranting the attainment of intended study results, enunciation of their objectives and study results, establishment and prosecution of didactic system. (Lepaitė, 2001, Laužackas, 2007, Jucevičienė, Simonaitienė, 2007). What is par for those layers and what is the role of the university teacher within each of them?

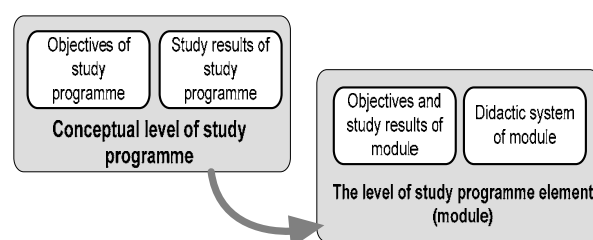


Figure 1. The levels and elements of study programme

On the conceptual level the concept of the programme is being generated, maintained and reconsidered, its objectives and study results are being stated (or corrected, improved) with the attendance of many concerned participants: managers of the programme, the university teachers, employers, students,

¹⁴ Study module is a part of study programme built of one/some matter-related and integral subjects with definite objective and orientation into the study results.

auxiliary etc. That is the situation of academic discussion, when are being actively debated and coordinated formal administrative requirements, the objectives of an academic institution, the requisitions of professional field, didactic innovations etc. That is the breeding-ground where sway the premises for the university teacher's becoming the participant of collective learning.

Study module is a structural part of study programme, overcoming study programme related content, imperative for achievement of particular programme and module study results (Yorke, 2002). Establishment and implementation of a module is more individual activity of a university teacher. That is an individualized space of university teacher's (or group's of them) practice, providing creative liberty and requiring personal responsibility for the results. Within the level of study programme element individual learning is more likely to manifest, whereas within study programme conceptual level collective learning is necessary. Obviously, among the levels of study programmes the dynamics of learning types is feasible. As mentioned above, collective learning may take place in dyad, group or network (community of practice). In order to identify what type of university teacher learning represents within different levels of study programme, integrated attitude is essential. Thereupon, in order to holistically appreciate

the dynamics of the university teacher learning while implementing study programme, must be estimated the psychological, social interaction, managemental and educational learning perspectives and according to those perspectives discharged the characteristics of individual learning (*human learning is stimulated by exterior factors; learning as creation of mental model (helping to solve the problem); learning as personal perfection; experimental learning; reflective practice (activity); creation of context related and practice relevant knowledge; contextual dynamism of learning; stress on rich educational environment*) and collective learning (*recognition, assessment and perception of the subjectivity of the other person; the ratio between the level of anonymity and correct interpretation; cultural norms of community of practice; permanent creation of shared mental model (unifying and recreating knowledge); creation of shared mental model based on dynamics of tacit and explicit knowledge*).

Consequently it is meaningful to interrelate the characteristics of learning types: individual and collective with the conceptual study programme entity and element levels into generalising complex model, publishing integrated analysis of expression of individual and collective learning of the university teacher while implementing study programme (see figure 2).

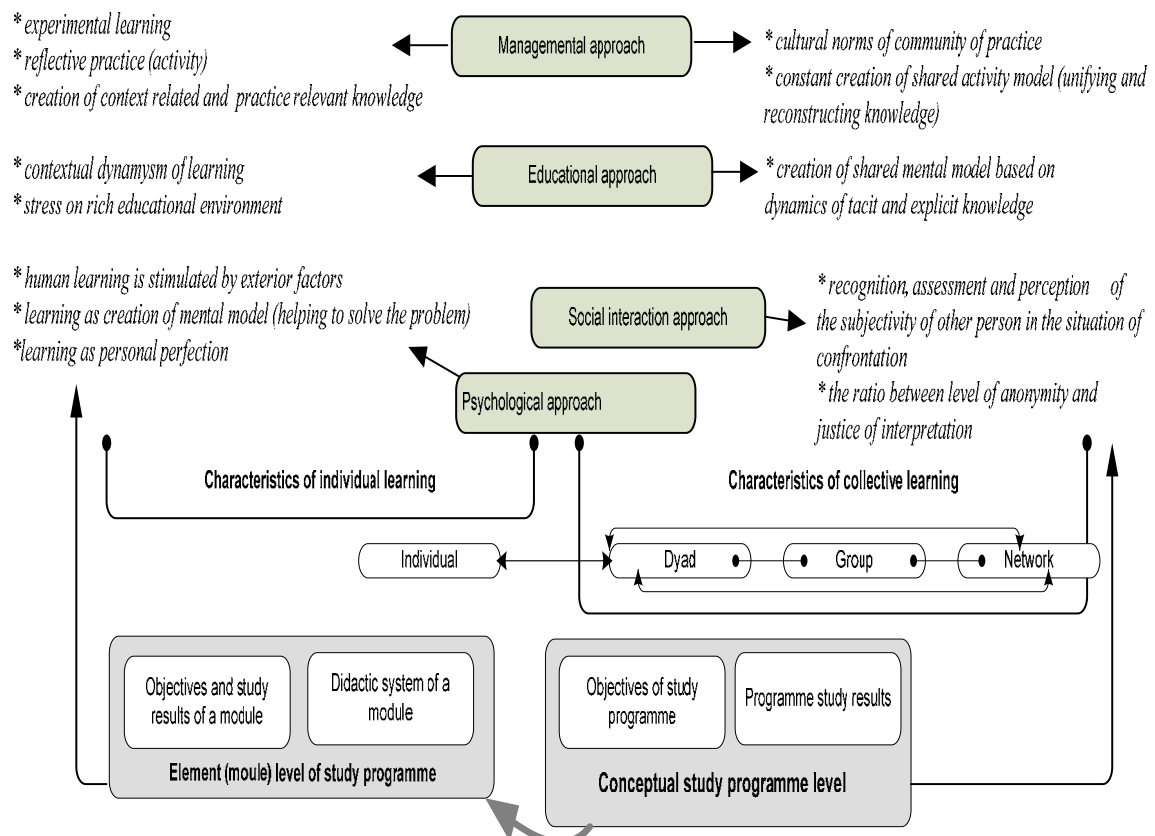


Figure 2. The complex model, interrelating the characteristics of individual and collective learning with the conceptual study programme aggregate and element levels

Conclusions

Individual learning can be characterized from different perspectives. Psychological perspective emphasizes given characteristics of individual learning: human learning is stimulated by exterior factors; learning as creation of mental model (helping to solve the problem); learning as personal perfection. Managerial perspective discloses the characteristics of experimental learning; reflective practice (activity); creation of context related situational and practice relevant knowledge. Educational perspective sets the characteristics of contextual dynamism of learning and stress on rich educational environment.

Collective learning can be defined in the terms of social interaction, managerial and educational perspectives. The perspective of social interaction reveals the consideration of recognition, assessment and perception of the subjectivity of the other person, the ratio between the level of anonymity and correct interpretation within the framework of collective learning. Managerial perspective on collective learning highlights the characteristics of cultural norms of community of practice and permanent creation of shared mental model (unifying and recreating knowledge). Educational perspective brings creation of shared mental model based on dynamics of tacit and

explicit knowledge standing as characteristic of collective learning. Moreover, collective learning might take place in dyad, group and network (community of practice).

As established, study programme consists of different layers: conceptual and element (module). Those distinct levels of study programme demand corresponding learning style of university teacher. On the conceptual level, where is being generated, maintained and reconsidered conception of a programme, the objectives and study results are being formulated (revised, improved), take part many concerned participants, consequently function assumptions for representation of collective learning. Within the level of element (module) individual learning should be more pronounced. University teacher, perhaps not equally, but acts within both study programme levels, conceptual and element, that is why it is meaningful to analyse the dynamics of expression of his individual and collective learning. That is complex phenomenon necessitating integrated approach, combining different learning perspectives – psychological, social interaction, managerial and educational – reflecting the characteristics of individual and collective learning.

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Berita Simonaitienė, Jurgita Zubrickienė

INDIVIDUAL AND COLLECTIVE LEARNING OF THE UNIVERSITY TEACHER WHILE IMPLEMENTING THE STUDY PROGRAMME: METHODOLOGICAL ASPECTS

Summary

The activity of the university teacher and the shift of its essence are also being continuously analyzed also in the studies of Lithuanian scientists, who are taking an active part in higher education reform, lasting over twenty years. Kundrotas (1996) was analysing the organization of the studies of higher education, Milišūnaitė (1998) – education of the scientists, Kraujutaitytė (1998) – the democracy of the higher education and the contractual

intercourse, Šveikauskas (2000) – the interaction between the traditional and modern features of the higher education, the activity of the university teacher, Lepaitė (2001) – the development of competence while exercising study programme, Baranauskienė (2002) – the reflective activity of the university teacher in the context of the higher education paradigm shift, Stanikūnienė (2007) – the educational competence of the university teacher and its ratio with the learning environments. For analysis of teaching in university is significant study of Baranauskienė (2002), displaying the shift of the paradigm of higher education and its expression through reflective study practice. Tautkevičienė (2002) discloses the shift of paradigms in the university, highlighting the importance of enabling the learning university environment – library. The authors who analyze higher education (Stanikūnienė, 2005, Jucevičienė and Karenauskaitė, 2003, Duke, 2002, Jucevičienė and Tautkevičienė, 2002, Šiaučiukėnienė and Kaminskienė, 2002, Jucevičienė and Lipinskienė, 2001, Jonassen and Land, 2000, Scott, 2000, and others) pay much attention for analysis of competence of university teacher, but there is a lack of research of the dynamics between individual and collective learning of the university teacher, what features are archetypal for individual and collective learning, how do those learning types express in the activity of the university teacher by implementing the study programme. Those questions are significant in theoretic and practical levels and the search for the answers constitutes the scientific problem represented in the article.

The aim of research: to ground the characteristics of the individual and collective learning of the university teacher while implementing the study programme.

The methods of research: literature analysis, theoretic modelling.

The article is composed of three parts. The first part properly analyses theoretic aspects of individual learning, breaking down individual learning from the perspectives of the sciences of psychology, education and management. The second part analyses the theoretic aspects of the collective learning from the perspectives of the sciences of sociology, education and management. The third part goes deep in the dynamics of both types of learning while embodying study programme and extracts the criteria of the research.

Individual learning empowers to disclose the intellectual capabilities of each member of the society, unique experience, is an inexhaustible source of innovations, new possibilities and solutions. The analysis of an individual learning education dimension permits to disclose educational processes in each sphere of human activity. Searching for the solution of the problem, successful activity, he seeks (even unconsciously) the environment with the maximum level of important information, other learning resources. Learning becomes not standardized, but individualized process. Each one individually analyzes his learning demands, objectives, competence, motivation, that are always original, sometimes hardly expressible, decides where and how to strive for improvement. He discovers own learning space (environment) utilizing educational environment designed for him or some elements of it or creating own learning environment himself. In other words, individual learning might be described from the psychological, managerial and educational perspectives (dimensions) and can be divided into those characteristics: human learning is raised by the environmental factors; learning as construction of model of thinking (which would help to overcome the problem); learning as a perfection of personality; experimental learning; reflective practice (activity); creation of contextualized situational and actual in the practice knowledge; contextual dynamism of a learning; the importance of rich educational environment.

The main philosophic ground for collective learning is striving not to recognize, but to be involved. The theory of collective learning enables a person to discover new possibilities and new learning resources, connected with the particular situation. This situational look transfers the learning from the level of individual mind into the sphere of social interaction, activity, practice (Cook, Brown, 1999). Collective learning takes place when people communicate in the social area, when they establish significant social interfaces. Summarizing collective learning, it is essential to mention that the ultimate formations of collective learning are the networks, which can function, depending on size and purpose, as communities of practice or networks of practice. Groups are somewhat less in size combinations, where learning processes. The least possible composition of collective learning is dyad (pair) of the learners. In short, collective learning can be characterized from social interaction, managerial and educational perspectives (dimensions) and abstracts into given characteristics: recognition, assessment and perception of subjectivity of the other person on the situation of confrontation; the ratio between the level of anonymity and equity of interpretation; cultural norms of community of practice; constant foundation of shared model of activity (unifying and recreating the knowledge); creation of shared mental model based on dynamics of tacit and explicit knowledge. The concept of study programme is being analysed by Lithuanian and foreign scientists: Jucevičienė (1989), Lepaitė (2001), Jucevičienė, Simonaitienė (2007), Laužackas (2007), Reddy, Ankiewicz, Swardt, Gross (2003), Barnett (1997), White (2004). According Jucevičienė, Simonaitienė (2007), study programme is a teaching/learning plan, unifying the study content, the system of teacher's and student's activity methods, intended to realize the planned means of educational institution(s) with the purpose to maintain posed learning objectives and planned study results. Study programme includes the questions: what is taught? Why is that taught? How is that taught? More generally, study programme encompasses all the activity in order to maintain marked objectives and study results. The cycle of study programme implementation is composed of arrangement, realization, assessment, improvement and other phases. Study programme consists of different layers: conceptual and element (module). Those distinct levels of study programme demand corresponding learning style of university teacher. On the conceptual level, where is being generated, maintained and reconsidered conception of a programme, the objectives and study results are being formulated (revised, improved), take part many concerned participants, consequently function assumptions for representation of collective learning. Within the level of element (module) individual learning should be more pronounced. University teacher, perhaps not equally, but acts within both study programme levels, conceptual and element, that is why it is meaningful to analyse the dynamics of expression of his individual and collective learning. That is complex phenomenon necessitating integrated approach, combining different learning perspectives – psychological, social interaction, managerial and educational – reflecting the characteristics of individual and collective learning

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DEVELOPMENT OF INDUSTRY COMPETITIVENESS MODEL FACTORS DURING RECESSION IN LITHUANIA

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Abstract

The article analyses the factors influencing the growth of economics as well as their interrelationship under economic slowdown. The innovations are named as the essential factor promoting economics growth when the economics experiences the slowdown, as well as the attention is paid to that the insight, effectiveness of factors as well as complexity of the activity are important in this period. The extent of economic slowdown and its specificity are defined; the influence of the means of the competitive policy upon country's competitive environment and international competitiveness of country's industry is disclosed. The premises that allow promoting the emergence of innovative enterprises are presented.

Keywords: country's industry, international competitiveness, economic recession, innovations, economic growth.

Introduction

Economic changes in different world countries make conditions for forming innovations of one or another character during the economic slowdown. Growing economics of Eastern countries, as well as workforce getting more expensive in these countries force business representatives to orient to the labour markets of other countries in which workforce are cheaper. However, the workforce and productive capacity of such countries as Lithuania are not sufficient so that they could implement large orders of business partners from foreign countries. During this period the favourable situation forms for such enterprises, which due to innovative decisions are able to increase their international competitiveness.

The different periods the forming economic changes make premises for emerging of new phenomena both in economic and social environment changes being formed in contradictions are creating as well as destroying forces that cause the society progress.

As the performed researches showed, the aspect of international competitiveness, which become evident due to the creation of global economic network, more and more clearly show the contradiction between the economic theories that deny the existence of international competitiveness (Krugman, 1994) and the theories, which distinguish international competitiveness (Porter, 1990; Schumpeter, 1942, 1950; Siebert, 1994; Fagerberg, 2004; Garelli, 2003; Snieska, 2008; Beniušienė, 2008; Snieska, 2009; Travkina, 2010) as the existing phenomenon. Multinational corporations take up more and more powerful positions, as well as their role in the world economics increases.

At different stages of economics development the specificity of the economic slowdown was rather different; pre-capitalistic economic slowdowns were

related to agriculture and insufficient volumes of production, in later period of capitalism the merchandise overproduction caused capitalistic crises. The economic slowdowns of the latter period, to which the globalisation of the markets and financial flows, relate to the policy of banks, disproportionate investments into real estate and other values, on the basis of which economic bubbles are being formed.

The young enough trade zones, which are included by the agreements of different world countries such as APEC (established in 1989), MERCOSUR (established in 1991), NAFTA (established in 1994), in which the major world economic power is concentrated; make influence upon the formation of competitiveness. In the EU it becomes more complicated to compete in the world markets in order to pursue for the aim formulated in the Maastricht agreement – to become the most competitive economics in the world.

Having reviewed the works and publications of scientists, the validity of the importance of the relationship between business and researches is envisaged. The contribution of businessmen as innovators, who are pursuing for greater profit, striving to keep up and win in the competitive fight as well as by producing new merchandise and finding new markets, they develop new production methods, new materials and their sources, is defined (Clydesdale, 2007) in the theory of economics development (Schumpeter, 1934). However, one of the propellants of innovations is science, researches and science development; and these are the basis to maintain the competitiveness of country's industry.

If to take as the example China's economic development based on the definite paradigm with existing structure of behaviour, relationship and productive activity, nevertheless only during the nineteenth century this country lost its industrial advantage though the progress of science took place at that time; however, the

formalisation of education provoked stagnation. Though science advanced but insufficiently, meanwhile in Europe the progress took place in the branches of industry related to steel, energy production and chemistry industry (Clydesdale, 2007).

The processes of innovations' development and their implementation have to take place continuously from the very beginning of enterprise's activity; this ensures success of the activity as well as it guarantees favourable conditions for international competition. It is easy to notice the importance of the government's role in creating favourable conditions to promote the development of research – industry, by this softening the slowdown of economics and stimulating its recovery. In Lithuania the development of innovations and competitiveness is impeded by the limitations in the system of country's foreign trade regulation; insufficiently developed network of the Lithuanian agencies, which are responsible for the development of bilateral and multilateral economic, trade relations, abroad; as well as the limitations in forming the economic image of the country.

Scientific problem – contradictions between the economic theories, which deny the existence of international competitiveness, and the theories, which distinguish international competitiveness; as well as due to this the emerging question: is it necessary to promote the processes of innovations' development and their implementation from the very beginning of enterprise's activity in order to ensure success of the activity and to guarantee the favourable conditions for international competition.

The aim of the research – is to identify what factors of Lithuania's industry competitiveness formation manifest during the slowdown period.

Research object – Lithuania's industry and its international competitiveness.

Scientific novelty: the model of the factors influencing international competitiveness of country's industry is designed.

Research methods: systemic, comparative and logical analysis of scientific literature.

Competition, economic slowdown and innovations

The emerged economic crisis strongly influenced not only Lithuanian but also the European Union's industry by weakening most of its areas. Thus representatives of industry branches of these countries together with the local authorities must make such structural corrections, which would be acceptable both in political and social standpoints (EC, 2010).

I. Beniušienė and G. Svirskienė state: 'State's international competitiveness is guaranteed by the direct regulation of economics structure and dynamics, the activity of branches and enterprises by the authorities, as well as by the presence of state economic sector' (Beniušienė, 2008). According to these authors, 'competitiveness is influenced by both the structure of economics branch and competitors' behaviour'; they agree with the opinion of Porter (1990) that 'in all cases the direct and primary subject of international

competition is an economics branch or its segment, and competition object – its produced merchandise being offered to a foreign consumer directly or by an agent' (Beniušienė, 2008).

The contribution of M. Porter into the studies of competitiveness is solid; however, the suggested supplement of the model of 'Double Diamond' (Rugman, 1991), (D'Cruz, 1993 and Verbeke, 1993) is important due to the influence of government's role and international activity upon competitiveness of country's industry as well as it conforms to the topicalities in these areas.

Scientific literature presents models of competitiveness: the model of 'National Diamond' by M. Porter (1990); the model of 'Double Diamond' by A. M. Rugman (1991), J. R. D'Cruz (1993); the model of 'Nine Factors' by D.S. Cho (1994); the model of 'Double Diamond' generalised by A. M. Rugman, J. R. D'Cruz and A. Verbeke (1998); the models of 'Competitiveness Stages' by M. Porter (1998), D. S. Cho and H. C. Moon (1998) reflect the factors influencing competitiveness thoroughly enough.

Having analysed theoretical models of country's competitiveness, it is easy to notice their coherences with the model of competitiveness (Porter, 1998); all models are aimed to perform more generalised analysis of competitiveness. These models are related to the theory of competitive advantages, which was further developed by considering peculiarities of modern economics (Porter, 1998). However, when developing the model of separate country's competitiveness, it is necessary to consider the factors that are characteristic for the country and influence its competitiveness.

The countries, which pay greater attention to science and research development, innovation activity development, as well as to financing of these areas, not only easier experience difficulties of economics, but also win in competition by attaining greater profit. Here it is possible to agree with the opinion of J. Schumpeter and his followers, who state: '... the most important incentive of enterprises to invest into technologies, R&D considered the expectations at least temporarily to take the prevailing status in the market and to increase selling by using innovations. In some time innovations become available for most participants of the market, and they overspread the benefit of new technologies for other enterprises and society. Competitiveness and growth of economics are related to diffusion of innovations when enterprises freely compete in the market and pursue to seize the advantages of 'the first move' in the area of innovations (Austrian Institute, 1998)' (Vilpišauskas, 2004).

When pursuing to strengthen or maintain the present positions of competitiveness, enterprises search for different ways of solution: some of them make the decision to become members of consortium or seize more favourable conditions such as the state of free zone (Goiri, 2000), others orient to new markets, new types of robots and new robot-based production systems (Kusuda, 2010), the activity based on new technologies helped to fight with recession (Autio, 1998), Banyte, J., &

Salickaite, R. (2008), Navickas, V., & Malakauskaite, A. (2009).

Differences of national possibilities of innovativeness depend on differences of countries' economic geography (as different level of the influence of external effects upon local enterprises) such as differences of innovation policy among countries (e.g.: level of public financing of fundamental researches, level of legal protection of intellectual property) (Furman, 2001).

The success of innovation activity development is influenced by internal and external factors; general economic level of the development, as well as the priorities of the government's policy in assigning finances for the programmes of science and innovations development determine a lot. Sufficient financing is necessary for implementation of an innovative idea, production of an innovation as well as display of methods for its application. In order to ensure successful and effective innovative development the continuity of this process is necessary. The emergence of a new idea taking place at the phase of the application of the innovative activity innovation begins a new cycle of the innovative activity so guaranteeing the continuity of the innovative process, as well as the advancement of economics and general wellbeing.

Competition policy as a factor of innovations enabling in slowdown

It is possible to define the extent of the influence of economic slowdown upon country's industry competitiveness at the level of the country, the union and the world by distinguishing low, medium and high extent of economic slowdown.

The extent of economic slowdown directly influences competitiveness of country's industry. When economic slowdown manifests in the country, both industry and country's economics have the possibility to faster overcome the emerged difficulties; it is possible to do this by activating and developing export possibilities and searching for new markets beyond the country. In comparison it is low extent of economic slowdown. As free movement of goods, people, services and capital manifests among the EU states members, citizens of every state member have the possibility to realise their potential in employment and entrepreneurship in the EU; due to such policy favourable conditions are created to overcome the difficulties of the economic slowdown of one state member.

However, more complicated situation is when economics experiences the slowdown in the larger extent – of the Union, when recovery of country's economics relates to the hard economic situation of other countries, decreasing volumes of production, increasing unemployment, decreasing consumption. Negative influence of slowdown manifesting not only in one state member but also in neighbour states decrease export possibilities, markets are lost, volumes of foreign trade are decreasing. In this case the phase of economic slowdown can be much deeper and continue longer, it becomes more complicated to find the means and

decisions promoting economics. This is the medium-level economic slowdown.

As economic slowdown is high, difficulties of economic slowdown manifest globally. Global crisis of economics paralyses economics for longer time than medium-level economic slowdown; it becomes more complicated to find solution ways to overcome it.

The duration of the process of economics recovery depends on the extent of slowdown; thus it is important to pay greater attention to stimulation of industry activity by means of innovations as one of the most efficient factors inducing industry recovery. It is possible to envisage coherences between the life cycle of a product, as well as cycles of industry technology and economics development. At every stage of slowdown cycle the old production technology, products, services, implements of production placing their last marginal utility seems to play out. It becomes relevant to search for novelty so to extend the process of production – distribution – consumption, as well as turning on the new engine of economics recovery. Innovations are only one way of economics stimulation; it is most purposeful to employ the complex package of economics stimulation means by combining the factors of economics stimulation as many as possible.

When increasing country's competitiveness, it is necessary to employ the flexible tax system, which would not prevent business development but would promote it. When the cycle of economics is in the stage of slowdown, and especially in the case of world economic crisis, both direct taxes (especially income taxes and corporation taxes) and indirect taxes (value-added and excise taxes) have to be decreased. The decrease of taxes is the optimal way giving only positive results in order to improve business conditions and to promote business development during the slowdown. It is very important to create favourable conditions for business development; the creation of these conditions and their improvement condition more rapid economic recovery by promoting entrepreneurship.

Creation of more favourable conditions in respect of taxes is especially important for small business in the case of successful development, sometimes survival. Thus work places are retained, production and consumption take place, and growth of unemployment is avoided.

Competitiveness of country's industry is influenced by country's geographical environment, competitive environment and competitive policy (**Fig. 1**).

Competitive policy forms competitive environment in respect of both the inside and the outside. The influence and effectiveness of the factors (research and technology development; partnership of universities and industry; investments into human capital; direct foreign investments; licences and patents; information communication technologies; processes of standardisation and unification), which determine competitiveness of country's industry and at the same time development and diffusion of innovations in this sector depends on the means of competitive policy being developed in the country, which determine the success of business development and which create more or less

favourable conditions for it. The result of the influence of political environment upon country's enterprises manifests through the government's decisions and viewpoint to business and science development.

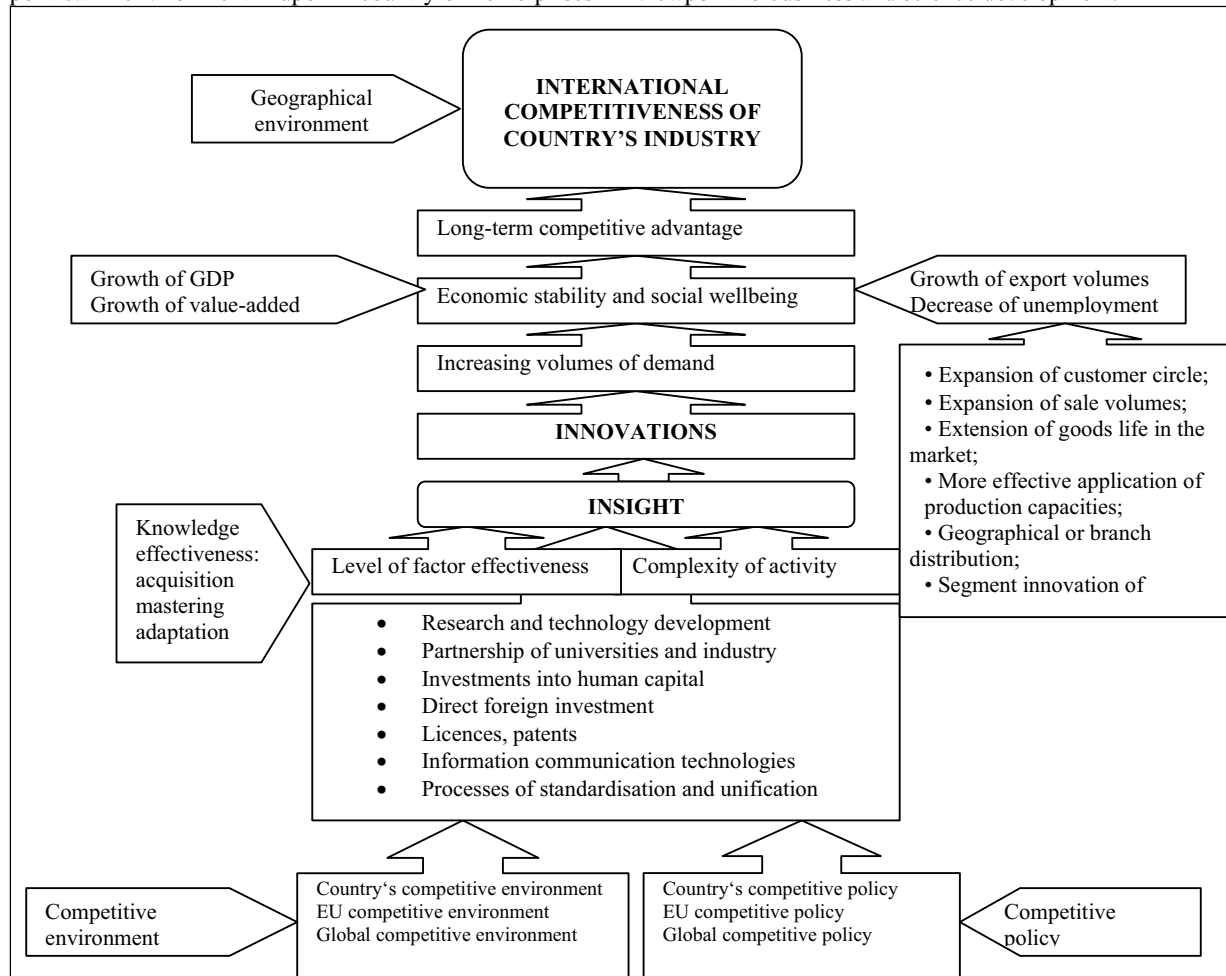


Figure 1. The factors influencing international competitiveness of country's industry

The performed researches allow stating that in Lithuania the legislative basis does not promote the development of business and science. The existing unfavourable system of business development in Lithuania deters not only from innovations but also from business.

The gaps existing in the system of Lithuanian small and medium business development impede the spread of innovations at small and medium enterprises as well as suppress country's competitiveness.

The effectiveness of the factors stimulating recovery of economics and their complexity are particularly important for successful development of industry especially during economic slowdown when volumes of general demand are shrinking. At separate industry sectors it is very important to adjust strategies of domestic competitiveness with the strategies of world competitiveness because during economic slowdown the expansion of export volumes is one of the main measures of economic recovery. Thus insight is very important both in developing the strategies and foreseeing tendencies and specifics of customer needs in foreign countries. It is important to properly assess the possibilities of the enterprise as well as suitability of a

product being exported for foreign markets (markets), to evaluate potentials of the personnel and financial possibilities, as well as to consider cultural and geographical peculiarities of another country.

Insight becomes a particularly important factor during the slowdown of global economics as both domestic competition and competition in world markets are strengthening when economy of input is very important. At this period the decisive role falls on innovations because in the case of shrinking general demand: real income of the population decreases, unemployment grows, competition increases. As such situation prevails in the market, producers have to offer an innovative product only in order to ensure sale.

It becomes very important to choose what character innovation is necessary namely during this period at a specific enterprise of a specific industry branch; here the importance of insight becomes evident both in choosing what character innovation is necessary and in choosing the strategy of competitiveness. In this case insight means specific abilities of an employee to foresee and prognosticate the sequence of events as well as outcomes so that the maximum profit would be attained by the most minimal input.

When speaking about the complexity of activity, it is possible to mention the adjustment of inter-activity of industry sectors, e.g. the complexity of the activity of timber and furniture industry sectors, which would give mutual profit for both sectors of the industry.

Model of the factors influencing directions to competitiveness

Bankruptcies of banks, the downturn of turnover in real estate market, fallen volumes of industry production, increased unemployment, and slowed-down export growth are characteristic both for the world economic crisis in 2007 – 2009 and for the economic crisis in Russia in 1998, the crisis of Eastern Asia in 1997, as well as the crisis in Japan in 1991 - 1999. The problems of finance sector instability, which influence negatively different economic units in different countries, are characteristic for most economic crises. Both the reasons of economic slowdowns' formation and their outcomes have common features despite differences in time periods. Economic slowdown is periodically recurring part of economic cycle possessing both negative and positive features.

Competition in decreasing costs and price closely relates to the effectiveness of expenditure management; here the following factors are important: accuracy, reliability, entirety, timeliness, direct relationship. These aspects determine the factors of information about expenditure usefulness and corporation competitiveness, which are influenced by competitive environment; as well as the interrelation of these aspects and factors finally resolve the success of an enterprise (Tontiset, 2009).

Competitiveness the branches of industry greatly depends on both quantitative and qualitative structure on investments into country's industry; and this in turn influences enterprises competitiveness through three factors: price, quality and customer satisfaction. Some productive industrial investments, such as robots, reasonable and differentiated distribution channels, investments into research and technology development,

innovations and personnel development, make much greater influence upon corporate competitiveness in comparison to equivalent investments into buildings and production equipment (Stathakis, 2008).

When determining the market success in enterprises' strategies, greater and greater role falls for international competitiveness; it is complicated enough to compete internationally during economic slowdown by using the strategy of costs decrease because one often faces strong players, who compete by innovation-based strategies and are able to perfectly meet customers' needs by helping them to spare and by offering high-quality innovative products.

Conclusions:

1. The atmosphere of fear, doubts and distrust spread during economic slowdown decreases the number of competitors in certain business area. When competitors lose their position, a favourable opportunity emerges for an investor to occupy the dominating position and to successfully develop the business. It is possible to guarantee this position by investing into innovations,, development of the activity, high technologies, qualification of human capital.
2. During economic slowdown it is possible to distinguish the complexity of activity, effectiveness of factors as well as insight, on the basis of which the innovations being created give positive results of enterprises' activity, as essential for ensuring competitiveness.
3. During economic slowdown the success of international competitiveness of country's industrial enterprises highly determines the competitive policy oriented to the promotion of small and medium business competitive initiative.

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Vytautas Snieska, Gitana Valodkienė

DEVELOPMENT OF INDUSTRY COMPETITIVENESS MODEL FACTORS DURING RECESSION IN LITHUANIA

Summary

At different periods the forming economic changes make premises for emerging of new phenomena both in economic and social environment. The changes being formed in contradictions are creating as well as destroying forces that cause the society to progress.

The performed researches focus on competitiveness, its concept, and measuring problems; they also distinguish competitiveness factors and define some of them as being essential in revealing competitiveness itself. Nowadays a considerable attention is paid to innovations, so their classifications as well as the concept of innovation are presented in the article. However, during the slowdown period the role of factors in different industry branches, competitiveness peculiarities and opportunities in this period are not thoroughly analysed.

Scientific problem: contradictions between the economic theories, which deny the existence of international competitiveness, and the theories, which distinguish international competitiveness; as well as due to this the emerging question: is it necessary to promote the processes of innovations' development and their implementation from the very beginning of enterprise's activity in order to ensure success of the activity and to guarantee the favourable conditions for international competition.

The aim of the research: to identify what factors of Lithuania's industry competitiveness formation manifest during the slowdown period.

Research object: Lithuania's industry and its international competitiveness.

Scientific novelty: the model of the factors influencing international competitiveness of country's industry is designed.

Research methods: systemic, comparative and logical analysis of scientific literature.

The article reveals a set of factors influencing country's international competitiveness at the period of economic slowdown.. It becomes highly important to select such innovations in a concrete enterprise in a specific industrial branch which would be adequate to this period of time and also to choose the strategy of competitiveness. The insight could be worded as a specific abilities of an employee to foresee and prognosticate the sequence of events as well as their consequences in such a way as to get maximum profit at minimum expenses. At this period of time the fatal factor is attributed to innovations because under shrinking demand conditions real income is being reduced, and unemployment as well as competitiveness are growing. The effectiveness of factors and their complexity are also important. When speaking about the complexity of activity, it is possible to mention the adjustment of inter-activity of industry sectors, e.g. the complexity of the activity of timber and furniture industry sectors, which would give mutual profit for both sectors of the industry.

The article analyses the volume of economic slowdown on the country's industry competitiveness, which could be described on country, union or world level respectively differentiating low, average and high level of slowdown. The duration of the process of economics recovery depends on the extent of slowdown, so it is important to pay more attention to stimulation of industry activity by means of innovations, as one of the most efficient factors inducing industry recovery.

The country's competitiveness is influenced by its geographic and competitiveness environment and also competitiveness policy.

Competitiveness policy forms competitiveness environment in respect of both the inside and the outside. The influence and effectiveness of factors, which determine competitiveness of country's industry and at the same time development and diffusion of innovations in this sector depends on the means of competitive policy being developed in the country: it creates more or less favourable conditions for business.

Competitive policy forms either positive or negative climate for the development of innovations in different industry sectors through improvement of research and technology development; partnership of universities and industry; investments into human capital; direct foreign investments; licences and patents; information communication technologies; processes of standardisation and unification.

At different stages of economics development the specificity of the economic slowdown was rather different; pre-capitalistic economic slowdowns were related to agriculture and insufficient volumes of production, in later period of capitalism the merchandise overproduction caused capitalistic

crises The economic slowdowns of the latter period, to which the globalisation of the markets and financial flows, relate to the policy of banks, disproportionate investments into real estate and other values, on the basis of which economic bubbles are formed.

Both the causes of economic slowdown and its consequences have similar characters, despite different time periods. Economic slowdown is a periodically repeated part of economic cycle and it can have positive as well as negative aspects. At every stage of slowdown cycle the old production technology, products, services, implements of production placing their last marginal utility seems to play out. It becomes relevant to search for novelty so to extend the process of production – distribution – consumption, as well as turning on the new engine of economics recovery.

During economic slowdown period in order to increase sales volume, to extend goods existence in the market, to extend the number of customers and to more effectively use production capacity it is very important to prepare export strategy by effectively splitting export flows.

The country's competitiveness is manifested by export results; if export is increasing it means that the country's competitiveness is changing in a positive direction.

To ensure a successful industry development during economic recession period when the general volume of demand is shrinking the effectiveness of factors stimulating the economic recovery and their complexity become highly important. It is also important to adjust the country's interior strategies together with those of the world because during economic slowdown period one of the most effective means in helping economic recovery is to increase the volume of export.

The atmosphere of fear, doubts and distrust spread during economic slowdown decreases the number of competitors in certain business area. When competitors lose their position, a favourable opportunity emerges for an investor to occupy the dominating position and to successfully develop the business. It is possible to guarantee this position by investing into innovations, development of the activity, high technologies, qualification of human capital.

During economic slowdown it is possible to distinguish the complexity of activity, effectiveness of factors as well as insight, on the basis of which the innovations being created give positive results of enterprises' activity.

During economic slowdown the success of international competitiveness of country's industrial enterprises highly determines the competitive policy oriented to the promotion of small and medium business competitive initiative.

During economic slowdown if it is formed favourable atmosphere for development of innovations, it can be considered that it will promote the development of innovative enterprises. Activities of innovative enterprises will stimulate the growth of demand in the market, increase employment, growth of VAT and GDP; innovative goods find their customer much faster in international market, so the volume of export increases. Due to all the above mentioned factors the economic stability in the country is achieved as well as social welfare, which increase permanent competitive advantages.

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EMPIRICAL APPLICATION OF THE MODEL OF OUTSOURCING TRANSACTION COSTS: LITHUANIAN CASE

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Abstract

With reference to the research of outsourcing model structures, it can be stated that most of them are focused on cost reduction and business efficiency increase. However, the models of outsourcing transaction costs are neither comprehensive nor informative. They include only superficial analysis of outsourcing strategy dependence on different factors of external and internal environment and do not present any integral attitude.

This research has revealed that analysis of macroeconomic factors of the host country, the factors regulated and determined by the government of the host country, the factors of international global market, company factors and the factors controlled by the company is purposeful, researching the environment of outsourcing transaction costs. Considering peculiarities of the country and different environmental factors, the stages of the proposed model can be revised, elaborated and specified.

Keywords: outsourcing model, transaction costs, empirical application, factors.

JEL Classification: D21, M21.

Introduction

With reference to the accomplished research¹⁵, it can be stated that governmental or international institutions are extremely important studying transactions costs economics. Different institutions can generate different transaction costs. Although globalisation causes particular assimilation, it should be noted that cultural, legal and social differences among different countries and regions will persist. Considering these differences, it is extremely important to keep transaction costs low in international trade.

With changes of business conditions, when state institutions and enterprises are forced to react to environmental changes, conditioned by the processes of globalization and integration, the entire system of economics evolves as well (Ziliukas, Katiliute, 2008).

After the transaction has been accomplished, transaction costs economics enables taking a deeper glance at the effects of outsourcing on the company. If the transaction is simple and clear, it is always easier to decide whether to use outsourcing services or not. When the transaction between an outsourcing supplier and a contracting country or company gets more complex, contracts also become more complicated. This leads to the increase of transaction costs which at particular point can be so high that it is more efficient to perform particular services inside the company but not to transfer them to an outside supplier.

Scientific problem: scientific literature has not formed any single comprehensive model of outsourcing transaction costs integrating the decisions of outsourcing contracts.

Scientific novelty. Previous research carried out by different authors included only the issues related to traditional outsourcing, but there are few studies to analyse the factors which should be considered making the decision of business service outsourcing. This article includes the analysis of the factors, which influence the decision of business process outsourcing, and introduces the model of outsourcing transaction costs, which enables companies to make better decisions of business service outsourcing and gain utmost benefits from that.

The aim of the article: with reference to the theory of transaction costs economics, the authors aim to frame the model of outsourcing transaction costs, enabling to evaluate possibilities of outsourcing contract making and study feasibility of this model by its empirical application.

The object of the article – empirical application of the model of outsourcing transaction costs.

The methods of analysis are as follows: logic, systematic analysis of the scientific literature based on comparative and summary methods. With reference to the scientific literature, the authors present the review of outsourcing models. These models are related to the empirical research of outsourcing. A conceptual model of outsourcing transaction costs has also been introduced. This model is based on the factors which determine efficiency of an outsourcing contract.

Using the prepared research methodology, the authors aim to study the feasibility of the designed model of outsourcing transaction costs.

¹⁵ accomplished research – here and further in the paper means the research carried out by the authors – Vytautas Snieska and Ligita Vasiliauskienė.

The methods of the research are as follows:

1. Analysing theoretical aspects of transaction costs economics and preparing the methodology of the research, the authors use systemic, comparative and logical analysis of the scientific literature.
2. Empirically researching feasibility of the proposed model and aiming to establish the most important factors, which determine the use of outsourcing contracts, the authors apply the method of expert evaluation.

Review of Outsourcing Models

Previous research included only the issues related to traditional outsourcing, but there are few studies to analyse and discuss the factors which should be considered making the decision of business service outsourcing. The authors of this article highlight the factors which have the influence on the decision of business process outsourcing and introduce the model of outsourcing transaction costs, which enables companies to make better decisions of business service outsourcing and gain utmost benefits from business outsourcing.

Some authors (Virvilaitė, Saladiene *et al.*, 2009) present the studies, describing the phenomenon of impulsive purchasing. They also present identified factors that influence the impulsive purchasing and show that there are many arguments to explain impulsive purchasing.

The theory of transaction costs economics (Coase, 1937) provides more opportunities to evaluate the place taken by transaction costs in economics. Coase's theory is composed of four research fields, where transaction costs are predominant:

- 1) production organization, considering restrictive factors of the company;
- 2) international trade, considering multiple aspects of transaction costs and distinguishing them from transport, institutional and cultural costs;
- 3) direct foreign investment, considering outsourcing and company organization in global extent;
- 4) trade nets, considering social and regional role of the nets and international standards for resource exchange facilitation.

In recent decades, environment of global trade has changed in three major ways. International trade has grown rapidly in value and volume, composition of trade has altered significantly, and trade flows have been extensively liberalised. Increase of international trade is crucial to the continuance of globalization. Globalization and integration processes are having a major impact on the international trade system (Bernatonyte, Normantiene, 2009).

Outsourcing must be interpreted not only as pure acquisition of a company, goods or services, but also as one of the forms of strategic alliance (Zineldin, Bredenlow, 2003). The link of strategic outsourcing often provides significant benefits for companies. These benefits include economy of scale, qualified work force, high level of research and development activities and higher added value for lower total costs. All this helps to

ensure profits for all outsourcing partners, working together in an alliance (Zineldin, Bredenlow, 2003).

Companies often treat outsourcing as *de facto* solution, without any careful evaluation and understanding the true strategic rationales for pursuing it. Outsourcing brings in companies' business significant structural changes which require a cohesive master plan, i.e. a strategic outsourcing plan (Boguslauskas, Kvedaraviciene, 2008).

In this respect, outsourcing is both an opportunity and a challenge for most traditional integral organizations. Working in the net, companies can faster become market leaders and increase their flexibility and cost efficiency (Nieminen, Takala, 2006; Snieska, Vasiliauskiene, 2011).

When managers are evaluating the cases of innovation failure, attention is drawn to the management of the innovation creation process whereas enterprises experience much bigger losses due to innovation that failed during the process of diffusion and adoption. Therefore it is important for enterprises to seek exclusiveness by innovation and to find ways that would allow increasing the probability of successful diffusion and adoption of innovation (Banyte, Salickaite, 2008).

Foltean and Feder (Foltean, Feder, 2009) critically review the main theoretical studies in the domain, then determine the proposed and validated relations from prior studies and suggest hypothesis for further empirical research to investigate the antecedents and international performance consequences of market and entrepreneurial orientations.

With reference to the analysis of the scientific literature, the authors of this article present evaluation of the structures and elements of different outsourcing models (see Table 1).

Table 1

Evaluation of the structure and elements of outsourcing models

Structural parts of the model	Advantages	Disadvantages
Snieska, Vasiliauskiene, 2010		
Informative, clear; structure of the model is offered to be considered a methodologically substantiated and integral system, elements of which are interrelated; they complement and reinforce each other	Determination of the objectives of outsourcing transaction costs; determination of the factors of outsourcing transaction costs' environment and evaluation of the influence of these factors; the authors reveal the influence of outsourcing transaction costs on company's contracts	There is no mechanism enabling to disassociate from the factors which have no impact and/or are not informative making outsourcing contracts
Gottschalk, 2001		
Price stage. Resource stage. Partnership stage.	Model is based on several management theories. The author	Intentions and aims of both parties vary; it makes it either

	determined three additional supplier's competences: staff development, methodology creation and spread, management of the relationship with customers	difficult or expensive to ascertain activities to be performed. The second disadvantage – different customer's and supplier's risk parameters
Kedia, Lahiri, 2007		
Outsourcing process includes different conditions which cause return to previous stages	Detailed introduction of the elements; the model is easily perceived	Additional calculations are necessary
Handley, Benton Jr., 2009		
Strategic evaluation, contract completion and relationship management	Specific, simplified model	Limited number of the elements
Holcomb, Hitt, 2007		
Asset specificity, small amount transaction, technological uncertainty	Theoretical model of strategic outsourcing	This model of strategic outsourcing reflects conditions for value creation; it integrates only cost-efficiency arguments of strategic outsourcing
Rabinovich, 1999		
Specific establishment of sub-systems is difficult, which burdens creation of a clear project and makes it difficult to compare suppliers' proposals; after the work with a supplier has been started, additional conditions usually appear	Theoretical model of general logistic in the company; the author reveals how this model can disintegrate into particular sub-systems	Non-comprehensive revelation of the interaction among the elements
Marshall et al., 2004		
Initiation stage, evaluation stage, management stage	Detailed introduction of the elements, clear explanation of relations, the model is easily perceived	Outsourcing process includes different conditions which cause return to previous stages

Mintzberg, 1976		
Recognition of the need of outsourcing decision; determination and revelation of the problems related to this decision; search for possible alternatives	Model is widely used discussing the processes of strategic outsourcing decision making; it also helps to define the process of outsourcing decision making	The stage of the decision verification has not been considered

With reference to the research, it can be stated that outsourcing transaction costs' formation includes not only selection of the most suitable outsourcing contract establishment method. Outsourcing transaction costs' creation is a difficult process, integrating several interdependent stages.

Statistical evaluation of the relationship between infrastructure and economic growth determinants in the Baltic States proved that several variables are not enough to evaluate the impact of infrastructure on development. The full-scale method is a must in order to measure this relationship. Empirical test also proved that the direction of relationship differs in Lithuania and Latvia – the countries, which are attributed to the same level development, and these results contradict the findings in the scientific literature. For this reason it is important to acknowledge that the model of infrastructure impact evaluation must involve determinants of regional peculiarity. The authors will continue analyzing these academic issues in their further research (Snieska, Simkunaite, 2009).

Although analysis of the scientific literature revealed that scientific studies mostly include detailed models, describing outsourcing transaction costs, these models highlight only particular factors or factor groups. That is why economic literature lacks the methodology, integrating the main company factors, macroeconomic factors, the factors of international global market and the factors regulated by the government. Considering that, the authors have designed the model of outsourcing transaction costs. The structure of this model is offered to be considered a methodologically substantiated and integral system, elements of which are interrelated, they complement and reinforce each other.

Methodology of the empirical research of the model of outsourcing transaction costs

The model of outsourcing transaction costs, proposed by the authors, has been formed with reference to the presumptions, which have been introduced in the theoretical part of the article. *Empirical research of the model of outsourcing transaction costs has determined the following logical course of the research methodology (Figure 1):*

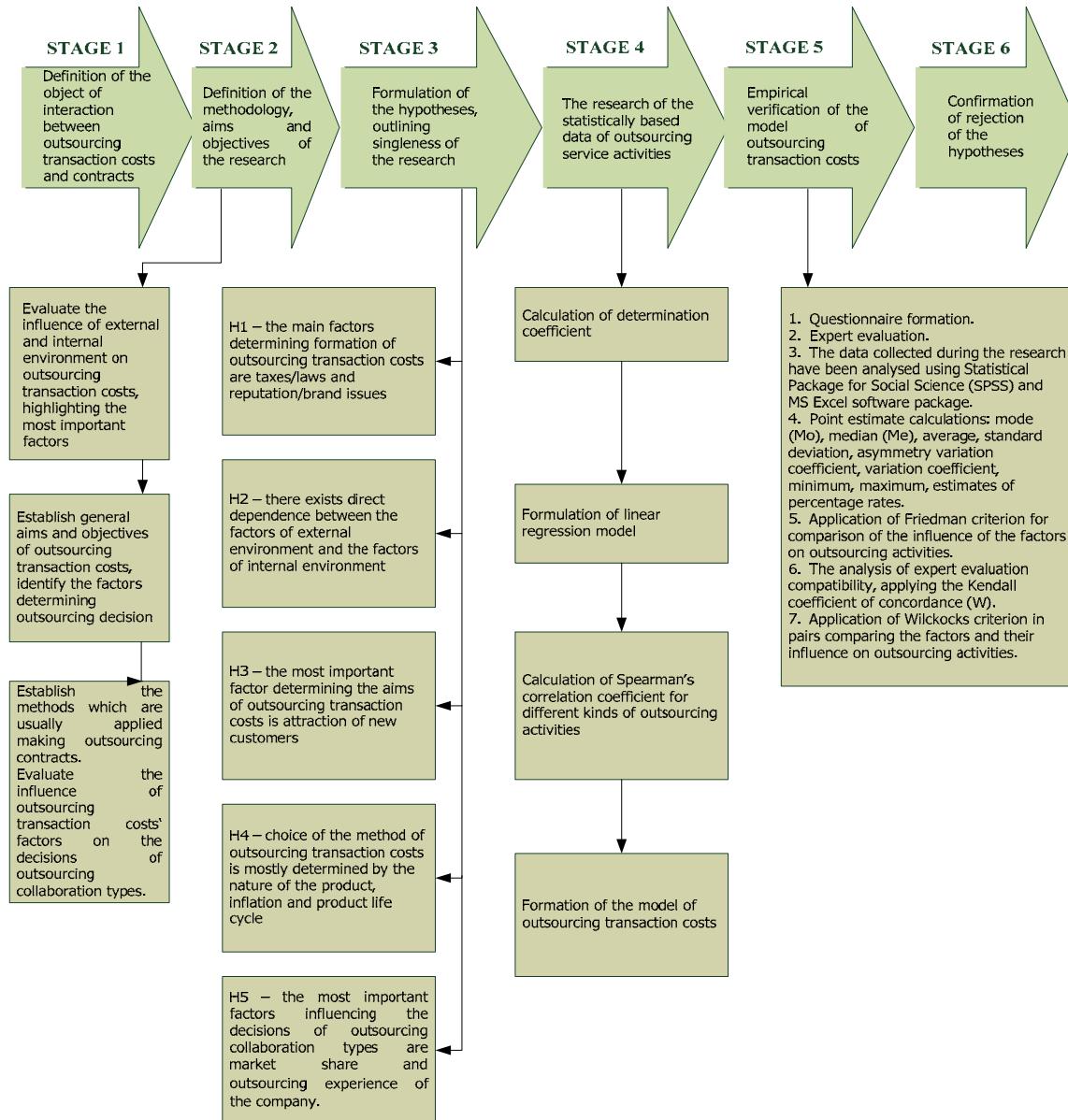


Figure 1. Logical course of the empirical research

Expert evaluation. The aim of expert evaluation is to find out experts' attitude towards outsourcing transaction costs and influential external and internal factors.

The objectives of expert evaluation:

- 1) evaluation of the influence of external and internal environment on outsourcing contracts, highlighting the main influential factors;
- 2) establishment of the main aims of outsourcing transaction costs and determination of the factors influencing outsourcing decision;
- 3) establishment of the methods which are usually applied when making outsourcing contracts and determination of the influential factors;
- 4) establishment of what influence the factors of outsourcing transaction costs have on the decisions of outsourcing collaboration types.

The hypotheses outlining the singleness of the research have been formulated with reference to the comprehensive analysis of the scientific literature and presumptions of previous research:

H1 – the main factors determining formation of outsourcing transaction costs are taxes/laws and reputation/brand issues in outsourcing market.

H2 – there exists direct dependence between the factors of internal environment and the factors of external environment while forming outsourcing.

H3 – the most important factor determining the aims of outsourcing transaction costs is attraction of new customers.

H4 – choice of the method of outsourcing transaction costs is mostly determined by the nature of the product, inflation and product life cycle.

H5 – the most important factors influencing the decisions of outsourcing collaboration types are market share and outsourcing experience of the company.

For the establishment of the factors influencing outsourcing transaction costs the authors used one of the methods of expert evaluation – ranking method. Applying this method, recommended number of the experts can vary from 10 to 100 people, depending on the aim of the research. Scientific literature stresses the importance of expert competence. Higher level of consensus reveals higher reliability of the expert conclusions and recommendations. Experts were asked to fill in the questionnaire, consisting of two types of the questions: with fixed answer variants and with rank answer scale. Besides, the experts were asked to comment and reason their personal opinion. 58 people (managers of outsourcing companies or big groups of real assets, accounting service providers, cleaning service providers, outsourcing agents and others) whose work experience in outsourcing service market is longer than 8 years, with proper qualification (for example, outsourcing service expert) and the knowledge in such spheres as outsourcing service research or outsourcing transaction mediation were chosen and questioned as the experts since their qualifications enable to consider them the experts of outsourcing service market in Lithuania. After the expert evaluation, it has been established that most of the experts are department managers (20.7 per cent of the respondents).

With reference to the data of the empirical research, it can be stated that cost reduction is the main reason for outsourcing creation which is based on the reduction of the number of employees in the company and labour cost reduction. This is especially important while analysing business service sector because this sector is usually labour intensive, so outsourcings help companies significantly reduce their labour costs hiring less employees. If the company and its employees have made a collective labour agreement, reduction of the number of employees helps the company to save on the wages for low-qualified workers in comparison to the situation when the company hires bigger number of employees because wages for low-qualified workers are determined according to the general wage level in the company, and in case of the collective labour agreement, the company overpays its low-qualified employees. In this case, using of outsourcing really serves its purpose.

Snieska and Bruneckiene (Snieska, Bruneckiene, 2009), who have analysed the theoretical and practical aspects of the measurement of regional competitiveness by a composite index, state that the concept of regional competitiveness has not been formed yet at the academic level and the method of competitiveness measurement, which is grounded methodologically and accepted generally, is still missing. The competitiveness of a region can be measured in different ways: analyzing one or several factors of competitiveness, using theoretical models of competitiveness, creating composite indices, etc. Every method has its advantages and disadvantages.

Of course, it is not always easy to find out whether a company overpays its employees. It is also difficult to compare wage level and type of co-operation in different

companies since there are differences of work types, work intensity, personnel combinations. What is more, managing crisis in a company or an organization requires designing the programs of crisis situation prevention in every dimension of employee identification and considering the priority of the employees, when crisis situation management is described as the closed cycle involving these stages: the design of crisis situation management programs, the identification of crisis nature, creation of the operative means in crisis situation and its liquidation in rehabilitating organizational performance (Valackiene, 2009).

Outsourcing transaction costs contribute to creation of short-term employment systems and labour market segmentation, where a group of well-paid employees having long-term contracts exists together with a group of low-paid employees having short-term contracts.

Structural parts of the model of outsourcing transaction costs and their interaction

Although the research revealed that outsourcing transaction costs are significantly influenced by the factors of external and internal environment, economic literature lacks a single model to integrate the ways, explaining how to determine the main factors and highlight the influence of the factors which would enable to increase the quality of outsourcing decisions. It is important to determine changes of which external or internal factor have an important effect on outsourcing transaction costs, and changes of which factors do not have any critical effects.

The model of outsourcing transaction costs, proposed by the authors of this article, comprises of the following structural parts:

- establishment of the aims of outsourcing transaction costs;
- establishment of the environmental factors of transaction costs and evaluation of the influence of these factors;
- the influence of outsourcing transaction costs on company's contracts;
- the analysis of contractual elements;
- selection of the method to evaluate outsourcing transaction costs;
- formation of the model of outsourcing transaction costs, application of this model and evaluation of the results.

Because of numerous environmental factors, it is proposed to distinguish two parts of outsourcing transaction costs' environment – external environment and internal environment. The influence of external environment on outsourcing transaction costs has been analysed considering macroeconomic factors of the host country, the factors regulated and influenced by the government of the host country, the factors of international global market and macroeconomic factors of the outsourcing country while microenvironment has been analysed considering company's factors, factors controlled by the company and the influence of the factors mentioned above. Analysing the main factors

which determine outsourcing transaction costs, the authors faced the problem how to disassociate from the factors which are neither influential nor informative. Compatibility of the main factors and accuracy evaluating the influence of these factors will determine further quality of the research and reliability of the research results. In this stage it was important to choose the most suitable method which would enable reasoned

establishment of the main factors determining outsourcing transaction costs. Authors of different scientific studies often propose to use the methods of correlation analysis, expert evaluation and scenario making.

With reference to the theoretical presumptions, the model of outsourcing transaction costs has been designed and proposed (see Figure 2).

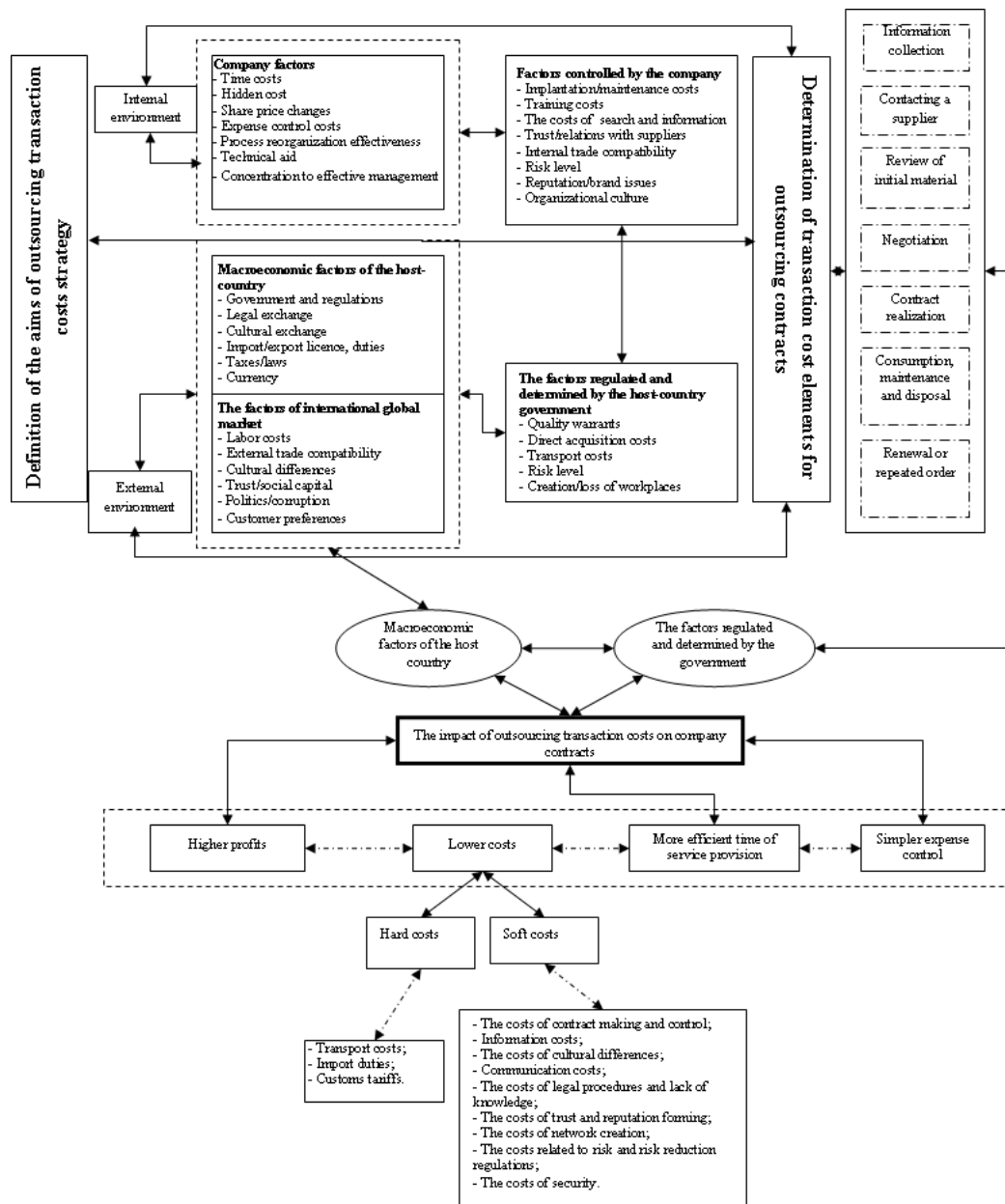


Figure 2. The model of outsourcing transaction costs

On the basis of the model of outsourcing transaction costs, the authors carried out the empirical research of the model.

The importance of the model of outsourcing transaction costs and influence of different external and internal factors on business activities in both Lithuanian and foreign markets were analysed using the method of

expert evaluation which disclosed comprehensive attitudes of outsourcing professionals towards the object of the research.

For evaluation of questionnaire reliability, the authors calculated Cronbach alpha coefficient. Its value 0.95 shows that the questionnaire can be considered reliable. The Kendall coefficient of concordance,

revealing the level of expert attitude compatibility, is equal to 0.6, and for different sub-groups of external and internal factors it varies from 0.1 to 0.423.

The values of expert evaluation, coinciding with minimum and maximum estimate of each factor, show expert attitude variation, determining the importance of outsourcing transaction costs in particular environmental subgroup. The values of variation coefficient vary from 0.08 to 0.38 per cent. It can be stated that the higher are variation coefficients, the higher is risk to consider particular factor as having great influence on outsourcing transaction costs.

In order to substantiate and compare the main factors, having greatest influence on outsourcing transaction costs, the factors of external and internal environment have been researched, and higher value of the coefficient shows which of the factors are the most influential.

Conclusions

The research of the model of outsourcing transaction costs has revealed that:

- structures of outsourcing transaction costs' models are often discontinuous; they disclose only single relations among their integral parts;
- the models of outsourcing transaction costs are neither comprehensive nor informative; they include only superficial analysis of outsourcing strategy dependence on different factors of external and internal environment without any integral attitude towards the influential factors;
- empirical application of the models of outsourcing transaction costs in most cases is

not provided, which determines incompleteness and limited practical application of the models;

- the model of outsourcing transaction costs, proposed by the authors of this article, helps to evaluate opportunities of using outsourcing contracts in companies; the results of model verification with empirical research have also been presented;
- outsourcing transaction costs are mostly determined by the following factors of outsourcing environment: laws/legislative basis and reputation/brand issues in outsourcing markets. This confirmed the hypothesis that the most important factors, determining formation of outsourcing transaction costs, are taxes/laws and reputation/brand issues in outsourcing markets.
- calculations of correlation among different external and internal factors revealed that the vast majority of external outsourcing transaction costs have statistically important links with internal factors in the sense of monotony. This confirms the hypothesis that there exists direct dependence between the factors of internal environment and the factors of external environment while forming an outsourcing;
- empirical research of the model of outsourcing transaction costs has proved applicability and suitability of this model for outsourcing formation, increase of the quality of outsourcing decision and expansion of outsourcing opportunities.

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EMPIRICAL APPLICATION OF THE MODEL OF OUTSOURCING TRANSACTION COSTS: LITHUANIAN CASE

Summary

With reference to the research of outsourcing model structures, it can be stated that most of them are focused on cost reduction and business efficiency increase. However, the models of outsourcing transaction costs are neither comprehensive nor informative; they include only superficial analysis of outsourcing strategy dependence on different factors of external and internal environment and do not present any integral attitude.

Scientific problem: scientific literature has not formed any single and comprehensive model of outsourcing transaction costs to integrate the decisions of outsourcing contracts.

The aim of the article: with reference to the theory of transaction costs economics, the authors aim to frame the model of outsourcing transaction costs, enabling to evaluate possibilities of outsourcing contract making, and verify feasibility of this model by its empirical application.

The object of the article – empirical application of the model of outsourcing transaction costs.

The methods of analysis are as follows: logic, systematic analysis of scientific literature based on comparative and summary methods. A conceptual model of the decision, related to outsourcing transaction costs, is based on the factors determining the efficiency of the outsourcing contract.

This research has revealed that analysis of macroeconomic factors of the host country, the factors regulated and determined by the government of the host country, the factors of international global market, company factors and the factors controlled by the company is purposeful while analysing the environment of outsourcing transaction costs. Considering peculiarities of the country and different environmental factors, the stages of the proposed model can be revised, elaborated and specified.

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HOUSING PRICE LEVEL CALCULATION METHODS IN THE CONTEXT OF THE COUNTRY WITH TRANSITION ECONOMY

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Abstract

Countries with transition economy integrate quickly into foreign markets and increase the risk of stronger economic shocks, which directly affect real estate prices. Ability to successfully avoid the risk and invest in the housing market is based on economic trends, real estate price trends, and forecasting knowledge. Therefore the purpose of this paper is to determine the most appropriate housing price level calculating method in the context of country with transition economy. Analysis of the real estate market in Lithuania was chosen as the object of the paper.

Keywords: housing price level, real estate market, country with transition economy.

Introduction

Countries with transition economy integrate quickly into foreign markets and increase the risk of stronger economic shocks, which directly affect real estate prices. Ability to successfully avoid the risk and invest in the housing market is based on economic trends, real estate price trends, and forecasting knowledge.

Households in the countries with transition economies are more inclined to purchase their own housing than rent it which causes entrance of new housing market participants who, because of the lack of historical experience and information, make investment decisions of the adequate quality.

Not only knowledge of economic tendencies, real estate price formation mechanisms, but also ability to estimate real estate price level variation would make a background to minimize the risk of investment in real estate and would contribute to economic stability of the country. Crisis situations differ in duration, depth and possible consequences, therefore in order reduce potential losses and to restore the functioning of the system in time, certain actions and certain imposed measures are needed (Sakalas et al., 2011; Valackiene, 2011).

Scientific literature presents wide variety of housing price level calculation methods: some authors forecast housing price level using Repeat Sales Model (Engle et al., 1985; Case et al., 1987; Case et al., 1989), others get the most accurate results using Regression model (Bailey et al., 1963; Linneman, 1986; Hui et al., 2010) or Linear Cointegration method (Zhou, 1997; Barot et al., 2001). In the last two decades, rate calculations are increasingly used for housing price level dynamics estimation: Rent rate (Himmelberg et al., 2005; Ayuso et al., 2006; Hott et al., 2008; Campbell et al., 2009), Demand/supply rate (Ho et al., 1998; Quigley,

1999; Hott et al., 2008) or Rent coefficient and demand/supply rate (Hott et al., 2008). All these methods give a desired result: they show housing price level dynamics within a defined geographic area during a defined period. However, these studies were conducted mainly in the countries with developed economies where housing price markets have old development traditions and take an important part in financing and economic processes of the countries (Mileris et al., 2011). There is no single housing price level calculation method which would be adapted specifically for the countries with transition economies where legal and financial systems are still developing, and the influence of any factors or factor groups on housing price level formation is enhanced by human factor, i.e. optimistic expectations or economic patterns do not explain the phenomenon of panic. This reveals the necessity of additional theoretical and practical research to include housing price level formation tendencies in the countries with transition economies.

Scientific **novelty** of the article is reflected by selection of the most suitable housing price level calculation method for the countries with transition economies.

Scientific **problem** is the question what housing price level calculation method is the most suitable for estimation of housing price level in the country with transition economy.

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1. Critical evaluation of theoretical housing price level calculation methods.
2. Identification of the main factors, determining housing price level formation in the country with transition economy in the case of Lithuania.
3. Verification of the applicability of the selected housing price level calculation model in the country with transition economy in the case of Lithuania.

Research methods: examining theoretical aspects of price level formation in a country with transition economy and developing research methodology a systematic comparative and logical analysis of scientific literature was used. Performing an empirical research, multipartite linear regression was calculated using Microsoft Excel software package.

Review of housing price level calculation methods

Scientific literature has not formed any steady single methodology for calculation of housing pricing level because of both multiple factors concerned with *physical nature* of real estate objects (for instance, construction year, quadrature, site uniqueness, introduction of newest technologies and so forth) and multiple factors concerned with *economic nature* of real estate objects (local bureaucratic factors, for example, issuance of construction permits, different taxes and regulations and others as well as national macroeconomic factors such as inflation rate, interest rate for credits and loans, unemployment rate and others). Different methodologies and models, recommended for housing pricing level calculation, include Repeat Sales model (Engle et al., 1985; Case et al., 1987; Case et al., 1989); Regression model (Bailey et al., 1963; Linneman, 1986; Hui et al., 2010), Linear Cointegration (Zhou, 1997; Barot et al., 2001), Error-correction models (ECM) (Zhou, 1997), Spatial Autocorrelation methods (Gillen et al., 2001), Non-linear model (Muellbauer et al., 1997; Quigley, 1999; Crawford et al., 2003; Miles, 2008), Quantile Regression methodology (Zietz et al., 2008), Vector Autoregression model (VAR) (Tsarony et al., 2004), AHP and FUZZY methods (Xu et al., 2009) and others.

The research of the scientific literature has revealed that housing pricing level calculations are usually made by calculating housing value or variation of the factors determining housing price and/or price level. Since the methods used for real estate value calculation are aimed at estimation of the value and price of a particular object, the authors of the research found it purposeful to evaluate only hedonistic methods which include not only the aspects of particular housing price calculation, but also the ones of housing price level estimation.

Considering *the factors which determine variation of housing price and/or price level*, hedonistic methods of real estate price calculation are commonly used.

The research of the scientific literature has revealed that *hedonistic models of housing price calculation*, which are used for estimation of housing

prices, can be grouped in a very general way, according to selection of particular factors for the research. The authors have distinguished the following groups:

- Microeconomic factors' calculation methods, designed for the estimation of *final* housing price.
- Macroeconomic factors' calculation methods, designed for the research of housing *price level*.

Since the aim of the article is to indicate the method, most suitable for estimation of housing *price level* variation, the authors confined themselves to the research of macroeconomic factors' calculation methods.

Some of the earliest scientific models, designed for housing price calculation, were as follows: Repeated Sales model (Engle et al., 1985), Regression model (Bailey et al., 1963; Linneman, 1986). Case et al. (1989, 1987) improved Gau's (1984, 1985)¹⁶ Repeated Sales model by using actual housing sale prices, including geographical areas, time factor and were the first to confirm strong correlation between prices and price variations. However, they notice that variation of particular housing price is hard to forecast. The biggest part of housing pricing estimation logarithms are based on previous years' housing price changes: current price level is closely related to previous years' price level (Quigley, 1999). Muellbauer and Murphy (1997), researching the cycles of rise and decline in the UK, refrain from the forecast of housing price changes, although they indicate non-linear housing price changes which, according to them, are generated because of transaction costs.

Crawford and Fratanoni (2003) emphasised the importance of housing forecast and were the first to apply Non-linear model for the record of the cycles of sharp housing price rises and falls. Non-linear model was also chosen by Miles (2008), who highlighted its advantages in comparison with Linear models while forecasting housing price level changes. Non-linear methods are advantaged because of their easier application for the most vulnerable housing markets where housing price level rises or falls are clear and significant. These methods enable to make *asymmetric* rate corrections, depending on whether housing prices rise or fall fast. This enables more accurate forecast of housing price level, in comparison to other *Linear methods*, the biggest disadvantage of which is only symmetric rate corrections.

The method of *game theory* is also proposed for real estate price forecast in scientific literature (Mu and Ma, 2007). Mu and Ma (2007) present the model of game theory, in which they estimate the relations among government, land developers and real estate developers. The advantage of this method is that it enables to compare the equilibrium of the researched system under conditions of cooperation and non-cooperation. The disadvantage of the method is that it can be used only presuming that the main aim of the subjects mentioned above is profit maximization, but the influence of demand factor on price and possible influence of macroeconomic

¹⁶ Gau (1984, 1985) - scientific research, carried out using the data of *commercial* real estate in the area of Vancouver, 1971-1980.

factors on average housing price formation level are not considered.

The research revealed that in subsequent studies, the models of demand/supply and rent (Hott and Monnin, 2008) were used for the estimation of housing price level. These models were aimed at estimation of the most fundamental housing market prices. The first model has been designed for calculation of housing rent and purchase prices under non-arbitrary conditions. The second model helps to interpret particular period expenses which were generated because of the demand and supply equilibrium in housing market. The study of these authors is different from others because the research was carried out calculating housing prices in accordance with rent and demand/supply models. The results of this research showed that there exists a connection between housing price level variations and fundamental factors determining housing price level; what is more, housing price level slowly returns to the fundamental housing value during the long term.

The last decade has seen the tendency of housing price level calculation with reference to different rates, for example Rent rate (Himmelberg et al., 2005; Ayuso et al, 2006; Hott et al., 2008; Campbell et al., 2009); Demand/supply rate (Ho et al., 1998; Quigley, 1999; Hott et al., 2008); Rent coefficient and demand/supply rate (Hott et al., 2008); Income rate (Case et al., 2003; Himmelberg et al., 2005); Demand rate (Holly et al., 2006).

An increasing number of scientists are researching *interaction between housing rent prices and housing sale-purchase prices*. Increased attention has been paid to housing rent dynamics in different stages of real estate market cycle, i.e. during the period of real estate market boom or decline (Himmelberg et al, 2005; Ayuso et al, 2006; Caballero et al, 2007; Hott et al, 2008; Campbell et al, 2009; Shimizu et al., 2010 and others.). Some studies showed that housing prices, especially during the periods when real estate price “bubbles” growth and burst, are closely connected with real estate rent prices. It is proposed that housing rent price rate is one of the main factors relating real estate prices with consumer price index (CPI) for goods and services. Some authors propose empirical calculation model (Caballero et al, 2007), based on CPI and housing rent price research, and later developed (Shimizu et al., 2010). Other scientists propose that estimation of housing price level should be made considering interaction between real estate demand and supply (Quigley, 1999); Muellbauer and Murphy (1997) introduce a structural model, aimed at calculation of demand elasticity in respect of prices/income and other parameters.

However, a part of scientists express doubts about empirical calculation of demand and supply functions in hedonistic price equations because, according to them, demand and supply functions, which make a hedonistic price equation, are hard to prove empirically (Rosen, 1974; Epplé, 1987; Bartik, 1987). The biggest factor of partiality while applying hedonistic models in housing market is based on the presumption that the main housing supply characteristic function is vertical in respect of price/quantity.

Summarizing the results of the research of the scientific literature, it can be stated that authors do not present any single system or model which would enable to consider particular situation and estimate housing price level in this situation because calculations are based on different factors and different macroeconomic trends; what is more, housing price level is also determined by peculiarities of particular country or region. All this conditions narrow range of applicability of existing models.

Application of the most suitable housing price level calculation method in the country with transition economy in the case of Lithuania

Increasing level of globalization in Lithuania (Pekarskiene, et al., 2011) makes real estate market more sensitive to economic shocks, increase competitiveness in construction sector (Gulimar, et al., 2011). Lithuanian housing market has been chosen for the research as an example of the country with transition economy because of a unique historic and financial situation of the country. General peculiarities of asset privatization, legal and financial system formation as well as the problems of real estate market cycle formation are specific in the country with transition economy. Specificity of housing market – a narrower share of real estate market – has partly been determined by unfilled needs of housing market participants to purchase and manage their own housing during the period of command economy. This leads to the presumption that housing price level formation in the country with transition economy is determined not only by quantitative factors, which can easily be estimated statistically, but also by qualitative factors, which are hard to estimate statistically. In addition, evaluation of the advantages and disadvantages of housing price level calculation methods, indicated above, proposes that the most suitable housing price level calculation method in the country with transition economy is multipartite linear regression method.

Referring to the research results, the authors have come to the conclusion that in order to estimate housing price level in the country with transition economy, it is purposeful to compare the main macroeconomic factors, determining housing price level, with housing price level variation. The research includes price dynamics (in Litas) of 1 square metre in *two-room* apartments because *two-room* apartment dwelling fund takes the biggest part in real estate market in Lithuania. On the basis of the analysis of scientific literature and the main macroeconomic factors, determining housing price level variation, the authors calculated direct foreign investment (DFI), average gross salary (DU), mortgage interest rate, mortgage credit portfolio size, GDP and inflation (Snieska, Zalieckaitė and Vasauskaitė, 2007).

Data for the research was taken from the Department of Statistics under the Government of the Republic of Lithuania - for presentation of general macroeconomic indexes, the Bank of Lithuania – for presentation of mortgage interest rate and mortgage credit data, from the State Enterprise Centre of Registers - for presentation of 1 square metre housing contract price

during the period of 2000-2010 (first half-year) because part of databases were formed until the year 2000, and the other part of databases were formed after the year 2000. Ten-year period in housing price market is sufficient for estimation of housing price level tendencies.

In order to estimate housing contract price dependence on GDP, inflation, DFI, average gross salary and mortgage interest rate, the authors applied multipartite regression model. Because of the lack of the data, necessary for sample calculation, the influence of the number of mortgage credits on housing price variation has not been estimated. The authors presume that the available data corresponds to the whole population. Verification value $p < 0.05$ confirms the hypotheses about model suitability and shows that the model suits for the forecast of housing contract prices.

The results of the housing contract price research are presented in Table 1.

Table 1

Values of housing contract price model coefficients and standardized coefficients

Macro-economic factors	Coefficient value (a_j)	Standardized coefficient (β_i)	Standard deviation
GDP	-0.071	-1.592	0.022
Inflation	145.743	0.202	26.497
DFI	-0.001	-0.565	0
Average gross salary	7.592	3.463	1.44
Mortgage interest rate	-285.913	-0.594	41.295

The value of determination coefficient equal to 0.999 shows that regression model well reflects the available data. The results show that housing contract price dependence on the researched factors can be expressed by the formula:

$$K_s = -0.07 \cdot \text{GDP} + 145.74 \cdot I - 0.001 \cdot \text{DFI} + 7.59 \cdot \text{DU} - 285.91 \cdot P \quad (1)$$

here: K_s – housing contract price, Lt; GDP – gross domestic product of the country, mln.Lt; I – inflation, per cent; DFI – direct foreign investment in sectors of real estate and construction, mln.Lt; DU – average gross salary in sectors of real estate and construction, Lt; P – Mortgage interest rate, per cent.

It can be seen from the formula that when inflation rises by one percentage point, housing contract price rises 145.74 Lt. Growth of GDP by one million Litas causes housing contract price to decrease 0.071 Lt; respectively, DFI increase in the sectors of real estate and construction by one million Litas causes housing contract price to decrease 0.001 Lt, average gross salary increase by one Litas causes housing contract price to rise 7.592, mortgage interest rate increase by one percentage point causes housing contract price to decrease 285.913 Lt.

Values of the standardized coefficients show that average gross salary ($\beta = 3.463$) and GDP ($\beta = -1.592$) have the highest relative importance while relative importance of other factors is significantly lower.

All coefficients in the regression equation are significant under *Student* criterion.

The results confirm the influence of the researched factors on housing price level variation, but they do not confirm the theoretical presumptions that mortgage credit portfolio size and mortgage interest rate have a *significant* impact on housing price level variation.

Using this model, it is easy to predict the housing price level, asymmetric correction calculations are possible restrained by a rapid rise in prices or rapid downward trend.

Considering the fact that housing price level formation in the country with transition economy is influenced not only by quantitative factors easily estimated statistically, but also by qualitative factors hard to estimate statistically, such as housing market participants' optimism about high investment return in the future, expectations that housing prices can rise, poor knowledge of economic patterns and others, the authors note that mathematical expression for the estimation of the influence of qualitative factors on housing price level should be additionally researched in the future.

Conclusions

1. Scientific literature has not formed any steady single methodology for calculation of housing pricing level because different methods and models differ in their conceptions and are designed to calculate different factor groups, depending on peculiarities of a particular country or region, which determines narrow range of their application.
2. The analysis of scientific literature showed, that hedonistic models of housing price calculation, which are used for estimation of housing prices, can be grouped in a very general way, according to selection of particular factors for the research. The groups, distinguished by the authors, are as follows:
 - Microeconomic factors' calculation methods, designed for the estimation of final housing price.
 - Macroeconomic factors' calculation methods, designed for the research of housing price level.
3. The formula, derived in the process of the empirical research, shows housing price dependence on the main macroeconomic factors and mathematically expresses the weight of particular macroeconomic factors in housing price level formation process: average gross salary and GDP have the highest relative importance while relative importance of other factors such as mortgage interest rate, DFI and inflation is significantly lower.
4. Housing price level formation in the country with transition economy is influenced not only by quantitative factors easily estimated statistically, but also by qualitative factors hard to estimate statistically, such as housing market participants' optimism about high investment return in the future, expectations that housing prices can rise, poor knowledge of economic patterns and others. This reveals necessity that mathematical expression for the estimation of the influence of qualitative factors

on housing price level should be additionally researched in the future.

5. The results of the empirical research confirmed applicability of multipartite regression model in housing market in the country with transition

economy – Lithuania during the period 2000-2010. Using this model, it is easy to predict the housing price level, asymmetric correction calculations are possible restrained by a rapid rise in prices or rapid downward trend.

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HOUSING PRICE LEVEL CALCULATION METHODS IN THE CONTEXT OF THE COUNTRY WITH TRANSITION ECONOMY

Summary

Countries with transition economy integrate quickly into foreign markets and increase the risk of stronger economic shocks, which directly affect real estate prices. Ability to successfully avoid the risk and invest in the housing market is based on economic trends, real estate price trends, and forecasting knowledge.

Households in the countries with transition economies are more inclined to purchase their own housing than rent it which causes entrance of new housing market participants who, because of the lack of historical experience and information, make investment decisions of the adequate quality.

Not only knowledge of economic tendencies, real estate price formation mechanisms, but also ability to estimate real estate price level variation would make a background to minimize the risk of investment in real estate and would contribute to economic stability of the country.

Scientific literature presents wide variety of housing price level calculation methods: some authors forecast housing price level using Repeat Sales Model (Engle et al., 1985; Case et al., 1987; Case et al., 1989), others get the most accurate results using Regression model (Bailey et al., 1963; Linneman, 1986) or Linear Cointegration method (Zhou, 1997; Barot et al., 2001). In the last two decades, rate calculations are increasingly used for housing price level dynamics estimation: Rent rate (Himmelberg et al., 2005; Ayuso et al., 2006; Hott et al., 2008; Campbell et al., 2009), Demand/supply rate (Ho et al., 1998; Quigley, 1999; Hott et al., 2008) or Rent coefficient and demand/supply rate (Hott et al., 2008). All these methods give a desired result: they show housing price level dynamics within a defined geographic area during a defined period. However, these studies were conducted mainly in the countries with developed economies where housing price markets have old development traditions and take an important part in financing and economic processes of the countries. There is no single housing price level calculation method which would be adapted specifically for the countries with transition economies where legal and financial systems are still developing, and the influence of any factors or factor groups on housing price level formation is enhanced by human factor, i.e. optimistic expectations or economic patterns do not explain the phenomenon of panic. This reveals the necessity of additional theoretical and practical research to include housing price level formation tendencies in the countries with transition economies.

Scientific novelty of the article is reflected by selection of the most suitable housing price level calculation method for the countries with transition economies.

Scientific problem is the question what housing price level calculation method is the most suitable for estimation of housing price level in the country with transition economy.

Aim of the research – to identify the most suitable housing price level calculation method in the country with transition economy.

Research object. Housing market in a country with transition economy.

Objectives of the research:

1. Critical evaluation of theoretical housing price level calculation methods.
2. Identification of the main factors, determining housing price level formation in the country with transition economy in the case of Lithuania.
3. Verification of the applicability of the selected housing price level calculation model in the country with transition economy in the case of Lithuania.

Research methods: examining theoretical aspects of price level formation in a country with transition economy and developing research methodology a systematic comparative and logical analysis of scientific literature was used. Performing an empirical research, multipartite linear regression was calculated using Microsoft Excel software package.

The following conclusions of the research were made. Scientific literature has not formed any steady single methodology for calculation of housing pricing level because different methods and models differ in their conceptions and are designed to calculate different factor groups, depending on peculiarities of a particular country or region, which determines narrow range of their application. The analysis of scientific literature showed, that hedonistic models of housing price calculation, which are used for estimation of housing prices, can be grouped in a very general way, according to selection of particular factors for the research. The groups, distinguished by the authors, are as follows:

- Microeconomic factors' calculation methods, designed for the estimation of final housing price.
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The formula, derived in the process of the empirical research, shows housing price dependence on the main macroeconomic factors and mathematically expresses the weight of particular macroeconomic factors in housing price level formation process: average gross salary and GDP have the highest relative importance while relative importance of other factors such as mortgage interest rate, DFI and inflation is significantly lower.

Housing price level formation in the country with transition economy is influenced not only by quantitative factors easily estimated statistically, but also by qualitative factors hard to estimate statistically, such as housing market participants' optimism about high investment return in the future, expectations that housing prices can rise, poor knowledge of economic patterns and others. This reveals necessity that mathematical expression for the estimation of the influence of qualitative factors on housing price level should be additionally researched in the future.

The results of the empirical research confirmed applicability of multipartite regression model in housing market in the country with transition economy – Lithuania during the period 2000-2010.

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STAKEHOLDER MANAGEMENT PARADOXES FROM THE PERSPECTIVE OF NORMATIVE, DESCRIPTIVE AND INSTRUMENTAL APPROACH

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Abstract

Changes in economic development, national or local security, and expectations of society will influence how social performance is defined and how it involves stakeholders and thus the performance of a corporation. The stakeholder approach to the corporation is often regarded from instrumental, normative and descriptive implications. The study focuses on the relationship and integration of these implications and tries to answer the questions: What is disclosed by three implications and has a convergent theory a ground to be valid? Apparently the concluding answer to the questions has not been found yet and this study will make an attempt to from some light on it. This paper contributes to the enrichment of the topic.

Keywords: corporate social responsibility, stakeholder management, normative, descriptive, instrumental, long term view, short term view

Introduction

The pressure for corporate accountability is increasing (Waddock, 2004, Beurden and Gossling, 2008). This means that legal, social, moral, and financial aspects must be taken into account when judging about corporate performance. Corporations experience increasing pressure and demands from the government (restrictions with respect to social conduct), customers (transparency of markets, sustainable products, investors (valuing the way corporations meet their social responsibilities) (Barnett and Salomon, 2006). All these developments shift the focus of corporate attention from a merely financial orientation to a much broader one. If society can decide that corporations have responsibilities toward stakeholders, we can expect corporations to be held accountable for their social performance (Gossling, 2003). This applies to their actions, as well as to the outcomes that result from these actions (Freeman, 1994). The stakeholder approach to the corporation is often regarded from instrumental, normative and descriptive implications. Furthermore to integrate these theories a convergent theory was proposed though it is still under debate. *Research problem:* the study focuses on the relationship and integration of these implications and tries to answer the questions: What is disclosed by three implications and has a convergent theory a ground to be valid? *Research goal and objectives:* apparently the concluding answer to the questions has not been found yet and this study will make an attempt to from some light on it. This paper contributes to the enrichment of the topic. *Research methods:* metaanalysis of academic literature, empirical research, formulation of conclusions.

Stakeholder theory and corporate social responsibility (CSR)

One of the oldest questions in moral philosophy is whether it pays to be a morally good person (Gossling, 2003). Likewise, one of the oldest and most important questions in the CSR context and stakeholder theory can be formulated as follows: "Social performance with respect to corporate's stakeholders may be good for society, but does it pay?" (Brown, 1998, p. 271). Theoretically, it is not obvious that moral behaviour is financially and economically beneficial (cf. Brown, 1998; Gossling, 2003). Freeman (1994) argued that social performance is needed to attain business legitimacy. Managers have a fiduciary responsibility to all stakeholders and not just to shareholders. CSR and stakeholder approach have been described as the obligation of organizations to be accountable for their environment and for their stakeholders in a manner that goes beyond mere financial aspects (Gossling and Vocht, 2007). Stakeholder theory tries to integrate economic and social aspects into one framework and it should be kept in mind that each depends on the other (Harrison and Freeman 1999). For this reason, stakeholders should be taken into consideration when they have an impact on the company. Stakeholder theory explains firms performance from a sustainable viewpoint including not only shareholders, but all stakeholders.

Social reporting is not a new phenomenon by any means. Social subjects have been a priority for many companies for more than half a century, even when there was no need to report on social aspects if the company did not want to. Nearly 40 years ago a paper by Bowman and Haire (1975) had already identified headings such as Corporate Responsibility, Social Actions, Social

Commitment, Corporate Citizenship and Beyond the Profit Motive in annual reports. Awareness of such topics was already evident as demonstrated by books such as “Social Responsibilities of the Businessman” by Bowen (1953)—now nearly 60 years old. Companies report information on either a mandatory or voluntary basis. Mandatory reporting is represented by financial reports and other regulatory filings. Voluntary reporting includes for example: management forecasts, press releases, Internet sites, and corporate reports (Healy and Palepu 2001). Voluntary disclosure can be found in mandatory reports (e.g. annual reports with additional voluntary information) or in extra voluntary reports which also include social reports. Social reports contain information about a firm’s social performance (Jackson and Bundgard 2002). Synonyms for social reports used both in academic and industrial contexts are corporate citizenship reporting, sustainability reporting, or social and environmental reporting.

For social reports, different activities and social responsibilities of companies, dealing with areas such as human rights, consumers, employees, society or the environment are often disclosed. Those headings can be further subdivided—for instance, interests of employees, diversity management, safety of workplaces or educational opportunities. Social reporting, having become increasingly popular since the 1970s, experienced a temporary decline in the 1990s (Marx 1992). Since then, social reporting has again increased and today approximately 80% of the Global Fortune 250 companies provide a social report (KPMG 2008).

Hackston and Milne (1996) state that companies disclose social information without having an evident theoretical framework which explains the benefits and costs of social reporting. Craighead and Hartwick (1998) argue that only the belief of managers that voluntary reporting equates with competitive advantages is a determinant in the preparation of social reports. As such, it can not be argued that companies disclose voluntary information because they know that it leads to direct financial benefits. However, this assumption is nonetheless an expectation and no proven fact.

Europe, especially France, Germany, UK and Denmark has been at the vanguard of social accounting and thus Bebbington et al. (2000) say that the stakeholder dialogue, and thus community reporting, is at a high level today. This means that European companies are ripe for analysis, as social reporting is not totally new to them and it can therefore be assumed that firms have reasons for reporting and are not disclosing because it is a passing trend. This does not mean that firms in Europe are able to explicitly quantify costs and benefits of their social reporting, but there are at least implicit configurations with a historical precedent and which have evolved over time, and which determine the decision to disclose social reports.

The view of legitimacy theory is that organisations have no inherent right to resources or to exist (Deegan 2002). They must respect certain boundaries and not only law—as the term legitimacy might indicate. Legitimacy in this sense means that companies use their power as expected by society (Warren 1999). In reality companies

are entities that operate not only in a society, but are obliged to respect other interests, too. If they do not, they will be regulated and enjoy less freedom. Thus, they try to operate within societally-agreed boundaries and norms which may also change over time (Guthrie et al. 2004).

The central idea in stakeholder theory is that the success of an organization depends on the extent to which the organization is capable of managing its relationships with key groups, such as financiers and shareholders, but also customers, employees, and even communities or societies.

A particular definition of CSR, which puts the concept in a broad yet understandable perspective, was presented at the World Business Council for Sustainable Development: “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families as of the local community at large” (Holme and Watts, 1999, p. 3). Another definition of CSR has been stated by Carrol (1979) and has been used by many scholars in the field: “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (p. 500). Hence, CSR is relevant on different levels within and outside organizations and is therefore difficult to measure. Wood (1991) distinguishes three principles of CSR which each operate on a different level. (1) The principle of legitimacy. This principle operates on an institutional level. (2) The principle of public responsibility. This principle operates on an organizational level. (3) The principle of managerial discretion. This principle operates on an individual level.

Normative, instrumental and descriptive stakeholder theory

All the stated above about CSR and stakeholder view (corporate citizenship, sustainability human rights, consumers, employees, society or the environment, interests of employees, diversity management, safety of workplaces or educational opportunities, costs and benefits of their social reporting, legitimacy, managing its relationships with key groups, such as financiers and shareholders, but also customers, employees, and even communities or societies) lead to the concepts “stakeholder”, “stakeholder theory”, and “stakeholder management” which has been interpreted and used by various authors in very different ways (Friedman and Miles, 2006). Donaldson and Preston (1995) argue that stakeholder theory can be divided into three types—descriptive(or empirical), instrumental and normative(prescriptive).

- 1) *Descriptive*. Stakeholder theory is descriptive when the actual nature or state of a company and its stakeholders is analysed. The corporation is viewed as a constellation of cooperative and competitive interests possessing intrinsic value. The theory is used to describe specific corporate characteristics such as the nature of the firm and its context (e.g. country), the way managers think about managing,

how corporations are managed, or how board members think about the interests of constituencies. The theory tries to answer the questions: "What is happening or has happened?", "Why and how is it described?", "How does it function (concerning organization's structure)?"

- 2) *Instrumental*. Instrumental stakeholder theory tries to explain relationships between stakeholders and the company, between the practice of stakeholder management and the achievement of various corporate performance goals (profitability, growth). An instrumental approach is hypothetical because it says "if you want to achieve (avoid) results X, Y, Z, then adopt (don't adopt) principles and practices A, B, C" Donaldson and Preston (1995). The theory tries to answer the questions: "What effect does it have to corporation's performance?" or "Who should control a corporation?" which we may translate in two complementary ones: "which stakeholders have the most powerful incentive to increase company value?" or "Which stakeholders could be more easily expropriated by top management?"
- 3) *Normative*. In a normative way the theory provides moral or ethical guidelines for actions by firms. This approach is categorical and says "Do (Don't do) this because it is the right (wrong) thing to do". Normative implication suggest guidelines for the behaviour of all parties involved, particularly managers. If the corporation is the network of linkages with and among stakeholders and requires their support for its existence and operation, then it follows that this network should be managed, if possible, to provide the stakeholders collectively with benefits. This assumes acceptance that:
 - a) Stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activities. Stakeholders are identified by their interests in the corporation, whether (or not) the corporation has any corresponding functional interest in them.
 - b) The interests of all stakeholders are of intrinsic value, each group merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareholders.

Acceptance of these two propositions defines a kind of organizational morality that forms a normative core of stakeholder model: legitimate stakeholder interests require managerial recognition and attention as a matter of moral right. Consequently, the theory tries to answer the questions: "What should we do?" "How should we behave?"

These different approaches can allow us to differentiate stakeholder definitions on the following logical basis:

- *Descriptive* stakeholders are defined as to whether they are affected by the firm and/or can potentially affect the firm, the former if the object of investigation is the effect of the firm's

activities and the latter if it is the decision-making process of the firm.

- *Instrumental* stakeholders are defined by the need of management to take them into consideration when trying to achieve their goals.
- *Normative* stakeholders have valid normative claims on the firm.

Short-Run and Long-Run Value Creation

Freeman anticipated in his research the link between social responsibility and financial performance and suggested a positive correlation between the two in the long run. According to the conventional view, shareholders should receive control rights, and companies should maximize shareholders value in the long run. This answer, strongly supported by economics and finance scholars, is the dominant one, given that legal systems (with few exceptions) tend to assign control rights to shareholders (e.g., Alchian and Demsetz, 1972; Jensen and Meckling, 1976; Williamson, 1985). In this view, the only doubt regards how companies can maximize shareholder value in the long run (Jensen, 2002; Rappaport, 1986).

The alternative view contends that companies should maximize shareholder value and states that they should be responsible to a large number of stakeholders. This view has old origins, going back to the beginning of the twenty century (e.g., Clark, 1916; Dodd, 1932), but it won a large consensus only during the 1970s when some social groups began to impose a wide range of responsibilities on corporations beyond the creation of shareholder value (Freeman, 1984). Proponents of the corporate social responsibility principle affirm that companies not only have to maximize profits (economic responsibility), but they must also be responsive to national and international laws and regulations (legal responsibility), embrace those activities that are generally expected by society even if they are not codified into laws (ethical responsibility), and spend corporate resources in social activities not required by law in a moral or ethical sense (discretionary or philanthropic responsibility) (Carroll, 1979, 1991, 1993). Both the approaches receive some criticism from the proponents of the other view. Critics of the traditional view emphasize that it is morally untenable (Donaldson and Preston, 1995) or it ignores the fact that many stakeholders beyond shareholders can bear risks or receive residual income (Blair, 1995).

Critics of the stakeholder view of the corporation point out that it failed to give clear guidance to help managers to decide among alternative socially beneficial uses of corporate resources (Jensen, 2002).

The survival and the development of the corporation depend upon its ability to produce and to distribute value so as to satisfy the interests of each stakeholder group. The firm's inability to maintain a balance between the value supplied and the value received in exchange by each stakeholder can determine the breach of the relationship (Clarkson, 1995).

Some stakeholders supply production factors only once or for a short-term period; others instead supply their contributions in the long term. For example, a

company can buy some competencies either by signing a spot contract with a consulting firm or by hiring new employees. The frequency and the length of the relationship strongly influence the criticality of the contribution (Williamson, 1985). In the short term, it is usually easy to define the value supplied and the reward to be given in exchange to each stakeholder. In the long term, instead, it is more difficult to create a fair balance because the subjects could make relationship-specific investments, and unexpected events could change the economic terms of the contract, damaging one subject and benefiting the other (Milgrom and Roberts, 1992; Williamson, 1985). In sum, if the contributions supplied in the short term can be efficiently regulated through spot market contracts, the contributions supplied in the long term must be regulated through relational contracts and, in the worst cases, through more complex governance forms.

Fairness

A company which persistently follows this behavior builds a solid reputation of fairness, which can limit or avoid the occurrence of many problems deriving from contractual incompleteness (Axelrod, 1984; Hill, 1990; Kreps, 1990). A powerful set of cultural norms emphasizing cooperative and trustworthy behavior among stakeholders can, in fact, foster the value creation process (Blair, 2003). This option may be considered a model of extended corporate social responsibility whereby those who run the firm have the responsibility to fulfil their fiduciary duties toward all stakeholders (Sacconi, 2006), and in particular toward stakeholders providing critical contributions. As such, corporate culture is a solution (i.e., a gap-filling mechanism) to incompleteness of contracts and implicitly also to abuse of authority in hierarchies, because it is capable of providing an answer to the unforeseen contingencies problem (Kreps, 1990; Sacconi, 2006).

Instrumentality versus ethical norms.

As already discussed above normative stakeholder theory (NST) emphasizes the “intrinsic value” of stakeholders, seeing them as an end, whereas instrumental stakeholder theory (IST) is only interested in how stakeholders’ value can be used for improving corporate performance and efficiency, regarding stakeholders as “means” (Donaldson & Preston, 1995; Letza, Sun, & Kirkbride, 2004).

Instrumental justifications for stakeholder theory are well established (Hill & Jones, 1992; Jones, 1995; Jones & Wicks, 1999). Jones (1995, p. 432) states that “Trusting and cooperative relationships help solve problems related to opportunism . . . because the costs of opportunism and of preventing or reducing opportunism are significant, firms that contract on the basis of trust and cooperation will have a competitive advantage over those that do not use such criteria.” The logic followed by Jones is of an instrumental—utilitarian—nature, as it relates stakeholder management with competitive advantage and firm performance.

Instrumental stakeholder theory arguments can be summarized as a tension between a firm’s explicit costs (e.g., payment to bond holders or employees wages) and

its implicit costs to other stakeholders (e.g., environmental costs, employee satisfaction costs, or product quality costs). Instrumental stakeholder theory (IST) posits that a firm trying to lower its implicit costs by socially irresponsible actions will, as a result, incur higher explicit cost (Waddock & Graves, 1997). The reason is that implicit costs in time t may turn into explicit costs in time $t + 1$. For example, a company that exploits employees with unpopular, exploitive human resources (HR) practices will reduce employee morale and satisfaction (implicit costs), make the firm less attractive to work for, and as a result, may have to offer higher wages (explicit costs) than do competitors with sound, “enlightened” HR policies in place if they are to attract talented employees in the future.

The search for a positive link between stakeholder management and firm’s performance has led to a proliferation of IST-based empirical works trying to prove and document such a link. In an extensive review of IST-based research, Margolis and Walsh (2003) have identified at least 127 of these types of studies. By contrast, Donaldson and Preston (1995) and Jones and Wicks (1999) have argued that the instrumental logic used by IST researchers provides an inadequate basis for stakeholder theory. Instead, they argue that the normative basis is what fully acknowledges the contributions of stakeholder theory to the practice of management. Normative stakeholder theory (Evan & Freeman, 1983; Freeman, 1984, 1994; Goodpaster, 1991), grounded on different ethical theories, such as Kantian ethics, distributive justice theory, and virtue-based or utilitarian approaches, claims that stakeholders should be treated as ends, independent of the instrumental consequences of that decision.

Normative justifications for stakeholder theory have been built on the concept of common good (Argandoña, 1998), risk (Clarkson, 1994), fair contracts and fairness (Freeman, 1994; Philips, 2003), social contracts theory (Donaldson & Dunfee, 1999), Kantianism (Evan & Freeman, 1983), or property rights (Donaldson & Preston, 1995). However, and despite the growing literature in the field of normative stakeholder theory (NST), there is still no agreement among scholars on which normative basis provides the best foundation for the theory.

Convergent stakeholder theory.

Donaldson and Preston (1995) claim that distinctions between the different views of stakeholder theory are unimportant. They advocate that normative thesis is the strongest, being the only one able to provide epistemological for the stakeholder theory (Friedman and Miles, 2006). This does not mean the rejection of descriptive and instrumental theory but regards them as nested into each other (Figure 1).

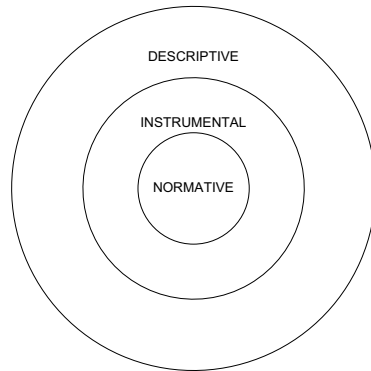


Figure 1. Three aspects of stakeholder theory. (Source: Donaldson and Preston, 1995)

The external shell is the descriptive aspect, which presents and explains practise. Instrumental stakeholder theory forms the next layer, supporting the descriptive thesis through predictive power. At the core is the normative. Descriptive accuracy presumes the truth of the core normative conception in so far as it presumes that managers and other agents act as if all stakeholder interests have intrinsic value.

Jones and Wicks (1999) in their further works argued that neither the instrumental view (stakeholder management is economically sound management) nor the normative view (stakeholder management is ethically “good” management) is complete in itself. In an integrative attempt of both approaches, they proposed a convergent stakeholder theory in which they state that normative and instrumental considerations should be integrated into a single argument. The convergence hypothesis claims that managers have sets of actions available to them that fulfil the instrumental, as well as the normative, requirements of a decision. Therefore, managers should orient their decisions toward actions that are morally sound and instrumentally effective at the same time (Jones & Wicks, 1999). The authors believe that two perspectives can be integrated through a focus on relationship emphasizing trust and cooperation than contracts and transactions. The authors take particular note of the interest in stakeholder theory taken by both normative ethicists and social scientists, and search for common ground within the theory to bring their efforts together to provide support for stakeholder theory. For them, managers should build positive relationship with the stakeholders which consequently enable a corporation to create sustainable value over time. Neither the focus on instrumental benefits or sound moral norms should dominate – indeed, they should work together and reinforce each other (Freeman et al., 2010)

Although the convergence arguments posited by Jones and Wicks (1999) are appealing, there are two main reasons to question the convergence arguments.

First, if both instrumental and normative considerations are aligned (or converge), then stakeholder theory somehow loses its meaning, as taking at heart the welfare of stakeholders would be equivalent, according to the convergence logic, to maximizing shareholders’ interest— financial return. The whole concept of “stakeholder” becomes irrelevant

in that scheme. All that managers are encouraged to do is to maximize shareholders’ value, which in turn it requires them to establish quality relationships with the stakeholders (Jensen, 2002). Therefore, by maximizing the welfare of the former, the well-being of the latter is automatically observed. The second reason is a matter of common observation: As the many examples provided in the introduction of this article illustrate, short-run conflicts between stakeholder groups do exist in practice, mainly between the owners of capital and groups with firm-specific investments, such as employees, certain suppliers and customers, and so on (Asher, Mahoney, & Mahoney, 2005; Blair, 1995). Inevitably, some conflicts emerge between competing groups of stakeholders in the short run that challenge the convergence hypothesis suggested by Jones and Wicks (1999).

Following Weaver and Trevino (1994), Jones and Wicks characterise their theory as a ‘symbiotic joining of normative and instrumental stakeholder theory’; the two modes of inquiry take insights from each other while remaining ‘essentially distinct in their theoretical principles, methodologies and metatheoretical assumptions (Friedman and Miles, 2006).

Conclusions

In this article, we have shown that organizations encounter complicated and diverse environment and they could not be regarded as isolated islands. They interact and transact with many stakeholders in their environments. At its base, stakeholder theory focuses on “the relationship between a business and the groups and individuals who can affect or are affected by it. The stakeholder theory descriptive, prescriptive, and instrumental at the same time as it shows how organizations work and how it could work. What is important to understand, for stakeholder relations, is that organizations have a responsibility to inform stakeholders about the order of things – what is going on – whether times are good or bad or in between. Humans seek to make things orderly for themselves, personally and organizationally. This need for order is the heart of long-term improvement of stakeholder relationships.

There is still an ongoing debate on stakeholder management and how corporations should treat their stakeholders and how to apply different approaches of stakeholder theory in practice. Despite the fact that a majority of previous research tends to support a positive link between stakeholder management and firm performance, and although recently a more refined meta-analysis of past research on the issue has shown a dominance of a positive relationships, such a relationship is still far from being well established in the literature. There is also a lack of empirical studies for better understanding of the relationship between short- and long-run performances. There is a tendency to measure stakeholder management and financial performance in a single year therefore the long-term consequences for certain stakeholders’ regarding decisions are left unexplored. Introducing the short- and long-term dimensions can contribute to the clarification of the

relation between normative and instrumental stakeholder theories, the inconsistency of empirical findings

In sum, both normative and instrumental stakeholder theories, grounded on different approaches, have supported the view that firms should internalize the welfare of some stakeholders in their decision making. Although normative stakeholder theory could be justified only by the moral consequences of managers' actions,

showing that the short run instrumental consequences of adopting pro-stakeholder policies may be negative—that is, the instrumental and normative consequences are not necessarily aligned or at least do not always converge—will reinforce the normative content of stakeholder analysis because in this case managers' actions benefiting a stakeholder group will have to be justified on ethical basis, well beyond any instrumental attempt.

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Dalia Susnienė, Gediminas Sargūnas

STAKEHOLDER MANAGEMENT PARADOXES FROM THE PERSPECTIVE OF NORMATIVE, DESCRIPTIVE AND INSTRUMENTAL APPROACH

Summary

Social reporting is not a new phenomenon by any means. Social subjects have been a priority for many companies for more than half a century, even when there was no need to report on social aspects if the company did not want to. Corporate social responsibility is relevant on different levels within and outside organizations and is therefore difficult to measure. Corporate social responsibility leads to the concepts “stakeholder”, “stakeholder theory”, and “stakeholder management” which has been interpreted and used by various authors in very different ways (Friedman and Miles, 2006). Donaldson and Preston (1995) reveal that stakeholder theory can be divided into three types—descriptive (or empirical), instrumental and normative (prescriptive). These different approaches can allow us to differentiate stakeholder definitions on the following logical basis:

- *Descriptive* stakeholders are defined as to whether they are affected by the firm and/or can potentially affect the firm, the former if the object of investigation is the effect of the firm's activities and the latter if it is the decision-making process of the firm.
- *Instrumental* stakeholders are defined by the need of management to take them into consideration when trying to achieve their goals.
- *Normative* stakeholders have valid normative claims on the firm.

When discussing about corporate social responsibility and stakeholder management there is unavoidable topic about the link between social responsibility and financial performance and possibilities of positive correlation between the two in the long run. According to the conventional view, shareholders should receive control rights, and companies should maximize shareholders value in the long run. The alternative view contends that companies should maximize shareholder value and states that they should be responsible to a large number of stakeholders. Proponents of the corporate social responsibility principle affirm that companies not only have to maximize profits (economic responsibility), but they must also be responsive to national and international laws and regulations (legal responsibility), embrace those activities that are generally expected by society even if they are not codified into laws (ethical responsibility), and spend corporate resources in social activities not required by law in a moral or ethical sense (discretionary or philanthropic responsibility) (Carroll, 1979, 1991, 1993). Both the approaches receive some criticism from the proponents of the other view.

It is also clear that stakeholder management should be viewed from two perspectives: short term and long term. The frequency and the length of the relationship strongly influence the criticality of the contribution (Williamson, 1975). In the short term, it is usually easy to define the value supplied and the reward to be given in exchange to each stakeholder. In the long term, instead, it is more difficult to create a fair balance because the subjects could make relationship-specific investments, and unexpected events could change the economic terms of the contract, damaging one subject and benefiting the other (Milgrom and Roberts, 1992; Williamson, 1975). In sum, if the contributions supplied in the short term can be efficiently regulated through spot market contracts, the contributions supplied in the long term must be regulated through relational contracts and, in the worst cases, through more complex governance forms.

Long and short terms perspectives are important in dealing with normative stakeholder theory which emphasizes the “intrinsic value” of stakeholders, seeing them as an end, whereas instrumental stakeholder theory (IST) is only interested in how stakeholders' value can be used for improving corporate performance and efficiency, regarding stakeholders as “means” (Donaldson & Preston, 1995; Letza, Sun, & Kirkbride, 2004). Donaldson and Preston (1995) claim that distinctions between the different views of stakeholder theory are unimportant. They claim that descriptive aspect presents and explains practice. Instrumental stakeholder theory forms the next layer, supporting the descriptive thesis through predictive power. At the core is the normative. Descriptive accuracy presumes the truth of the core normative conception in so far as it presumes that managers and other agents act as if all stakeholder interests have intrinsic value.

In sum, both normative and instrumental stakeholder theories, grounded on different approaches, have supported the view that firms should internalize the welfare of some stakeholders in their decision making. Although normative stakeholder theory could be justified only by the moral consequences of managers' actions, showing that the short run instrumental consequences of adopting pro-stakeholder policies may be negative—that is, the instrumental and normative consequences are not necessarily aligned or at least do not always converge—will reinforce the normative content of stakeholder analysis because in this case managers' actions benefiting a stakeholder group will have to be justified on ethical basis, well beyond any instrumental attempt.

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INFLUENCE OF EDUCATIONAL ACTIVITIES OF THE CHOIR DIRECTOR ON EDUCATIONAL PROCESSES IN A CHOIR

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Abstract

The article deals with the influence of educational activities of a choir director in a choir as in an educational organisation; the educational characteristics of choir's activities, which show themselves, when fulfilling the roles of choristers - students, pupils and performers, is revealed. Also the article describes the process of the empirical study conducted, introduces the criteria for the selection of respondents, and gives a detailed description of the progress. The article introduces a model of the influence of choir director's educational activity on choristers in a choir as in an educational organisation; indicates and discusses the influence of choir director's educational activities on educational processes in a choir as in an educational organisation, and the empirical data of the fulfilment.

Keywords: choir, choir director, choristers, educational organisation, learning processes.

Introduction

When going deep into life-long learning processes, it appears that learning palette is extremely various - from learning, which follows learning up to autonomous learning of an individual in an individual and collective level, intended for his/her development as a personality and as a professional, for the development of the being performed group work and activity of organisation. As in educational system learning processes have been analysed from various aspects and many authors have worked in this field (Butkienė, Kepalaitė, 1996; Barnett, 1997; Bulajeva, 2001; Hergenbahn, Olson, 2001; Buehl, 2004; Daniels, Edwards, 2004; Jarvis, Holford, Griffin, 2004; Teresevičienė, Gedvilienė, Zuzevičiūtė, 2006; Šiaučiukenienė, Visockienė and Talijūnienė, 2006), when the recognition of learning processes, occurring in organisation, has just begun. Here mostly work researchers of knowledge management (Krogh, Roos, 1996; Choo, 1998; Bukowitz, Williams, 2000; Gamble, Blackwell, 2001; Sanchez, 2003; Probst, Raub and Romhardt, 2003; Waltz, 2003 et al.); however, as they are not educators, they are unable to go deep into the depth of learning processes.

The importance of analysis of choir's learning processes is influenced by *the lack of educational processes' research, related with educational decisions, relevancy and evidence, what is highlighted by Bitinas (1998)*. Mentioned above educational decisions is the basis of pedagogical mastery, which gives artistic nature to educational activity. Contemporary theory of activity gives a chance to look into problems of mastery, intuition and decisions' making from a new approach. In a choir, perspective and relevancy of analysis of educational/learning processes as cognitive subject is being related with, firstly choir's as informal organisation's activity, in which occur non-formal, informal,

self-contained, autonomous learning, which is important, when implementing concepts of life-long learning and harmonious development; secondly, learning processes in choir are related not only with learning of choirmaster, choristers and their groups in various levels, but also with learning in activity, learning from experience, by looking for edification instruments not only in the activity of choir, orchestra, but also in the activity of other organisations, seeking to be the students.

Educational activities of the choir director were studied by Narvidas (1969), Mačikėnas (1981), Dumbliauskaitė (1983), Sokolovas (1983), Kazakauskienė (1987), Stulova (1988), Jukonienė (1990), Olchovas (1990), Arminas (1991), Zubrickas (1994), Petrauskas (1998), Zigmantienė (2000), Masienė (2001), Pilipavičienė (2006), these authors, however, did not engage in empirical studies of the choir director's educational activities. No study has been carried out yet to enable further analysis of the choir director's activities in a choir as in an educational organisation, not to mention a choir as a learning organisation (Jucevičienė, Jučaitė, Tamušauskaitė, 2007, 2008). It is noted that the authors, mentioned above, have revealed educational roles of the choir director as in an educational organisation (see: article of Jucevičienė, Jučaitė, Tamušauskaitė 'Fulfilment of Educational Roles of the Choir Conductor', 2008), but yet they have not revealed choristers' roles; also the expression of influence of choir director's educational activity on learning processes, occurring in a choir, as in an educational organisation, has not been identified, what makes the *scientific problem* of this thesis: what are the roles of choristers in a choir as in an educational organization? What is the expression of influence of choir director's educational activities on learning processes in a choir as in educational organisation?

The aim of the research is to introduce the expression of influence of the choir director's educational activities on learning processes, occurring in a choir as in an educational organisation.

The subject of the research is choir director's educational activities in a choir as in an educational organisation.

Conceptual provisions:

- *Concept of life-long learning*, which emphasizes a holistic approach to learning (Longworth, 2000);
- *Sociocultural constructionism*, which emphasizes that learning is inseparable from a certain specific context, which is distinguished by emotional, organizational, physical and cultural characteristics (Novak, 1996); experience is being accumulated for the whole life and is defined as a form of thought (knowledge, skills, abilities, approaches, values, principles, feelings) (Kolb, 1975; Vygotskis, 1986; Jarvis, Holford and Griffin, 2004);
- *Autonomous learning idea*, which emphasizes person's ability to plan and implement learning himself as a condition of his/her life-long edification (Knowles, 1975; Jarvis, Holford and Griffin, 2004).

Methodological provisions:

- Influence of choirmaster's educational activity on learning processes is studied by revealing choir director's and choristers' roles in a choir as in an educational and in a choir as in a learning organisation. Such approach to the study needs a deep insight - recognition not only of educational/learning processes, but also of their context. For this reason there has been selected a research of one case.
- By carrying out the empirical study there are coordinated two methods of qualitative study - observation and a semi-structured interview (with choristers and choir conductors).
- When processing the results of the research, the attention is given to the rationality principle. There is being used a *method of descriptive analysis*.

The article is of three parts: the first one deals with the educational characteristics of choristers' activities in a choir as in an educational organisation, the criteria and indicators of choristers' educational activity are being distinguished; the second part introduces the progress of the study; while the third one reveals the expression of influence of the choir director's educational activity on learning processes, occurring in a choir as in an educational organisation.

Characteristic features, criteria for and indicators of the choristers' educational roles

Choristers - students. Education is human communication, which creates personality, when interacting with the environment and values of human culture (Jovaiša, 1993). Education highlights individual's level. Individual's - education of personal level is associated with the need of personality's development, which may be implemented during the process of self-education (Jucevičienė, 1996). Thus, by highlighting choristers' as students role in a choir as in an educational organisation, it is meant, that this concept encompasses both students and pupils - as active

participants in education/learning, which mostly are influenced by a choir director. When analysing choristers' roles in a choir as in an educational organisation, to learning is going to be applied both wide and narrow approaches in order to go deep not only into formal choirs' (secondary, music schools, conservatoires, music academies, universities, professionals) activity, but also into learning processes of autonomous and non-formal organisations.

Singing is not just the most popular, but also the weakest musical activity (Ruismäki, Tereska, 2008), as a result, singers educate themselves, learn and refine their voices according to scientifically reasoned theoretical and practical methods. Voices soon get tired and if incorrectly being used, they lose their innate features. During rehearsals, choristers are familiarised with structure and hygiene of the vocal apparatus, they find out the main principles of shaping of cultivated sound, breathing, which, according to Sokolov (1983), Zubrickas (1991), is the main factor in order to correctly educate choristers' voices. When learning shaping of choral vocal, first of all choristers learn to control their vocal apparatus and to manage resonators (Arminas, 1991). Choristers start learning correct breathing as a basis for the singing from correct stand and correct sitting. Later on they learn breathing-in, air holdback, and breathing-out. Good utterance is a sign of high culture of choral singing, consequently choristers must make themselves master of utterance refinement (Mačikėnas, 1981; Pilipavičienė, 2006). In order to have correct utterance, choristers must learn to correctly pronounce and articulate vowels and consonants, to familiarise with the content of the being performed piece, to listen the lyrics, in which the meaning of the lines is highlighted, and to educate implements of the articulation - the lower jawbone, the lips, the tongue and the soft palate. Mostly utterance is being trained by choristers when performing exercises at the end of the rehearsal - during the vocal training. In singing, precise intonation is also very important, which, according to Sokolov (1983), begins from correct breathing. Without breathing, for choristers, seeking precise intonation, also it is important to educate their musical hearing, to develop vocal skills and to sol-fa. Solmization skills choristers develop by reading from the paper being performed repertoire, by performing certain special exercises etc. (Braucht, 2007). For a contemporary chorister reading from paper skills accelerate his learning processes in a choir (Demorest, 2001; Cross, Hiatt, 2006; Furby, 2008), because then choristers faster understand rhythmic and melodic displacements, better remember their pieces, and acquire basics of musical writing (Pilipavičienė, 2006). After having made themselves master of vocal technique, choristers step-by-step go to other important training of expression shadings of choral singing - shaping the timbre. Singers' vocal timbres as a very important means of vocal expression influence the quality of musical sound, and its artistic value. Timbre of musical sound is the most important and the most effective source of piece interpretation (Zubrickas, 1991). In order to preserve their beautiful timbre, choristers must learn to manage resonators, and in order to do that it is essential to be able to properly breathe (Dumbliauskaitė, 1983). Also, for choristers it is important to properly shape sound and to pull up with vocal timbres of different group. Choristers of different vocal groups should not equal with their timbres, but develop

various and richer timbres, identify the characteristic colour and pull up vocal registers (Sodeika, 1968; Pilipavičienė; 2006). When singing, it is very important not only the correct coordination of vocal registers, but also their correct transition from one to another. Thus, choristers must learn to correctly round and cover vowels (Pilipavičienė, 2006). Also for choristers it is important to feel the character of the piece (Mačikėnas, 1981), because different in their content, style, form, and genre pieces also need different timbre. It has been noticed that all abilities, discussed above, necessary for choristers, are being developed not only during vocal exercises, but also by learning the piece (Zubrickas, 1991; Pilipavičienė, 2006).

When learning a specific piece, choristers must learn parts of the piece (Miunš, 1982). Since each piece needs different artistic performance, which is based by the search for the new shadings and timbres, so first of all, choristers must learn breathing in various types - chest, diaphragm, mixed, chain (Uškariovas, 1986). Chain breathing as one of the most important breathing types, characteristic to choral pieces, enables choristers to perform the piece integrally and continuously. When learning for parts of the piece, first of all choristers 'read from paper' - i.e. sol-fa. If a chorister is unable to read musical writing, when he/she learns parts by the method of simulation - i.e. a choir director demonstrates a phrase and choristers repeat it, Haston (2007).

When a chorister is able to perform a different part of the musical piece then there is possible a step-by-step transition to sound coordination of the piece - in order to have an ensemble. The presence of ensemble in a choir is one of the parameters of the choir as of the art organisation (Sokolovas, 1983). Normally choristers sing in a certain vocal group (Williams, Welch and Howard, 2005). And if the ensemble is conceived as a convergence of different vocal strengths and timbres in a part and as a balance of sound among voices in a choir, then choristers must learn harmonisation of sound (harmony). In order to achieve this it is necessary to listen to sound and harmony of the piece. It is possible to achieve it, according to Pilipavičienė (2006), by performing a certain repertoire - i.e. pieces with calm character, euphonious, comfortable tessitura and tonality, and without bigger vocal difficulties. When learning for a harmony of sound, one should remember, that ensemble is one of choir's sound elements, which from a chorister requires ability to find the right balance between strength and timbre with performers of his part. Member from different vocal group must be able to find 'his place' in the sound of the whole choir, to find the right balance among the ensemble of the whole choir. In order to have ensemble, choristers must overcome vocal difficulties, related with such, according to Arminas (1991), components of the ensemble as rhythm, dynamics, harmony, polyphony, tempo, timbre, utterance, balance between a soloist and a choir, and between a choir and an orchestra. While making ensemble, choristers train their musical hearing, without which it is impossible to have sound harmony (Arminas, 1991; Dumbliauskaitė, 2006). Musical hearing is trained during vocal exercises and especially when singing pieces *a cappella* (Pilipavičienė, 2006). Criteria for and indicators of the *students' activities* are given in Table 1.

Table 1

Criteria for and Indicators of the Students' Activities

Characteristics	Criteria	Indicators
Students' activities	Learn for the shaping of choral vocal	Learn to manage the vocal apparatus
		Learn to properly breath
		Learn for utterance
		Learn for the precision of intonation, by developing sol-fa skills
	Learn for the shaping of choral timbre	Learn to pull up with registers
		Learn to manage resonators
		Learn to feel the character of the piece
	Learn for the performance of the certain piece	Learn to use various types of breathing (chest, diaphragm, mixed, chain)
		Learn to perform parts of the piece
	Learn for the ensemble	Learn for the harmony of sound (harmonisation)
		Overcome vocal technical (harmony, melody, intonation and rhythm) difficulties
		Train musical hearing

Choristers - pupils. Learning is a process, which gives meaning to the experience of life; it is a process, when the experience is transformed to knowledge, skills, values, principals, when everyday experience of a conscious person constantly is given a sense to time, space, society and intercommunion (Jarvis, 1999). Choristers' sophistication in a choir not only facilitates choir director's work (Arminas, 1991), but also has influence on the expressive performance of the piece. As a result, in order to become sophisticated - sensitive, able, developed and educated, what is emphasised by Laužikas (1993), first of all choristers acquire special knowledge, skills, values, which later are given a sense not only to performance of the piece, but also to intercommunion. Thus, when performing musical pieces, choristers gain knowledge of the context of the piece (historical, artistic, and philosophical): gain knowledge of the composer's meaningful biography facts, gain knowledge of the composer's style of creation, gain knowledge of the composer's artistically meaningful pieces, gain knowledge of the style of creation of the author of the lyrics, gain knowledge of the most popular pieces of the author of the lyrics (Mačikėnas, 1981), gain knowledge of the form of the piece (Mačikėnas, 1981), gain knowledge of the expression means of the music piece: tune, meter, tempo, timbre, harmony, tonality, dynamics (Narvidas, 1969; Mačikėnas, 1981; Arminas, 1991; Dumbliauskaitė, 2006; Haston, 2007), gain knowledge of the style of the music piece (homophonic, polyphonic or mixed), gain knowledge of the character of the music piece (lyric, dramatic, playful) (Mačikėnas, 1981). The knowledge, mentioned above, are acquired in the first, preparation of the piece, stage and are necessary for choristers who seek not only the expressive performance of the piece, but also the ensemble (Stulova, 1988; Arminas, 1991). When educating their artistic taste, choristers educate their imagination, which is influenced by

a choir director's metaphors, comparisons, allegories or examples, which direct performers' imagination to the right direction and what is noted in works of the following writers: Dumbliauskaitė, 1983; Megginson, 2000; Ceruti, 2004; Gentry, Harden, 2008. Performers' imagination also should be awakened by music itself, what is indicated by Rinkevičius (1998). When speaking about choristers' education, a choir director's appropriately and ingeniously chosen repertoire is one of the main factors of choristers' education (Kievišas, 2002; Pilipavičienė, 2006). Choristers, when performing music of various nations, epochs, styles and genres, forms, singing styles, folk and professional music, in a choir gain much knowledge of the context of the piece (historical, artistic, philosophical) (Mačikėnas, 1981; Pilipavičienė, 2006). When enriching their inner world, it is important for choristers to enrich their world-view (their emotional relationship with environment), and emotional attitude (attitude towards the world, life, environment, whole) (Dumbliauskaitė, 2006). By closely communicating with art, a person enriches his/her soul, gives a sense to life and purposefully spends his/her spare time. By participating in a choir, a person not only becomes a member of the collective creative process, but also finds new friends, visits foreign countries, gets to know culture of different countries - i.e. he/she develops spiritually. For choristers as for members of music group, it is important merger of souls, formation of energetic field, because it influences choir's sound and creative processes (Dumbliauskaitė, 2006). When speaking about participation in a choir, voluntary work - is a basis of choral activity (Pilipavičienė, 2006). It has been noted that choristers' role in a formal and in a non-formal choir slightly differs. In a non-formal choir choristers stay because of their love for music, or their wish for common music, and in order to reveal the beauty of the music. Thus, choristers, especially in a non-formal choir, participate without any compulsion or obligation. In a formal (professionals' - *author's remark*) choir, performers get rewards, what gives patience, according to Dumbliauskaitė (2006). According to Pilipavičienė (2006), an important factor for traction to a choir, especially of a young person, is a possibility to a self-expression, also choirs' reached results, attractive repertoire, often concerts, travels and great microclimate. According to Dumbliauskaitė (2006), music is a speech of 'the heart'. Educated intuition and believing in higher things will help to touch and approach to the music of the *Genius*... Choristers has such a possibility during the concert by forcibly and creatively performing pieces, especially with folk songs, in which is accumulated the infinite beauty and the high spirituality. By performing pieces of ethnical nature, choristers form their musical hearing and artistic emotional attitude, clarify their emotions, educate artistic taste and form provisions to life, based on gentleness and kindness. Table 2 lists the criteria and indicators of the *pupils' activities*.

Choristers - performers. Art inspires the complicated metamorphoses of emotions. The most sad, difficult, vivid negatively, as their are called by physiologists and psychologists, incarnated in art creations, makes positive emotional impact, gives special - aesthetic satisfaction. This experience, which Rapoport (1977) calls as artistic emotions, choristers must provide to their listeners during the concert. The complexity of the being analysed process is

conditioned by the fact that choristers as a group of performers (choristers, companies, orchestras), different from any other musician, soloist shares his/her responsibility among themselves (Bezborodova, 1990; Boerner, von Streit, 2007). Also they do not have the real autonomy (Boerner, Krause and Gebert, 2004; Couch, 1983; Weeks, 1995; Levine and Levine, 1996; Boerner, von Streit, 2007).

Table 2

Criteria for and Indicators of the Pupils' Activities		
Characteristics	Criteria	Indicators
Pupils' activities	Gain knowledge of the context of the piece (historical, artistic, philosophical)	Gain knowledge of the composer's meaningful biography facts
		Gain knowledge of the composer's style of creation
		Gain knowledge of the composer's artistically useful pieces
		Gain knowledge of the style of creation of the author of the lyrics
		Gain knowledge of the most popular pieces of the author of the lyrics
		Gain knowledge of the form of the piece
		Gain knowledge of the expression means of the music of the piece: tune, meter, tempo, timbre, harmony, tonality, dynamics
		Gain knowledge of the style of the music piece (homophonic, polyphonic or mixed)
		Gain knowledge of the character of the music piece
	Educate their artistic taste	Train imagination
		Perform an ingeniously selected repertoire
	Enrich their inner world	Enrich their world-view (their emotional relationship with environment), and emotional attitude (attitude towards the world, life, environment, whole)
		Participate in a choir due to the special atmosphere in it, what influences 'traction' to a choir
		Have a possibility to open their spiritual world to creation due to the attractive atmosphere in a choir

This is related with the particularity of organisation, where the main role is given to a conductor. According to Dalbey (2008), choir's success is related with choristers' as performers ability to work together in order to reach an internecine harmony. It is not that easy, because a choir consists of individually thinking, feeling and creating musicians - artists, for which, according to Pilipavičienė (2006), it is very important their inner spiritual comfort, perception, that they agree to this activity, that they admire it. Also it is noted that choristers as performers have limited time (rehearsals) for the preparation of the performance of

the piece (Bezborodova, 1990). Thus, in order to understand the piece, choristers gain knowledge of the idea of the composer's piece and gain knowledge of the idea of interpreter for the performance of the certain piece. Choristers' performance of decision of particular interpretation (authoritarian) is influenced by conductor's control (Zigmantienė, 2000; Boerner, Krause and Gebert, 2004; Couch, 1983; Weeks, 1995; Levine and Levine, 1996). Each person in a choir must obey to a strong conductor's ferule, without it, a good choir is impossible (Zubrickas, 1991). In a choir is felt a strong connection between a chorister and a conductor; a conductor's will becomes a chorister's will; a chorister does not think about letting out even one sound without watching a conductor and not being with him in a uninterrupted connection. In presence of such communication and control a chorister feels safe, as it is indicated by Česnakovas (1952). Unconditional, very precise and flexible singers' reaction to conductor's motion - is one of the most important factors for the expressive singing of the choir (Zigmantienė, 2000; Pilipavičienė, 2006). For this reason, choristers, while watching conductor's face, must precisely respond to various shadings of the piece, expressed by conductor's hand. However, the realisation of conductor's will must be understood not as a passive performance of conductor's orders, but as a creative interaction between members of the orchestra and a conductor (Kanerstein, 1972). Thus, when performing a particular decision of interpretation (authoritarian), choristers forget their personal ideas of interpretation, which are being independently performed (Boerner, Krause and Gebert, 2004; Couch, 1983; Weeks, 1995; Levine and Levine, 1996) and start following the line, anticipated by the interpreter (Bezborodova, 1990; Zigmantienė, 2000). Table 3 lists the criteria and indicators of the *performers' activities*.

Table 3

Criteria for and Indicators of the Performers' Activities

Characteristics	Criteria	Indicators
Performers' activities	Acquisition of understanding of the piece	Gain knowledge of the composer's idea of the piece
		Gain understanding of the interpreter's idea for a performance of a particular piece
	Performance of particular decision of interpretation (authoritarian)	Finish personal ideas of interpretation, which is being performed independently
		Start following the line, anticipated by the interpreter

2. The methodology of the research

In order to study the influence of choir director's educational activity on learning processes is employed a strategy of *qualitative research*, a case study. When performing the empiric research, a method of qualitative research - oral interview (semi-structured interview with 28 choir's performers and with a choir's conductor) is being applied. Basic educational activities and learning processes are researched under the *present* conditions, where in order to go deep into them, the attention is given to the past activities of the mixed choir "Gintaras", also to a present

context. There has been interviewed a former and present director of the mixed choir "Gintaras" and 28 choir's choristers. The research was carried out on a basis of one choir, which according to its maturity, allows going deep into a choir not only as in an educational, but also as in a learning organisation. This possibility has been evident, when carrying out former research (Jucevičienė, Jučaitė, Tamušauskaitė, 2007; 2008). A choir has been selected especially carefully. Kaunas mixed amateur choir "Gintaras", which has been chosen for the research, is a mature in its stage experience not only in Lithuania, but also abroad (in Estonia, Germany, France, Italy), and choir director has a necessary stage experience and is able to provide reliable information about the being researched phenomenon. The critical content of the case has been constituted of the observation objects (one choir, 4-6 vocal groups, 28 choristers, choir director), which satisfy the requirements, necessary for a researcher. The following criteria have influenced the selection of the case:

- a high category of level of the amateur choir (I out of IV categories);
- long period of choir's existence/deep traditions;
- huge stage experience of the choir in Lithuania;
- huge stage experience of the choir in foreign countries;
- high competency of choir director.

The research was carried out in three stages in 2011. This article is limited to presentation of the results of two stages of the empirical research. In the first stage the aim was to identify the context of the being researched choir. Going deep into a choir as in an organisation, by highlighting culture (values, traditions) and competency of the choir. The choir is analysed in aspects of its evolution activities and present activities, by interviewing informants - all choristers, former and present choir director. In order to find out choristers' musical education and experience of choral and musical activities/practise in this and in other choirs, there has been carried out an interview with choristers (structured). There were interviewed all 28 choristers of choir "Gintaras", by giving them questions of general nature, related with their experience in musical activities and in the being analysed choir. When going deep into choir's activity in aspects of its development and present and culture and competence, being cherished in it, there was carried out an interview with a long-lived and present director of Kaunas mixed choir "Gintaras". Instrument of the research is an *original questionnaire*, prepared according to the levels and their components, revealed by Poškienė (1998), making the culture of organisation. On the second stage, in order to analyse educating/learning tendencies of choir director and choristers there has been carried out an interview (semi-structured) with present choir director and 28 choristers. Instrument of the research is an original questionnaire, made according to the *model of choir director influence on choristers in an educational organisation* (Figure 1).

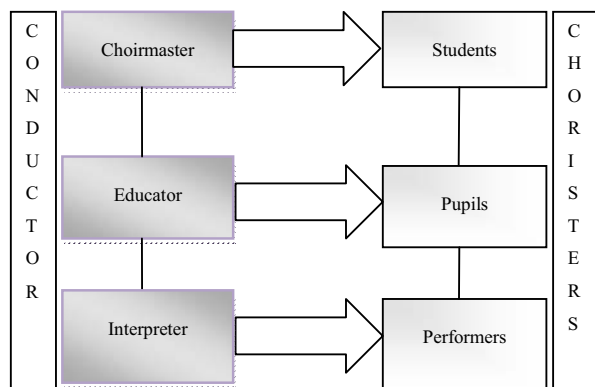


Figure 1. Model of influence of choir director's educational activity on choristers as in an educational organisation

The model, mentioned above, is made according to the indicators of education and learning activities of choir director and choristers. It is noted that characteristics, criteria and indicators of choir director's activities are given in Jucevičienė's, Jučaitė's, Tamušauskaitė's article 'Fulfilment of Educational Roles of the Choir Conductor (2008). This empirical research questionnaire consists of 70 questions of closed and open type, prepared according to the criteria of educational activities of choir director and choristers. When processing the data of the research, rationality principle is being followed; *method of descriptive analysis* is being used.

Data about the expression of choir director's educational roles

Evaluation of "Gintaras" choir context. In the 1st stage of the research have been interviewed all 28 choristers of "Gintaras" choir: there has been recorded their sex, age, musical education, general experience of choral singing, and experience of singing in "Gintaras" choir. Demographic characteristics of choristers are indicated in Table 4.

Later have been interviewed former long-lived and present choir directors. After having performed the descriptive analysis of former and present choir directors' interview about their activities in "Gintaras" choir, there have been noticed some certain regularities: for both directors there were/are important the same values - i.e. respect for a person, tolerance and huge responsibility, which the former director understands not only as a responsibility for a choir as for an educational institution, but also as for an artists' company - to perform a piece responsibly. By the way, a former choir director admitted that he was for choristers not only a director, but also an educator and a mentor. Meanwhile, a present director highlights one of social values - equality domination in the choir. Both directors cherished/cherish the same traditions in the choir: celebrate personal celebrations of choir members, greet New year, in summer participate in a creative camp, in Pervalka, in which they not only relax, but also rehearse new pieces; both directors in choir's vision see the preservation of "Gintaras" choir as an amateur choir, and the increase of

choir members: for a former choir director it is very important to preserve a stable and numerous choir; a present director of "Gintaras" choir wants to "rejuvenate" the choir by inviting more younger members, and to preserve it namely as a *mixed* amateur choir. Also both directors agree on the mission of the choir - when performing a more difficult repertoire, to educate not only choristers, but also listeners of the choir: a former choir director thinks that emotional satisfaction of choristers and listeners is very important; a present director in his mission sees a responsibility to familiarise the youth with academic music, by revealing beauty of choral music and by forming musical taste of young choristers.

Table 4

Demographic characteristics of the respondents

Volume size	N=28	
Sex	Women	Men
	18	10
Age	1 (from 10 to 20 years); 1 (from 20 to 30 years); 3 (from 30 to 40 years), 6 (from 40 to 50 years), 4 (from 50 to 60 years), 3 (from 60 to 70 years)	3 (from 40 to 50 years); 4 (from 50 to 60 years); 3 (from 60 to 65 years)
Musical education (basic-school)	6	1
Experience of choral singing, years	8 (from 5 to 10 years), 3 (from 10 to 20 years), 3 (from 20 to 30 years), 2 (from 30 to 40 years), 2 (from 40 to 45 years)	2 (from 5 to 10 years); 5 (from 20 to 30 years); 1 (from 30 to 40 years); 2 (from 40 to 50 years)
Experience of choral singing in "Gintaras" choir, years	11 (from 1 to 10 years), 4 (from 10 to 20 years), 3 (from 20 to 30 years)	2 (from 1 to 10 years), 3 (from 10 to 20 years), 5 (from 20 to 30 years)

Choir director's - choirmaster's expression in a choir as in an educational organisation: evaluations of choir director and choristers.

Empiric study has revealed that when shaping choristers' vocal, choir director the biggest attention gives to teaching choristers how to manage their vocal apparatus, to developing of intonation and utterance. When speaking about shaping of choir's timbre, the biggest attention director gives to teaching choristers how to feel character of the piece. When teaching how to perform the particular piece, choir director teaches to perform parts, as well as teaches choristers of various types of breathing - mostly, chain and diaphragm. By teaching of the ensemble, a choir director the biggest attention gives to the sound harmony - in order to reach the tone and to develop choristers' musical hearing. In the meaning of the mentioned above aspects, in the being analysed choir, there have been revealed several types of learning. Firstly, - this is an *informal learning*, because the being analysed choir is an amateur choir, in

which a choir director organises learning, creates programme, and sets goals. With an aspect of informal learning, choristers are given not only theoretical knowledge of shaping of vocal, timbre, but also there is a goal to educate during practical exercises and learning of the piece, and thus to develop practical experience, when developing skills, what is highlighted by Kyndt, Dochy, Nijs (2009) (cit. Fordham, 1993); secondly, - type of *individual learning* has emerged, because choristers every time use information, received from a choir director, from a score, by experimenting with their voices and evaluating themselves, and by looking for a feedback from a conductor. In this way, they reveal that they have inner competence, of which individual ability to learn indicate Mok, Cheng (2001); thirdly, - *one-loop learning is performed when* choristers, while learning to a piece, listen choir director's descriptions, remarks, provisions and constantly repeat, develop the complicated parts and phrases of the piece until they learn it; fourthly, - *learning while observing* has emerged - choristers observe choir director's demonstration, singing of other groups, by evaluating in their unconsciousness according to their values, principles, by accepting or rejecting matching of cases, what is indicated by Scherer, Adams (1989) and thus form their personal understanding about the performance of the piece.

Choir director's - mentor's expression in a choir as in an educational organisation: evaluations of choir director and choristers.

As the study has revealed, the biggest attention in the mentioned choir is given to choir's repertoire, distinguishing by meaningful lyrics of pieces, and by pieces of various styles and genres, what not only influences choristers' traction to choir, but also motivates for a more expressive singing, educates choristers' musical hearing, expression of speech, gives possibility to choristers to touch piece's performance by becoming its co-creator; creates attractive atmosphere in a choir, which opens person's spiritual world for creation, what is highlighted by (Dumbliauskaitė, 2006). Also big attention is given to choristers' teaching about a means of music expression - tune, meter, tempo, tonality, harmony, dynamics - these things form choristers' understanding about music, about the being performed piece, about music making - phrase making, and later influence the interpretation of the piece. In the meaning of education, in a mentioned above choir, has been noticed *learning when observing*, during which choristers observe a choir director's demonstration in various aspects of musical expression. Also has been revealed an autonomous learning, distinguishing by choristers' search for information in internet, by listening records of musical pieces, by watching TV shows.

Choir director's - interpreter's expression in a choir as in an educational organisation: evaluations of choir director and choristers.

The empiric study has revealed that a choir director as an interpreter wants to feel the creative performance of the piece - tries to anticipate composer's idea, goes deep into authors of music and lyrics, into the epochs of their

existence, knows about traditions of performance; during the concert tunes in to the piece, sets an artistic goal of the piece, wants to hear a good sound of the choir, employs his/her knowledge, intuition, ingenuity and fantasy and wants to see the style in the music. The biggest attention a choir director gives to tuning in to the piece and to achievement of good sound; to explanation about understanding of the piece in a choir. When speaking about making of interpretational decision, a choir director gives way to emotionally mature interpretational ideas, and even encourages them. A choir director tries to realise his/her envisioned line by conducting and expression.

Table 5

Choir director's as educator's expression of roles: evaluations of choir director and choristers

Choir director's roles	Evaluation	
	Medium of choir director's evaluation	Medium of choristers' evaluation
Choirmaster	$\frac{13}{13} = 1$	0,97
Mentor	$\frac{14}{14} = 1$	0,93
Interpreter's preparation	$\frac{10}{10} = 1$	-
Interpreter	$\frac{3}{4} = 0,8$	1

By giving way to good, different choristers, choristers' vocal groups or initiatives of the whole choir, choir director in a choir - in an educational organisation acts according to democratic management model, where a conductor gives a little bit freedom for his/her musicians, and which, as applicable to future business organisations, although lacking research in this field, is indicated by Drucker (1988). Meanwhile, choristers, when performing a piece, and often by cancelling their autonomously performed personal ideas, reveal that they trust their choir director not only as a leader of organisation, but also as the main interpreter in the name of general good sound of the choral piece.

After having performed a descriptive analysis of the interview of choir director and choristers, there has been evaluated expression of roles of choir director and of each chorister as of educator (choirmaster, mentor, interpreter), according to all indicators of choir director and choristers in a choir as in an educational organisation (13 choirmaster's, 14 mentor's and 4 interpreter's). It is noted that choristers have not evaluated preparation of *choir director as interpreter*, because the preparation process is not visible to them. In choristers' evaluation is given a general medium of their evaluations. *Percentage* expression of choir director's as educator's roles is given in Table 5.

As it is indicated in Table 5, evaluations of choir director and choristers are almost the same. The biggest difference when evaluating choir director's as interpreter's expression is noticeable in indicator of choir director as interpreter *stops the noticed individual choristers' autonomously performed interpretational ideas*.

Table 6

Part of realisation of choir director's - educator's roles

Director's role	Part of realisation	Criterion	Medium of choristers' opinion
Choirmaster	1	Shapes choristers' vocal	1 (0,99)
	1	Shapes choir's timbre	1 (0,96)
	1	Teaches performance of the particular piece	1 (0,98)
	1	Develops the ensemble	1
Mentor	1	Gives knowledge of the context of the piece	1 (0,92)
	1	Educates artistic taste	1
	1	Enriches choristers' inner world	1
Interpreter	1	Creative feeling of the performance of the piece	-
	1	Explanation to a choir how to understand the piece	1 (0,97)
	1 (0,5)	Making of particular interpretation decision (authoritarian)	1 (0,97)

Later there have been evaluated roles of choir director and individually each chorister's choir director as educator, according to each criterion of choir director. By introducing general choristers' evaluation there has been taken a medium of their evaluations. In Table 6 is given a part of realisation of choir director's - educator's roles, according to different criteria of choir director and choristers in a choir as in an educational organisation.

As it is indicated in Table 6, the most vivid difference, noticed in the roles of the mentor, when providing knowledge of the lyrics of the piece, particularly - when providing knowledge of the style of the author of the lyrics and of the most popular pieces of the author of the lyrics. On the mentioned aspect, a director indicates that about the author of the lyrics he never finds a chance to speak, when performing ecclesiastical pieces, because they often do not have the author of the lyrics (and the liturgical lyrics repeats), also when performing Lithuanian folk songs. When speaking about pieces, written according to the lyrics, written by Lithuanian authors, e.g. poet's J. Marcinkevičius, a choir director indicates that choristers know this poet very well, for this reason, in order to save time of the rehearsal, they do not go deep into it, because in a choir a goal is to make more music and not to speak.

Conclusions

In choristers' choir, as in an educational organisation, expression of activities, is being characterised according to the roles of choristers/students, choristers/pupils, and choristers/performer. Educational peculiarities of choristers' activities are theoretically based upon criteria and indicators of roles of students, pupils and performers;

After having performed the *empiric study*, there have been instituted the following peculiarities of the influence of choir director's educational activities on learning processes in a choir as in an educational organisation:

- In a choir, as in an educational organisation, a choir normally learns about the piece, when prepares piece for a performance.

- *Model of influence of choir director's educational activities on choristers in a choir as in an educational organisation* is influenced by learning and interaction paradigms. Model consists of three influence fields of choir director's as conductor's educational activities - choirmaster, mentor, and interpreter. The mentioned model reveals influence of choir director's as conductor's roles - choirmaster's, mentor's and interpreter's - on choristers as students, pupils and performers in a choir, when a choir learns and performs a piece. The most important factor, which influences choristers, in this model, is choir director's word, example, conducting and visual expression.

Theoretically based and empirically checked original methodology of the research of influence of choir director's educational activities on learning processing, occurring in a choir, when applying a case study, has enabled to go deep into the particular context of choir's past and present, and to reveal unique, characteristic to untraditional organisations, aspects of educational and learning activities and their changes, when observing the learning process during rehearsals.

Empiric study of the influence of choir director's educational activities on learning processes, occurring in a choir, has basically confirmed, in theoretical part grounded, influence of director's educational activities on performers in a choir as in an educational and learning organisation models, and has revealed peculiarities of processes of his/her activity and choristers' learning.

Choir director in a choir as in an *educational organisation*:

- acting as a choirmaster shapes choristers' vocal; shapes choir's timbre; teaches performance of the particular piece; develops the ensemble;
- acting as a mentor provides knowledge of the context of the piece (historical, artistic, philosophical), educates choristers' artistic taste, enriches choristers' inner world;
- acting as an interpreter explains choir his/her understanding about the piece and makes particular interpretational decision;
- acts according to a model 'conductor - intoner': is influenced by a score, and in a stage of score learning has created his own interpretational plan of the piece, which during the rehearsal, teaches choir to perform exactly the way as he imagines it;
- acts as a transformational director, which with the help of the score, creates new interpretational plan, together with each artist, and separately listening to each artist's feedback (by evaluating it and by responding), also to interpretation and feedback of the whole choir; is influenced by the score, and the score is influenced by a conductor; performers are influenced by a conductor, by the score, and by each other.
- acts in democratic management style - gives way to good initiatives of choristers, vocal groups and the whole choir, during the concert.

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Asta Tamušauskaitė

INFLUENCE OF EDUCATIONAL ACTIVITIES OF THE CHOIR DIRECTOR ON EDUCATIONAL PROCESSES IN A CHOIR

Summary

The importance of analysis of choir's learning processes is influenced by the lack of educational processes' research, related with educational decisions, relevancy and evidence, what is highlighted by Bitinas (1998). Mentioned above educational decisions is the basis of pedagogical mastery, which gives artistic nature to educational activity. Contemporary theory of activity gives a chance to look into problems of mastery, intuition and decisions' making from a new approach. In a choir, perspective and relevancy of analysis of educational/learning processes as cognitive subject is being related with, firstly choir's as informal organisation's activity, in which occur non-formal, informal, self-contained, autonomous learning, which is important, when implementing concepts of life-long learning and harmonious development; secondly, learning processes in choir are related not only with learning of choirmaster, choristers and their groups in various levels, but also with learning in activity, learning from experience, by looking for edification instruments not only in the activity of choir, orchestra, but also in the activity of other organisations, seeking to be the students. Educational activities of the choir director were studied by Narvidas (1969), Mačikėnas (1981), Dumbliauskaitė (1983), Sokolovas (1983), Kazakauskienė (1987), Stulova (1988), Jukonienė (1990), Olchovas (1990), Arminas (1991), Zubrickas (1994), Petrauskas (1998), Zigmantienė (2000), Masiienė (2001), Pilipavičienė (2006), these authors, however, did not engage in empirical studies of the choir director's educational activities. No study has been carried out yet to enable further analysis of the choir director's activities in a choir as in an educational organisation, not to mention a choir as a learning organisation (Jucevičienė, Jučaitė, Tamušauskaitė, 2007, 2008). It is noted that the authors, mentioned above, have revealed educational roles of the choir director as in an educational organisation (see: article of Jucevičienė, Jučaitė, Tamušauskaitė 'Fulfilment of Educational Roles of the Choir Conductor', 2008), but yet they have not revealed choristers' roles; also the expression of influence of choir director's educational activity on learning processes, occurring in a choir, as in an educational organisation, has not been identified, what makes the scientific problem of this thesis: what are the roles of choristers in a choir as in an educational organization? What is the expression of influence of choir director's educational activities on learning processes in a choir as in educational organisation?

The aim of the research is to introduce the expression of influence of the choir director's educational activities on learning processes, occurring in a choir as in an educational organisation.

The subject of the research is choir director's educational activities in a choir as in an educational organisation.

In choristers' choir, as in an educational organisation, expression of activities, is being characterised according to the roles of choristers/students, choristers/pupils, and choristers/performer. Educational peculiarities of choristers' activities are theoretically based upon criteria and indicators of roles of students, pupils and performers;

After having performed the empiric study, there have been instituted the following peculiarities of the influence of choir director's educational activities on learning processes in a choir as in an educational organisation:

In a choir, as in an educational organisation, a choir normally learns about the piece, when prepares piece for a performance. Model of influence of choir director's educational activities on choristers in a choir as in an educational organisation is influenced by learning and interaction paradigms. Model consists of three influence fields of choir director's as conductor's educational activities - choirmaster, mentor, and interpreter. The mentioned model reveals influence of choir director's as conductor's roles - choirmaster's, mentor's and interpreter's - on choristers as students, pupils and performers in a choir, when a choir learns and performs a piece. The most important factor, which influences choristers, in this model, is choir director's word, example, conducting and visual expression. Theoretically based and empirically checked original methodology of the research of influence of choir director's educational activities on learning processing, occurring in a choir, when applying a case study, has enabled to go deep into the particular context of choir's past and present, and to reveal unique, characteristic to untraditional organisations, aspects of educational and learning activities and their changes, when observing the learning process during rehearsals.

Empiric study of the influence of choir director's educational activities on learning processes, occurring in a choir, has basically confirmed, in theoretical part grounded, influence of director's educational activities on performers in a choir as in an educational and learning organisation models, and has revealed peculiarities of processes of his/her activity and choristers' learning.

Choir director in a choir as in an educational organisation: acting as a choirmaster shapes choristers' vocal; shapes choir's timbre; teaches performance of the particular piece; develops the ensemble; acting as a mentor provides knowledge of the context of the piece (historical, artistic, philosophical), educates choristers' artistic taste, enriches choristers' inner world; acting as an interpreter explains choir his/her understanding about the piece and makes particular interpretational decision; acts according to a model 'conductor - intoner': is influenced by a score, and in a stage of score learning has created his own interpretational plan of the piece, which during the rehearsal, teaches choir to perform exactly the way as he imagines it; acts as a transformational director, which with the help of the score, creates new interpretational plan, together with each artist, and separately listening to each artist's feedback (by evaluating it and by responding), also to interpretation and feedback of the whole choir; is influenced by the score, and the score is influenced by a conductor; performers are influenced by a conductor, by the score, and by each other; acts in democratic management style - gives way to good initiatives of choristers, vocal groups and the whole choir, during the concert.

Key words: choir, choir director, choristers, educational organization, learning processes

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SYSTEMATIC APPROACH TO CORPORATE SOCIAL RESPONSIBILITY ACROSS SUSTAINABLE DEVELOPMENT DIMENSIONS

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Abstract

The purpose of this paper is to construct the comprehensive approach and present the theoretical insights of the interaction between the corporate social responsibility and sustainable development issues through the introduction of the methodological framework of analysis of the diagnosis of corporate social responsibility motivations and orientation of stakeholders as to achieve balanced and integrated orientation in pursuit of the issues of sustainable development. This paper seeks to establish a link of the strong interaction between two social phenomena: the corporate social responsibility and strong collaborative ambitions between government, business and society. While this has opened up new opportunities for business, it also creates a corresponding need for self-limitation and mobilisation on the part of the business community, in the interest of social stability and the well-being of modern democratic societies.

Keywords: social responsibility, sustainable development, applied dimensions

Introduction

The concept of sustainable development has already become an internationally accepted model of environmental and development policy. However, starting from the so-called Broadlands report (1987) and especially since the Rio Conference (1992), sustainable development bears often more or less theoretical implications based generally on two assumptions: *first*, societal development can no longer be viewed without considering its natural prerequisites; *second*, instead it must be coupled with the reproduction thereof. Generally it is believed, that societal development should not lead to constraints on the chances of future generations meeting their needs. Unfortunately, recent development demonstrates contradictory socio-economic phenomena: on the one hand the pressure from wide public increases requiring paying for commercial activity, on the second one – businesses sharpen the debate on constantly growing cost of social responsibility. Applying and emphasizing this methodological position the paper conceptually released a couple of approaches to CRS principles in enterprises range of activities and motives: firstly, the application of CRS results is presented as positive, another opinion – this should be assessed with reservation (in practice, CRS commitment obliges a company detecting the changes in business environment distinguish specific opportunities and objectives). This contradiction is becoming increasingly important with uncertainty about future policy decisions and economic trends. It is clear that perspectives from the corporate social responsibility discourse have the potential to provide both the ‘pull’ for seizing the business opportunity for profit while serving social needs, and the

‘push’ to overcome the barriers in order to serve a wider social purpose for corporations. The wealth of nations, at least as reported in ubiquitous GDP terms, has greatly increased through the activities of corporations driven by a profit motive; but the increased poverty, injustice and ecosystem degradation that have resulted from economic activity suggest that corporations perhaps ought to have regard for broader concerns beyond shareholder value (Abey Suriya et al, 2007) – that means beyond sustainable development issues. Under these conditions the uncertainty in sustainable entrepreneurship issues can hinder attempts to inject innovative ideas about social welfare into the mature. The academic press is still under the discussion in what engages a firm to be committed to social issues. „While many studies provide descriptions of a firm’s CRS motivations both within and across sectors, there is a need to bring this literature together in a way that addresses, in a systematic way, the interaction of these influences at the level of the firm“ (Lynes, Andracuk, 2008. As far as the societal expectations about the responsible role of business in society are on the increase and the recent research, the concept integrating the former pursuits – corporate social responsibility (CSR) was started developing with growing recognition. Though during decades numerous aspects of CRS have been subject of the investigation in both academic and business studies. Neither is clear the motives and tools of an enterprise to operate in the manner. To fill into this gap, the article provides an analytical framework for linking the concepts of CRS and enterprise sustainability with each other in the context of sustainable development.

To answer the guiding research question the objective of the article is to introduce the modern attempts of global society to eliminate the barriers of

sustainable development at an enterprise level by employing entrepreneurial tools through corporate social responsibility issues.

The goal pursued by the article authors allows highlighting the *scientific problem of the research*: how practically achieve conceptual goals of sustainable development at an enterprise level by employing entrepreneurial tools emerging from the context on the corporate social responsibility.

The *methods of the research*: In order to conceive the analyzed problem, general methods of scientific literature comparative structural analysis and synthesis as well as those of logic analysis were applied. The theoretical arguments linking Conceptual framework on the interaction between Corporate social Responsibility and Sustainable Enterprise possess intuitive appeal based on systematic comparative and logical analysis of academic press.

Business Opportunities Trough Corporate Social Responsibility

Despite the fact that CRS and sustainable development issues are closely linked, the CRS issues were introduced to the dialogue on management even before post-World-War II rise of giant corporations. In 1927 Harvard Law School graduate publicized the encouragement to pursue the responsibilities of businessmen not only to their enterprise but to the large society in which their business operated as well. The message broadcasted then sounded like the necessity “that business leaders assume responsibility in order to ensure the continuation of the society. In the early 1930’s, John Maynard Keynes posited that it would take some time before the accumulation of wealth would no longer be viewed as the motive of enterprise (Sekerka, Stimel, 2011). Over the last fifty years, the concept of CSR has changed its focus many times – from an initial, vague awareness of the relationship between companies and their social-environmental reference context to an out-and-out identification of rules of conduct and management tools (Perrini, 2006). By recognizing the societal guiding model of sustainable development and its corporate derivative known as corporate responsibility, many firms started reporting about their ethical, social and environmental conduct. And in marketing, being green and social is positioned as a relevant product and firm characteristic (Scholtens, 2007).

Analysis of the scientific literature has shown that generally CRS is understood as a concept where companies integrate social and environmental concerns into their business operations and interactions with their stakeholders *on voluntary basis* (Perrini, 2005). It is about the corporate behaviour whereby organizations *voluntarily commit to balancing and improving environmental and social impacts without damaging economic performance* (Vogel, 2005). The concept of CSR centers on the accountability of firms to society for the negative consequences of their wealth-creating activities (Perry&Towers, 2009). The scientists quoting Hemingway and MacLagan (2004) present the definition of CSR, which advocates the public accountability of

firms for their social and environmental record as well as their financial performance. In specific terms CSR “should promote human rights, democracy, community improvement and sustainable development objectives throughout the world” (Perry&Towers, 2009, p. 33). The World Business Council for Sustainable Development (WBCSD, 1999) summarizes CSR as: the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. Ethical behaviour is further interpreted by the WBCSD as “management acting responsibly in its relationships with other stakeholders who have a legitimate interest in the business”. Lynes, Andrucuk (2008) explain the essence of corporate environmental responsibility, however, key players in the financial and consumer markets are asking companies *to demonstrate their ability* to improve corporate processes and day-by-day operations both socially and environmentally, Perrini (2006) concludes.

At present CRS is often regarded as an universal concept evolving around the normative core of the „triple bottom line: principle, one should not overlook the fact that its actual meaning changes over time and differs between regions due to varying socio-political and cultural circumstances (Steurer, Konrad, 2009, p.24). The global financial crisis has prompted deeper probing of matter related to finance and capitalism: CRS tapped enshrined from global leaders many of whom called for a new kind of capitalism which leverages the benefits of free –market coupled with a foundation of sound ethics and strong sense of morality (Sekerka, Stimel, 2011). At present, as Sekerka, Stimel (2011) also argue, society prefer the term „conscious capitalism“ explaining that social purpose and profit are balanced through voluntary cooperation. One argument for this is that only founders of socially beneficial organizations that primarily rely on earned income from paying consumers. Others say that this definition is too narrow – that income should also include contract payments, grants and donations (Noruzi, 2010). As Kang, Lee, Huh (2010) notice, with a growing concern for corporate social responsibility (CSR), most powerful and successful enterprises in various industries, driven by companies’ stakeholders, consumers, societies and governments, are accelerating initiatives to demonstrate their CSR commitments. However, so far the attitude to CRS management still vary so much as well as practices in wide range of areas, including CRS reporting and self-presentation.

In fact, to illustrate the CRS structure authors offer and often rely on the framework distinguishing three issues: (i) *financial performance*, (ii) *long-term perspective* and (iii) *economic impact* (Seuer, Konrad, 2009). Financial performance is often discussed element among the former. Despite the facts that there are conflicting views about the causality between corporate financial performance and corporate social performance (Scholtens, 2008) and will be presented further, scientists take into account that good financial performance makes available the funds with which to make investments that improve environmental and social performance of any enterprise. Linking the former view into more general

understanding we base on Sholtens (2008), arguing and stressing that firstly good *environmental* and *social* performance will result in good financial performance because of the efficient use of resources and commitment of the workforce and other stakeholders. His view might be strengthened by Lynes, Andracuk (2008) position. The authors explain the essence of corporate environmental responsibility, however, key players in the financial and consumer markets are asking companies to demonstrate their ability to improve corporate processes and day-by-day operations both socially and environmentally, Perrini (2006) concludes. „This implies that if companies want to obtain their stakeholders’ trust and build a good reputation in the market they must give concrete evidence that they are committed to continual, long-term improvement also identifying, monitoring, and reporting all social, environmental, and economic effects of its operation on society at large (Perrini, 2006. 611). Socially, environmentally friendly development, as Parrish (2008), notes is more than survival – it is a post modern vision of progress. So all together these reviews and standpoints examine large number of factors that are important in further development of mankind but taking the scope of the paper into account a responsible enterprise can be understood as one the fulfils socially, environmentally friendly development, principles of concord in serving its stakeholders. In other words, even if uncertainty and scepticisms do exist, CRS is becoming a more permanent feature of business (Perrini, 2006). This paper is an attempt to answer these questions, reviewing the debate between proponents of the voluntary case and the obligatory case for CSR, and critically analyzing initiatives to foster CSR among companies.

Integrating Framework of Sustainable Development and Entrepreneurship

Indeed key players in the financial and consumer markets are asking corporate to demonstrate their ability to improve corporate process and day-by-day operations both socially and environmentally. This implies that if companies want to obtain stakeholders trust and built a good reputation in the market that must give continual, long term improvement identifying monitoring and reporting all social environmental and economic effects of its operation on society at large (Perrini, (2005)). This position shows, that business is both an economic and a social institution. Corporate governance can evolve toward collaboration among all stakeholders.

The shift from profit to democracy requires the creation of a coalition of investors, employees, customers, business partners, and the public. Such a corporate community can serve all interests better. Corporate managers are dependent on stakeholders (Valackiene, 2010). Entrepreneurial behaviors are complexly determined and require research models that reflect the richness of the processes exhibited as deep social psychological approach to the field has not yet matured (Carsrud, Johnson , 2006). However, Reinhardt, Stavins & Vietor (2010, p. 222) stress that direct costs of CRS are loss of consumer surplus resulting from firms producing less output at higher cost and hence at higher prices.

Sekerka, Stimel (2011) note that the concept of “CRS costs” must be expanded. Direct investment in sustainability or sustainability costs here is understood as efforts that directly relate to normal business operations: increased costs in short terms, but considering them as long-term investments to offer potential benefits. Indirect ones – those that do not directly relate to normal process operations and involve increased expense like charity and other philanthropic efforts. In addition or so called result, shareholders receive reduced financial returns. On the other hand, some shareholders may gain utility from the knowledge that their profit have been invested in socially responsible projects. Summarizing it might be concluded that distinguishing between motivations of CRS and its outcomes is even more difficult and complex, then identification of the nature and content of CRS activities in the level of an enterprise.

Review of socioeconomic literature has shown that the cope of the concept “sustainability” still remains to be not fully clarified. There is believed, that in order to sustain something it may well be necessary to integrate ecological, social and economic issues but this is not what sustainability is “*about*”. These pragmatic requirements are not the focus of the concept. D. Seelos, J. Mair (2005) point out that that it is not possible to achieve a desired level of ecological or social or economic sustainability (separately) without achieving at least a basic level of all three forms of sustainability in Figure 1).

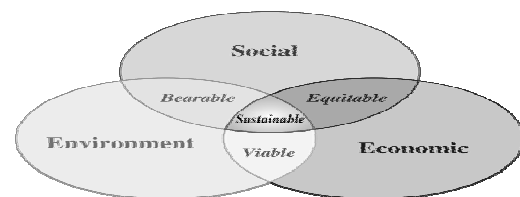


Figure 1. Forms of sustainability (adopted from Sutton, 2002; Seelos and Mair, 2005)

The reason is simply that, most often, people using the term have in mind a much higher level of achievement than the basic level. But to sustain society and the economy it is probably not necessary to sustain, for example, very high levels of environmental aesthetics or all other species. It means maintaining a balance between the human need to improve lifestyles and feeling of well-being on one hand, and preserving natural resources and ecosystems, on which we and future generations depend – in other words, develop sustaining (Figure 2).

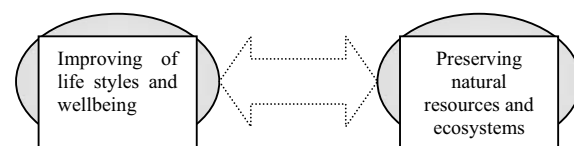


Figure 2 Principal understanding of sustainable development (www.gdrc.org/sustdev/definitions.html)

The term refers to achieving economic and social development in ways that do not exhaust a country's natural resources. The essence of this form of development is a stable relationship between human activities and the natural world, which does not diminish the prospects for future generations to enjoy a quality of life. Some differences¹⁷ presented by observe in defining.

However, the calls for business leaders to expend resources on behalf of "societal good" tend to downplay, if not ignore, what is fundamentally an ideological question: just what is a "good" society and who defines "goodness" (Spector, 2008). Parrish (2008) assumes that entrepreneurs are by definition driven by self-interested profit-seeking motives. That means that entrepreneurs can be motivated to contribute to sustainable development by making it profitable to do so. There is, therefore, a need for researchers to recognize that the above discussed principles are more of theoretical than practical manner. This paper considers the fundamental question: what might encourage and orient the stakeholders making entrepreneurs act socially responsible also considering their own needs and interests wider discussed in the following chapter of the paper.

Advancing Sustainable development Thought CRS

Recent studies confirm that a Strategic Management function centered on these challenges (adapted from Goodman, 2006):

- the need to build trust the demand to build a responsible and accountable global corporate culture in response to a hostile environment for multinational corporations;
- the perception of the corporate communication executive as "counsel to the CEO" and "manager of the company's" reputation;
- the understanding of the global impact of the local act, and the local impact of the global act;
- the demand for greater transparency and disclosure have made media relations more complex and strategic;
- the expectation that the company be a good citizen and make money;
- the reality of global terrorism makes crisis communication planning a critical success factor for corporate communication professionals;
- the understanding of transparency as the best practice strategy for reputation management more with less. Global companies and their brands touch the lives of more people than government representatives ever could. Businesses have often served a larger role in our society than that of carrying on the activities of commerce. They can serve a diplomatic function because of their intercultural sensitivity, as well as their understanding of the global enterprise they work for and of the world at large. In a world of instantaneous media coverage, transparency, and intangible value drivers, successful

companies will welcome the challenge (Valackiene, 2010) – commit to CRS. It shows the complexity of the scientific research object, that brings meaningful input into the analysis of the features in company's life cycle. Valackiene, Virbickaite, 2011). By recognizing the societal guiding model of sustainable development and its corporate derivative known as corporate responsibility, many firms started reporting about their ethical, social and environmental conduct. As Kang, Lee, Huh (2010) notice, with a growing concern for corporate social responsibility (CSR), most powerful and successful enterprises in various industries, driven by companies' stakeholders, consumers, societies and governments, are accelerating initiatives to demonstrate their CSR commitments. Development of CSR is influenced by the macroeconomic environment that consists of all economic sectors and their interactions. (Simanaviciene, Kovaliov, Subonyte, 2011). However, so far the attitude to CRS management still vary so much as well as practices in wide range of areas, including CRS reporting and self-presentation.

In fact, to illustrate the CRS structure authors offer and often rely on the framework distinguishing three issues: (i) *financial performance*, (ii) *long-term perspective* and (iii) *economic impact* (Seuer, Konrad, 2009). Financial performance is often discussed element among the former. Despite the facts that there are conflicting views about the causality between corporate financial performance and corporate social performance (Scholtens, 2008) and will be presented further, scientists take into account that good financial performance makes available the funds with which to make investments that improve environmental and social performance of any enterprise.

In 1971 the Committee for Economic Development used a "three concentric circles" approach to depicting CSR. The inner circle demonstrated basic economic functions - growth, products, jobs. The intermediate one suggested that the economic functions must be exercised with a sensitive awareness of changing social values and priorities. Nad the last outer one showed newly emerging and still amorphous responsibilities that business should assume to become more actively involved in improving the social environment, as Carrol (1991) positioned.

Linking the former view into more general understanding we base on Sholters (2009), arguing and stressing that firstly good *environmental* and *social* performance will result in good financial performance because of the efficient use of resources and commitment of the workforce and other stakeholders. His view might be strengthened by Lynes, Andracuk (2008) position. The authors explain the essence of corporate environmental responsibility, however, key players in the financial and consumer markets are asking companies to demonstrate their ability to improve corporate processes and day-by-day operations both socially and environmentally, Perrini (2006) concludes. „This implies that if companies want to obtain their stakeholders' trust and build a good reputation in the market they must give concrete evidence that they are committed to continual, long-term improvement also identifying, monitoring, and reporting

¹⁷ The earlier efforts to define sustainable development before and soon after the Brundtland were oriented to clarify the interaction between economy and ecology. Later research was based on the examination of the integrity between some other dimensions of sustainability, like political and social (Daly (1993), Decler (2000)). Finally recent researches (Dees (1998), Seelos, Mair (2005) and etc.) tend to solve practical problems of managing sustainable development.

all social, environmental, and economic effects of its operation on society at large (Perrini, 2006, p. 611).

For the reason, it is clear that larger enterprises are better positioned to implement CSR than smaller enterprises, who are less able to overcome the obstacles businesses are „socio-economic institutions upon which we are all are dependent, and may allow the vista of “life ethic“ to temper the debilitating effects of the mutation of citizens into consumers who are also determinants of corporate performance“ (Valackiene, 2010). The central idea here is that the activities that provide for human wellbeing must not undermine the ecological and social processes on which they depend (Parrish, 2010). However, the clearest structural construction of CRS aspects present Steurer, Konrad (2009) (Figure 3).

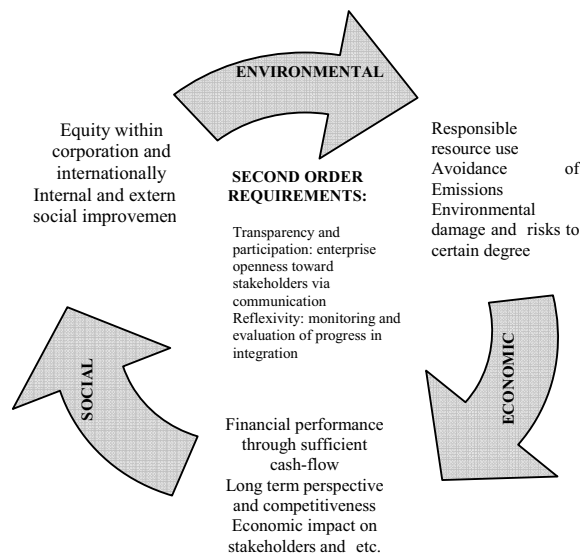


Figure 3. Aspects of CRS integrating the “triple bottom line” (Adopted from Steurers, Konrad, 2009)

As far as from the earliest articulations of CRS concept „has emphasized the importance of the interdependence of ecosystem health and sustained human wellbeing. Central idea is that activities that provide for human wellbeing must not undermine the ecological and social processes on which they depend. While the concept describes a property of the macro-scale system of people and nature, efforts to achieve sustainable development in practice provoked questions about how this concept could be meaningfully interpreted for smaller social units, such as private enterprises (Parrish, 2010, p.512). The author also concludes, that it is rather important to focus on how an enterprise contributes to sustainable development through CRS of wider society. For the reason this discussion is framed by further and deeper understanding of CRS contents basing on the pyramid of CRS, presented by Carrol (1991), Crane, Matten (2005) and others. Despite wide commendation on the above presented CRS issues, later on a four-part conceptualization of CSR included the idea that the corporation has not only economic, but also

legal obligations as well as ethical and discretionary (philanthropic) responsibilities. The *legal* pillar of CRS is to be conducted through performance in a manner consistent with expectations of government and law, successful fulfillment of enterprises legal obligation, provision of goods and services that at least meet minimal legal requirements. The *ethical* pillar involves the actions towards performance in a manner consistent with expectations of ethical norms and the *philanthropic* one is demonstrated participation of managers and employees in voluntary and charitable activities within their local communities and projects, involving enhance of communities „quality of life“. It is clear that in practice the pillars do overlap so far it is difficult to identify the clear exertion of each. Despite the fact that academic discussion on the topic might be widely developed, but focusing on the objectives of the paper we do challenge ourselves in the field of linking the issues of CRS commitment and features of a sustainable enterprise in pursuit of appreciable measures and motivations for the former to perform on sustainable basis.

Discussion

The paper highlights theoretical insights of diagnosing the motives through which entrepreneurs can be encouraged to contribute to sustainable development by making beneficial in wide range of aspect the main strengths of which are: structures guidance of the decision making, which promotes the manifestation of several standards step at the same time leaving space for individual modification of actions within the scope of each steps. It also stress continuous improvement of decision making in meeting the sustainable development issues, encourages active involvement on management and front line workers in the process evaluation and its improvement.

Emphasizing the methodological positions of a social phenomenon and applying systemic analysis principal keywords defined with reference to social phenomenon and related to its environment: human, company-based, national and global. Summarizing the scientific literature the conclusion was drawn sustainable development has emerged as an increasingly influential concept in managerial and academic spheres and becomes a mainstay of strategies of many enterprise strategies. Going through the literature review, the concept of sustainable development was as focuses on the need to integrate the pursuit of improved human well-being with the necessity of halting and recessing ecological degradation through CRS positions and dimensions.

Through explanation of logical construct of the paper, while sustainable development emerges as an influential concept for entrepreneurship policy, practice, and theory as a significant conduit for a more sustainable society. Here remains considerable uncertainty regarding the nature of this role and how it will unfold. It is outlined recent research in the area, acknowledging that the majority of studies exploring the relationship between sustainable development and entrepreneurship have been published outside of the mainstream entrepreneurship research.

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Asta Valackienė

SYSTEMATIC APPROACH TO CORPORATE SOCIAL RESPONSIBILITY ACROSS SUSTAINABLE DEVELOPMENT DIMENSIONS

Summary

The paper reviews and constructs the comprehensive approach and presents the theoretical insights of the interaction between the corporate social responsibility and sustainable development issues. Through the introduction of the methodological framework of the diagnosis of corporate social responsibility motivations among the shareholders as well as developing the strategic directions to encourage among the former to achieve balanced and integrated orientation in providing the issues of social corporate responsibility. While many studies provide descriptions of a firm's CRS motivations both within and across sectors, there is a need to bring this literature together in a way that addresses, in a systematic way, the interaction of these influences at the level of the firm (Lines, Andrachuk, 2008). Though during decades numerous aspects of CRS have been subject of the investigation in both academic and business studies. Apparently, this implicates a shift from the pure shareholder perspective of maximizing profits and corporate value towards a broader concept that encompasses multiple stakeholder concerns and values and, thus, involves various conflicting goals and objectives (Hediger, 2010). Neither is clear the motives and tools of an enterprise to operate in the manner despite the fact that it is essential that business leaders assume responsibility in order to ensure the continuance of economic order and its sane evolution (Spector, 2008). Conceptually substantiated the interaction between the corporate social responsibility and enterprise, high lightening the motives through which the stakeholders are able makes it wealthy. Firms engage in CSR activities as a way to enhance their reputation, pre-empt legal sanction, respond to NGO action, and manage their risk and to generate customer loyalty. CSR can potentially decrease production inefficiencies, reduce cost and risk and at the same time allow companies to increase sales, increase access to capital, new markets, and brand recognition. This standpoint has a logical position: the construction of model helping to understand the construction of public relation and explain the potential influence in the process of CRS implementation and the role of stakeholders in it is needed especially stressing that sustainable development is development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. Review of socioeconomic literature has shown

that there is believed, that in order to sustain something it may well be necessary to integrate ecological, social and economic issues, but this is not what sustainability is "about". These pragmatic requirements are not the focus of the concept. The point is that it is not possible to achieve a desired level of ecological or social or economic sustainability (separately) without achieving at least a basic level of all three forms of sustainability. Neither is clear the motives and tools of an enterprise to operate in the manner. To fill into this gap, the article provides an analytical framework for linking the concepts of CRS and enterprise sustainability with each other in the context of sustainable development.

To answer the guiding research question the objective of the article is to introduce the modern attempts of global society to eliminate the barriers of sustainable development at an enterprise level by employing entrepreneurial tools through corporate social responsibility issues.

The goal pursued by the article authors allows highlighting the *scientific problem of the research*: how practically achieve conceptual goals of sustainable development at an enterprise level by employing entrepreneurial tools emerging from the context on the corporate social responsibility.

The *methods of the research*: In order to conceive the analyzed problem, general methods of scientific literature comparative structural analysis and synthesis as well as those of logic analysis were applied. The theoretical arguments linking Conceptual framework on the interaction between Corporate social Responsibility and Sustainable Enterprise possess intuitive appeal based on systematic comparative and logical analysis of academic press.

The findings of the article seek to influence the public attitudes stressing the effect of corporate social responsibility. Basing on the article, the public and the industry as well as social leader might determine the essential strategic elements allowing achieving the mentioned objectives in the most efficient way – in other words – sustaining.

The logical structure of the article was determined by the aim and the objectives of the scientific research solution sequence which is reflected in three parts. In the Introduction the topic relevance, scientific problem and level of its analysis, object, the aim, and tasks of the scientific research were presented. The methods of the research, results' analysis, scientific novelty and significance of the work are introduced there as well.

The second part of the article is dedicated to the analysis of corporate social responsibility (CRS) in the market of virtue. The third one – to the framework of sustainable development integrating entrepreneurship in the form of pressure as far as presentation of stakeholders' role in pursuit of CRS. This standpoint has a logical position: the need to understand potential influence of sustainable development in the process of CRS implementation and the role of stakeholders in it needs extension and practical application issues are presented in the last chapter of the paper summing up. This paper seeks to establish a link of the strong interaction between two social phenomenons: the corporate social responsibility and strong collaborative ambitions between government, business and society through sustainability activities. While this has opened up new opportunities for business, it also creates a corresponding need for self-limitation and mobilisation on the part of the business community, in the interest of social stability and the well-being of modern democratic societies.

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CREATION OF INTER-ORGANISATIONAL RELATIONSHIPS AS A CRUCIAL ELEMENT OF BUILDING TRUST BETWEEN A LOCAL GOVERNMENT UNIT AND AN ENTERPRISE

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Abstract

This paper addresses the issues of inter-organisational relationships and their impact on establishing and developing trust between a local government units and an enterprise in a local market under uncertain economic circumstances and a turbulent environment. Deliberations drew on documents and publications on relationships as well as inter-organisational relationships in the form of the case study of a listed company – Polimex-Mostostal S.A. and the city of Siedlce based on a direct interview survey conducted with representatives of these organisations.

Keywords: inter-organisational relationships, trust building, local government unit, enterprise

Introduction

In circumstances of present day economy mutual collaboration and trust proves to offer far more benefits to an organisation than continual competition in a turbulent settings. New forms of cooperation increasingly emerge on various markets. One form which will be explored in this paper includes inter-organisational relationships established on the basis of trust. The majority of organisations frequently recognize that a long-term competitive advantage on today's market may be solely achieved through expanded relational capital and establishing trust between partners. These relationships may have a positive impact on building the image and overall growth, both inside and outside an organisation, as well as creating a climate conducive to coexistence on a local market.

In view of current economy requirements which urge enterprises to create their own capital, it appears to be a critical factor which determines the magnitude of competitive advantage on a local market. Focus on establishing and retaining relations with stakeholders of an enterprise may bring substantial benefits, and for stakeholder groups it facilitates boosting the trust building process in relations with local partners (Wereda, 2011).

The paper provides an insight into the issues of inter-organisational relationships and trust building process between organisations. Deliberations have been based on documents and publications on relationships, inter-organisational relationships and inter-organisational trust management as well as own survey examining the role of relationships in inter-organisational trust creation on a local market in the form of a case study of a selected listed company – Polimex-Mostostal S.A. and the city of Siedlce.

Methodology

The paper mainly draws on the analysis of literature as well national and international reports, and documents provided by city authorities. To present the case study a survey has been carried out to determine the role of inter-organisational relationships in building trust between local government unit, namely – the city of Siedlce and a large company located in the local area.

Definitions and determinants for establishing inter-organisational relationships – a review of the literature

The term "relation" implies numerous meanings. A phrase is used, among others, as one of basic notions in formal logics. It describes any connection, interdependency and correlation between as least two objects being of the same kind, notions or sizes, etc. (Dictionary of Polish Language, 1981).

However, when we analyze relations between business entities we may classify them as a manner in which two persons or groups perceive and behave towards each other (Mitrega, 2008). A relation also suggests connecting an enterprise with other entities, in which effecting and maintaining linkage requires time, effort and money (Otto, 2001). Philip Kotler defines relationships as long-term, mutual trust based, beneficial for both parties, interdependencies with customers, distributors and suppliers (Ibidem).

Business practice shows immense interest manifested by enterprises in creation of relations with the environment. Problems experienced by companies in recent years stimulate them to explore new solutions in winning the customer. To best meet challenges presented

by the environment, technological and information revolution and shifts in global economy, the solutions should be identified in cooperating instead of competing (Piałucha, 2009).

Inter-organisational relationships include informal and formal connections between organisations of various types. It is a specific form of collaboration between enterprises which, appropriately managed, brings a number of advantages for both parties. However, to build a robust and lasting relationship it is crucial, in the first place, to realize the need for its creation. Business practice proves that cooperation is more lucrative than individual operations. Today business activity cannot constraint to the enterprise itself, but it has to embrace relationships with partners (Wiechoczek, 2009). The current economy is characterized by a high variability and volatility, and therefore an enterprise structure should be resilient and managers should have the skills necessary for adapting to changes. These processes are significantly reinforced by a network of relations with the environment. Each organisation needs to set goals which enhance their operations on the market. Goals drive the business operations in the enterprise towards a specific and uniform direction and they motivate to attain an optimal state and allow to control and assess the overall operations (Ibidem).

A distinction should be drawn between the terms “relationship” and “bond”. The latter term, in contrast to the first, one predominantly assumes formal character. In the case of economic entities bonds may be manifested in a variety of forms, the exemplary ones include: alliances, associations and consortia (Czakon, 2007).

Based on the definitions presented, the following linking elements may be enumerated:

- a) connection – when one entity is specifically connected to another one, they are related by a link frequently being of informal character;
- b) trust – is fundamental to establishing a relationship between at least two entities;
- c) involvement – establishing and maintaining a relationship requires mutual involvement all entities and frequently it entails bearing financial costs (Kolemba, 2009);
- d) long-term – the more relation time is extended, the more mutual benefits it may deliver for all related parties involved (Ibidem).

To establish a relationship it is essential to encourage a sequence of interactions; that is mutual contacts between entities. Each may be divided into two parts: content (object) and an interaction process. An object of interaction may refer to an exchange:

- having economic character, e.g. exchange of money, services or products;
- of information between entities;
- having social character, which implies entering into stronger relationships (Wereda 2009).

In the process of establishing a relationship few phases may be distinguished:

- 1) Activity (act, action) or “truth moments” – smallest units in an interaction process.

- 2) Episode – a suite of interactions taking place at a lowest level where it is possible to identify initial and final points. As a result of creating the suite, single exchange of value is prompted. An episode may involve a single or numerous activities.
- 3) Sequence – few episodes interconnected with each another, however it may be distinguished by calculating a length of interaction, type of service, etc.
- 4) Relationship – the highest level of aggregation of interaction process. It comprises of the consecutive or overlapping sequences (Ibidem).

The scheme above described is illustrated by figure 1.

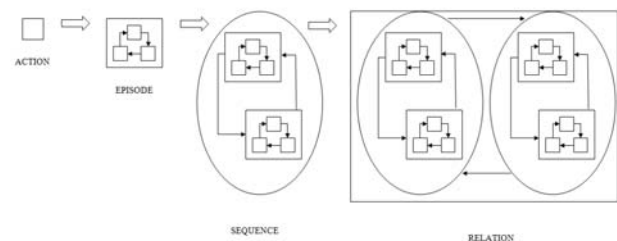


Figure 1. Phases of establishing relationship

Source: W. Wereda, *Zarządzanie relacjami z klientem (CRM) a postępowanie nabywców na rynku usług*, Difin, Warszawa 2009, s. 83.

Establishing trust between organisations – basic overview

The process of building effective inter-organisational relationships is widely seen as time consuming, both in terms of the amount of time which needs to be devoted by key players, and in the length of time which it is acknowledged, it usually takes. A key term here is often trust (Lowndes and Skelcher 1998; Huxham and Vangen 2000). Effective partnership is held to require trust among partners. Trust is often difficult to achieve, because partners may not know and understand each other if they have not cooperated for a long time or they have different interests and may have different objectives in relation to working in partnership. That is why, it is important not only to find a partner in the environment but also create long-run inter-organisational relationships, especially in the local area. Partners functioning in the same region should support each other and cooperate within the organisation of social, scientific or cultural events (Wereda, 2010).

Establishing trust in an organisation is seen as a crucial process in current economic circumstances. D. Harrison, L.L. Cummings and N.L. Chervany argue that trust is driven by 5 dynamics which may be presented as follows:

- calculative based trust – trust based on a plain calculation of costs and gains offered by a given relationship. Trust is premised on a rational assumption of profitability delivered by a specific relationship. Predominance of this

dimension signifies a sound motivation system, organisational identity, involvement of individuals in affairs of an organisation;

- personality based trust – based on a personality structure of a man. It focuses on innate and acquired personality features of the organisation's members. Strong personal tendency to trust is manifested in a capacity for empathy, sensitivity, emotional self-restraint, and responsibility.
- institution based trust – based on formal regulations. A sense of safety hinges on formal rules which then enhance a transparent and stable situation in an organisation;
- cognition based trust – a process of perceiving other persons. It has clear references to cognitive traits of individuals and trust is regarded as monitoring of mutual behaviours, responses, or conduct manners;
- knowledge based trust – the strongest category of trust which needs a long initiating period. Development is founded on experiences gained and accumulated. Creation of trust is analogous to the learning process in an organisation.

All dimensions of trust outlined above contribute to its single multi-faced building process (Paliszkievicz, 2010).

To initiate building trust between enterprises, it is necessary first to identify a disposition to trust expressed in an overall tendency to mutual cooperation and to being interdependent to a certain extent. Elementary factors to affect a disposition to trust are represented by an assumption of prevalent adherence to moral values and belief in immense significance of collaborations and cooperation with other enterprises, regardless of values professed by them.

A level of disposition to trust has, to a large extent, an impact on trust level, in particular in cases of new and uncertain situations with a hefty dose of risk. A level of disposition to trust increases in situation certainty which is marked by a conviction of imminent success thanks to transparent and stable situation and security in the form of official pledges, contracts or sureties (Ibidem).

A successive stage in the process of inter-organisational trust building is producing categorization (Ibidem). Grouping consists in dividing potential relational partners in groups whose members are distinguished by professing similar values. Reputation is the opinion about an enterprise given by stakeholders and all persons or companies which entered into any contact with it. It is the goodwill of the company for an environment in which it operates (Adamus-Matuszyńska, 2011). Potential partners are split into companies with good and bad reputations. Classification allows for separation of organisations into those which deserve our trust and those with whom relations should not be entered into.

When building trust we may distinguish a few principles that help making appropriate decisions at this phase, these are as follows:

- trust is built over extended time but it may be destroyed instantaneously.
- It is impossible to build trust by treating it as a means to an end. It must be genuine.
- Trust building has to couple with respecting values.
- Trust requires involvement of both parties.
- Inter-organisational trust entails reciprocal relations.
- Inter-organisational trust opens up numerous opportunities for partners.
- Trust is variable over time.
- Trust culture should be established on the basis of shared values, goals, honest communication and consensus culture.
- In communication processes an emphasis should be placed on congruence and suppressing the lie strategy at all cost.
- In the process of inter-organisational trust building uncertainty is significantly reduced.
- When building trust, it is crucial to maintain consistency and openness (Grudzewski, Hejduk, Sankowska, 2011).

In the process of inter-organisational trust building an attention should be drawn to the internal impact of trust dimensions, which are manifested through attitude towards values, beliefs, intentions and targets.

An organisation being convinced of professionalism, honesty and credibility of the other party will demonstrate a high degree of positive intentions and targets (Paliszkievicz, 2010).

While building inter-organisational trust managerial personnel should keep in mind exceptionally important aspects from their perspective of relations management:

- Credible partner is positively assessed;
- Positive assessment of the partner implies expectations of his favourable, honest and responsible behaviour towards the other organisation;
- Belief lies on the side of the trusting entity, whereas obligation on the side of the entity in which confidence was placed;
- Trust is of selective character and solely applied to selected organisations;
- Trust involves a certain degree of interdependency from the other partner, which nevertheless cannot be forced to discharge all his obligations. Therefore trust is connected with certain menace which may possibly (yet need not) entail adverse effects;
- Trust is seen as one of criteria for assessing the quality of inter-organisational relationships;
- Trust evolves over time, is gradual and measurable (from lack of trust, through limited trust to full trust) (Adamik 2010);
- Trust is a determinant necessary for establishing inter-organisational relationships.

Winning trust of the other organisation enables creation of unique and strategic value in newly-

established economic relations. It allows to decrease uncertainty and make an assumption that our partner will behave in a favourable manner to us or at least neutrally. Thus, the organisation may operate in a more composed and unimpeded way (Ibidem).

Maintaining long-term inter-organisational relationships with a wide range of partners creates a so-called trust climate around an organisation, which then influences a positive image of the company. An organisation acquires numerous skills, new resources and knowledge.

Based on loyalty, business dealings as well as informal connections form a unique "trust culture" around the organisation (Ibidem). To build inter-organisational trust, it is necessary to construct a transparent system of principles for conduct in specific cases as well as for enterprises' behaviour towards each other (Paliszkievicz, 2010). Putting such system into place it permits avoidance of numerous conflicts and unpleasant situations that may otherwise occur between partners.

Inter-organisational trust is very fragile, yet a tremendously valuable resource, therefore organisations should strive to retain this asset.

Inter-organisational trust management

To streamline a process of trust building between organisations, it is indispensable to implement a process of trust management in enterprises.

Trust management may be regarded as a process:

- in which an entity wins others' trust;
- of assessment of an organisation's credibility (Ibidem).

Trust management is a body of activities geared for formulating systems and methods that allow dependant entities to make assessments and decisions with regard to reliability of potential operations with inherent risk involved, which are related with other entities (credibility appraisal of other entities), as well as making it possible for participants and owners of these systems to grow and adequately represent their own credibility and their systems (building their own credibility) (Ibidem). More specifically, an emphasis should be put on a dependency emerging between organisations as well as any risk underlying their common operations. Trust may be validated when relations and mutual correlations occur between organisations, and partners' conducts influence outcomes of these relations. The significance of trust management grows when there is potential for opportunistic operations being detrimental to one of the parties in the relationship. A trust level between organisations is critical from the perspective of outcomes delivered by mutual relationship as trust not only guides assumptions on partner's intentions or his competence (Hejduk and others, 2011), but it is central to undertaking specific activities.

A concept for trust management differs from other management concepts. Trust management touches upon a body of values professed by the organisational culture and spreads to all areas of organisation functioning.

Trust management provides opportunities for the growth of an enterprise as well as fostering a cooperative atmosphere and creating a culture of respecting the others' rights. It is a prerequisite for implementing business practices and, more importantly, it is critical to their success. The concept of trust management combines knowledge of management with organisational theory and sociology. Trust management may be defined as process of building profitable relations which are based on good will of both parties (Ibidem).

The following arguments advocate instigating the concept trust management:

- 1) costs of trust may be seen by an inappropriate partner as extremely high;
- 2) business practice indicates that in present day economies characterized by uncertainty, dynamic shifts and high level of risk, organisations have to be well-informed of whom they may trust and on what conditions;
- 3) trust is one of the basic drivers for success in organisations based on knowledge, which determines the magnitude of their value;
- 4) inter-organisational trust is a valuable capital of the company which affects its profitability (Grudzewski, Hejduk, Sankowska, 2011).

The concept of trust management provides the following benefits to organisations:

- reduces transaction costs;
- streamlines coordination of operations;
- enhances motivation to operate;
- activates creative thinking;
- encourages to participate in mutual transactions;
- promotes exchange of knowledge between organisations;
- increases potentials of organisations to weather crisis situations;
- stimulates increase in profits of an organisation (Ibidem).

Establishment of an organisation based trust management is not an easy undertaking. Essentially, managers are required to possess an advanced awareness, competence and focused attention and mutual engagement of both parties. Management should always bear in mind that trust proves to be a tremendously valuable asset in a today's economy which needs to be cultivated and developed (Ibidem).

Building Inter-organisational relationships on the basis of trust between the Municipality in Siedlce and company Polimex-Mostostal S.A. – case study

Inter-organisational relationships is rather a novel form of organisational cooperation which only recently gained prominence on the arena of the Polish economy. Nevertheless, organisations have entered into relations with other entities for a long time. Below is presented an overview of relations between the Municipality in the City of Siedlce as a local government unit and Polimex-Mostostal S.A being a strategic partner of the city.

Siedlce is a city having powers of the district in Mazowieckie voivodeship. The first mention of the city

of Siedlce occurred in 1448. In recent years the city have established a number of inspiring contacts with various local government units in the EU member states such as: France, Scotland, Denmark, Sweden, Italy and the UK and other countries such as: Ukraine, Byelorussia, Slovakia, Lithuania, Russia. Additionally, a Culture Centre cooperates with Japan within cultural areas (ww.siedlce.pl, 2011).



Figure 2. Logo of the City of Siedlce

Source: www.siedlce.pl, (12.05.2011).

The city is located in the eastern part of the Mzovian region. It is the largest centre in the region Warsaw – Białystok – Lublin. The city covers the area of 32 square kilometers with a population of over 77,000.

The city is an important point in a domestic as well as international communication network. Siedlce is the major educational centre in the region which is evidenced in pure statistics. Within the city there are 42 public units and 42 non-public institutions, starting from pre-schools through further education institutions. Siedlce has long been a major academic centre, as well as Siedlce University of Natural Sciences and Humanities and Collegium Mazovia, there are also other institutions such as College of Foreign Languages teacher Education, Theological Institute of Pontifical Faculty of Theology in Warsaw and Nursery Institution of the Health Science Department of the Medical Academy in Warsaw. Moreover, the city is an important culture centre in a sub-region and a wide range of cultural events are held there. Also, Siedlce is an advanced sport and recreation base (Strategy of development of Siedlce city, 2011).

Table 1

SWOT analysis for the city of Siedlce

Strengths	Weaknesses
A high share of population at productive age in overall population.	An insufficient level of environmental awareness among city inhabitants.
Positive birth rate.	Forms of professional education not aligned with needs on the labour market and shortfall of sufficient forms of retraining.
Functioning of institutions of supra-regional status in the city.	Weak links between economy and educational system.
Well-developed telecom network.	Insufficient perspectives for Professional promotion for educated youth.
Advanced services system.	Pathological phenomena occurring at schools, juvenile delinquency. Alcoholism and social pathology in families.
Functioning of Siedlce Business Council.	Shortfall of council and social housing.

The city as a supra-regional academic centre with potentials of further development.	Transit traffic in the city.
Extending a network of educational institutions – enabling to educate youth from the city and region in their place of residence.	Insufficient car parking facilities, in particular at the city centre.
Well-established medical services, functioning of numerous entities in the area of basic health care.	Insufficient number of bicycle routes and un-connected system of existing bicycle routes.
Well-developed sport and recreation base. Good state of repair of sporting facilities at schools.	Insufficient passenger capacity through railway system.
Functioning of a variety of culture institutions providing opportunities for creating culture and its promotion.	Shortfall of free of charge Internet spots.
NGOs and voluntary services actively operating.	Increase in environmental pollution caused by intensified road traffic.
A relatively high level of energetic safety of the city.	
Installed monitoring in the city.	
Location at a communication junction of major roads and on an international railway stack.	
A large share of greenery in the city and its direct proximity.	
Opportunities	Threats
Enhanced magnitude of the city as a communication junction in the region.	Exodus of highly qualified personnel.
Growing role of Siedlce as a development centre in Mazowieckie voivodeship.	Possibility of losing its status as supra-regional centre in the case of vibrant advancement of other cities in the region.
Liberalization of trade with countries to the east of Poland.	Hindered access to new residential units due to exorbitant market process.
Dynamic development of higher and secondary education.	
Construction of the Regional Centre of Recreation, Rehabilitation and Tourism on Blonie Siedleckie district.	

Source: own elaboration based on Strategy of development of Siedlce city...op.cit.

Whereas Polimex-Mostostal S.A. is an engineering and construction company operating since 1945, established through merger of two companies Polimex-Cekop S.A. and Mostostal Siedlce S.A. The company delivers a wide spectrum of services provided on general contractorship basis for chemical, refinery and petrochemical industries, energy, environmental protection, industrial and general construction. Polimex-Mostostal also operates in the sector of road and railway construction as well as public infrastructure.

The company is the largest steel producer and exporter, including platform gratings. The company is unrivalled leader with respect to cutting-edge corrosion protection, chiefly hot dip galvanizing.

The company carries out its operations with other entities as part of consortiums; however it

Its fundamental operations are based on functional branches which deal with specific areas of production and construction survives (Ibidem). The largest plant is positioned in Siedlce employing 750 employees (Ibidem). The company's strategy has focused on pursuing an overriding objective which is an increase in the company's value and achieving a financial performance that satisfies shareholders. Polimex-Mostostal applies the concept of Total Quality Management which involves continual streamlining all management processes, with particular emphasis on areas having a significantly positive impact on financial performance, overall satisfaction of all stakeholders, not least shareholders. Key areas include top quality products, services and customer satisfaction. Also competent resources management and exploitation of opportunities are of crucial significance. The Group has launched restructuring schemes intended to boost sales of projects in perspective market sectors in coming years. A core process is substantial strengthening of the company's performance in the energy sector, which requires immense investments in new capacity expansion and modernization of existing productive potentials (Ibidem). Polimex-Mostostal is a credible partner for investors as general contractor for large investments in energy and heating, and prospectively in the field of nuclear energy (Ibidem).

The core activity is organized in several functional divisions covering individual areas of production or services delivered by Polimex-Mostostal. The largest production plants are located in Siedlce.

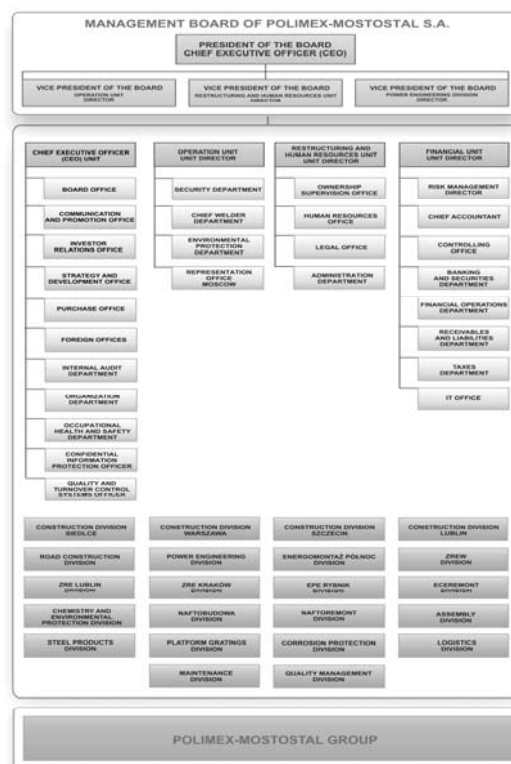


Figure 3. Organisational structure of Polimex-Mostostal S.A.

Source: Polimex-Mostostal, www.polimex-mostostal.com, (17.05.2011).

In April this year an interview was conducted with the First Deputy of the President of Siedlce City – Jarosław Głowacki. The interview tackled the relationships with the company Polimex-Mostostal.

In an organisational structure of the Municipality in Siedlce there is a Head of the President's Office who is also the investor's representative, designated for relations with Polimex-Mostostal. The scope of his responsibilities include city promotion, investment assistance, investors winning, support of larger cultural events such as large concerts on Days of Siedlce in June, and other festivities. The investor's representative not only handles contacts with Polimex-Mostostal but also with a full body of municipality investors. The Municipality communicates with Polimex-Mostostal through various forms of communication depending on the case, these involve: electronic, phone and inter-personal. At present the Municipality in conjunction with Polimex-Mostostal carries out two large investment projects which include: construction of the Regional Center of Sport, Recreation, Rehabilitation and Tourism and building of the second phase of the bypass in Siedlce, linking Sokołowska street with Warszawaska street. In view of these common initiatives, contacts between organisations are very frequent.

In the case of any doubts with regard to investments, the responsible employee from the Municipality communicates with a company's representative. Both organisations communicate with

each other on average once a week. Currently relations between organisations are largely economic. Frequent contacts are between the city President, Wojciech Kudelski and Deputy of the Management Board, also because of the fact that both men are important members of the Siedlce Business Council. When the organisations do not execute any common investments projects these relations are constrained to average once a month. Maintaining mutual relationships entails certain costs. The Municipality arranges promotional gadgets, leaflets, and also organizes meetings for the Siedlce Business Council. To maintain these relations with Polimex-Mostostal, the Municipality spends on average, based on general assumptions, PLN 4,000 yearly. Involvement of Polimex-Mostostal in sponsoring the football team Pogoń Siedlce is counted as an excellent success by the City Council. Polimex-Mostostal is a key strategic sponsor of the third league football team Pogoń Siedlce. In 2010 the company was awarded with a title Sponsor of Siedlce Sport 2009 and Sponsor of Siedlce Culture 2009. The latter title was granted for gratuitous modernization of fencing in the amphitheatre in Siedlce (www.tygodnik.siedlecki.pl, 2011). This year city councillors conferred on Polimex-Mostostal the title of Golden Sponsor of Siedlce Sport for long-standing support of sport initiatives (www.spin.siedlce.pl, 2011).

According to the First Deputy of the President in Siedlce, the Municipality is linked with Polimex-Mostostal through formal as well as informal agreements. Formal agreements involve signed contracts for completion of two projects within a specific period of time. Informal links are related, above all, with informal encounters during sessions of the Siedlce Business Council. Cooperation of both organisations centres around culture and social domains as well as the accomplishment of common investment projects. Within the scope of culture, the company backs sport and other major cultural events.

Expectations of the City Council towards further collaborations with Polimex-Mostostal are today connected with the best completion of ongoing common projects. A level of engagement of the company in retaining mutual relations was assessed as 4 within 5 grade scheme. Though this is a good result, it is held that there is still an area which should be addressed to boost an engagements level.

A level of satisfaction arising from mutual cooperative efforts was assessed as 4 within 5 grade scheme. The cooperation quality is very good, yet is falling short of ideal. The City Council puts its uttermost trust in Polimex-Mostostal.

Relations between the City President and the Deputy of the Management Board of Polimex-Mostostal are very close.

A crucial investment which called for combining potentials of the City Council and Polimex-Mostostal was the construction of a new plant for Steel Product Manufacturing and Paint Shop located in the vicinity of the company. The city Council made enormous efforts to incorporate portion of territory in Siedlce into Tarnobrzeg Special Economic Zone (Szewczuk, 2011). TSSE EURO-PARK WISŁOSAN include sub-zones locate in the

following places: Tarnobrzeg, Stalowa Wola, Nowa Dęba, Radom, Pionki, Staszów, Jasło, Wrocław-Kobierzyce, Przemyśl, Janów Lubelski, Łuków, Tomaszów Lubelski, Węgrów, Nowe Miasto nad Pilicą, Kraśnik, Przasnysz, Horodło, Ryki, Łapy. TSSE EURO-PARK WISŁOSAN was set up by virtue of Regulation of the Council of Ministers of 9 September 1997. Obligations of TSSE mainly involve stirring interest among investors to undertake or extend business operations on territory of the zone though special programmes as well as tax exemptions and reliefs for investors (www.tsse.pl, 2011). Each investor is granted by the Industry Development Agency that is a managing entity for TSSE, a permit for conducting operations and thus become eligible for income tax relief. A Siedlce sub-zone in TSSE covers 65.40ha. Incorporation of Siedlce into TSSE is a mutual efforts made by city authorities, a Parliament deputy, Krzysztof Tchórzewski, former deputy minister of economy as well as mazovian voivode Jacek Kozłowski. Siedlce zone was well prepared in terms of water infrastructure, sewage and road systems. A project of Polimex-Mostostal is the largest investment scheme in TSSE EURO-PARK WISŁOSAN. The City President, Wojciech Kudelski, the City Council and Municipality employees managed to efficiently devise all resolutions and decisions necessary to initiate the process of constructing an innovative manufacturing plant for Polimex-Mostostal. The area of the new plant is 35,000 square metres and covers 12.5 ha of the land.

Production capacity is reaching 3,000 tons monthly, and prospectively they are likely to attain 6,000 tons. The plant is equipped with cutting-edge equipment and the most advanced laser and plasma Technologies. The plant made use of the economic slowdown which triggered a decrease in material prices and labour. The funds saved were used for additional investments and state-of-the-art machines.

The investment of PLN 260m is the largest investment accomplished in TSSE EURO-PARK WISŁOSAN. The biggest benefit for the City of Siedlce is an increase in employment by 350 persons (Szewczuk, 2011). Polimex-Mostostal is the largest investor for the Municipality in Siedlce.

In its intellectual capital the Municipality places a particular emphasis on development of human resources. Training schemes are held for employees of the Municipality. They are provided with opportunities for professional promotion. For outstanding achievements awards are granted, including Orders of Merit. On 28 February 2011 the President of Siedlce presented the Municipality employees with Golden, Silver and Bronze Orders of Merit, 10 Golden Distinctions for Long-Standing Service, 7 Silver Distinctions for Long-Standing Service, and 1 Bronze Distinctions for Long-Standing Service. The minister of Infrastructure awarded an Honorary Distinction for "Meritorious Road Development" (www.tygodnik.siedlecki.pl, 2011). Also the officials' work is assessed on a yearly basis by the Municipality authorities. As for organisational capital the Municipality relies on an ISO 9001-2001 quality management system and a formulated Quality Policy. With regard to relational capital the City of Siedlce

cooperates with stakeholders from Siedlce region and attempts to best address all issues submitted with the Municipality by people. The City of Siedlce entered into relations with Partnering Cities such as: Berdyczów in Ukraina, Dasing in Germany, Pescantina in Italy, Vilnius Region in Lithuania, Sabinov in Slovakia, Wołkowysk in Byelorussia and Kirov in Russia (www.siedlce.pl, 2011). To assess the relational capital, special questionnaires are designed for people and the Scrutiny Committee was set up to inspect complaints filed against the Municipality and its employees. The city authorities held meetings with enterprises within assemblies of the Siedlce Business Council.

The City Council within inter-organisational relations seeks to best satisfy both parties that is aligning the interests of Polimex-Mostostal concerned with highest possible gains with interests of the Municipality focused on the lowest possible expenditures with regard to the investment accomplished.

Ongoing operations of Polimex-Mostostal in the city are a huge success achieved by its authorities. During economic transformations in the 90s a wide range of companies operating in those days vanished from the market, among others a company Stalchemak employing 2,000 people (www.fotoforum.gazeta.pl, 2011).

During transformation a group of people headed by the then President of Siedlce, Mirosław Symanowicz became involved in protecting Mostostal following the buy-out by Cekop. The growth of the company provides benefits for the city.

Due to location of a complex of manufacturing plants in Siedlce, the company manufactures all necessary components for specific investments on site and does not incur additional costs related to shipment, and therefore it may offer lower prices for projects run by the Municipality.

In 19 April 2011 a personal interview was conducted with Ms Hanna Wołyniec, employed in Polimex-Mostostal, on connections between the company and the Municipality of Siedlce city.

In the organisation there is no single person assigned for contacts with the Municipality. Essentially, an appropriate department in the company communicates with a proper department in the Municipality is given the issues to be handled. Institutions make contacts in cases when permits for purchase of land and construction are needed as well as in other organisational matters. Polimex-Mostostal communicates with the Municipality through various forms of communication given the formality degree of the issue. A contact may be carried out by way of electronic and phone systems as well as in person. Frequency of communication is on average a few times per year. Currently accomplishment of two investment projects for the Municipality: construction of the Regional Centre for Sport, Recreation, Rehabilitation and Tourism and the second phase of the bypass connecting Sokołowska street with Warszawaska street, results in more frequent contacts crucial for addressing the problems arising. Polimex-Mostostal does not make statistics for costs incurred for communication with the Municipality. These include, among others, post costs and transport costs. Such costs are hard to calculate and

their amount depends on the magnitude of issues handled in a given period. During execution of a new investment project these contacts are certainly amplified, especially when faced with inconsistencies in plans. Both institutions are related by correlations stemming from tradition. In other cases there is a legal obligation imposed. When the company needs a permit for construction, it has to refer to the Municipality. There is no other way for obtaining such permit. Mutual collaboration pertains to cultural and social areas as well as execution of common investment projects. Polimex-Mostostal does not have bigger expectations as to further cooperation with the Municipality thanks to a satisfactory level of these relations. The level of the City engagement in maintaining mutual relations is assessed as 4 within 5 grade scheme. The level of satisfaction of mutual cooperation is assessed as 4 within 5 grade scheme. A level of trust received a top assessment. Benefits yielded by mutual relations involve more efficient handling of issues submitted by the company, compared to other institutions. Polimex-Mostostal invested in greeters at the entrance to the city. In addition to the banner saying "Welcome to Siedlce" there is a company logo, which is a form of promotion for the company. The company does not make any attempts to assess its intellectual capital. In terms of human resources there is yearly obligation of employee evaluation. Each employee receives a list of tasks to perform in a given year. At the initial stage the employee himself assesses a performance level of his tasks, and then an assessment is made by his direct superior. With regard to organisational capital, the Integrated Management System is implemented in an organisation on the grounds of the following standards:

- PN-EN ISO 9001 certified by KEMA Quality Poland. Polimex-Mostostal acquired the first certificate meeting the requirements of PN-EN ISO 9001 in June 1997;
- PN-EN ISO 14001 Environmental Management certified by KEMA Quality Poland;
- PN-N 18001 Management of Occupational Health and Safety certified by KEMA Quality Poland;
- PN-EN ISO 3834-2 Quality Assurance System in welding certified by Welding Institute in Gliwice;
- PN-N-19001 Internal Control System certified by PCBC;
- AQAP 2110 certified by the Institute of Quality Management Systems;
- Directive 97/23/EC (97/23/EC) Quality Assurance module H1 certified by TÜV Cert - TÜV Rheinland Industrie Service GmbH (www.polimex-mostostal.pl, 2011).

Moreover, the company gained numerous certificates, awards and distinctions in connection to quality management. A Code of Ethics for Polimex-Mostostal was also drawn up. With regard to relational capital, the company contributed to completion of scientific, sport, cultural and social initiatives. Polimex-Mostostal is a sponsor of the local football team Pogoń Siedlce. To evaluate a relational capital, it is necessary to

review data on income and profits of the company and number of new contracting parties.

Relations established between the Municipality and Polimex-Mostostal are specific in character given that the City is a local government unit. The Municipality has at its disposal a definite budget which is thoroughly supervised. When selecting a contractor to a certain investment, a basic criterion is the pecuniary value of the investment. Tenders are awarded to business entities which offer a lowest price for completion of the investment. On this ground conflicts of interest emerge between the Municipality and Polimex-Mostostal. The authorities seek to reduce costs, whereas the company strives to deliver highest gains. However, as previous experiences show, both entities endeavour to find a golden mean in their efforts to pursue their own objectives.

For the City authorities, further growth and operations of a large company as Polimex-Mostostal is one of priorities. The company provides employment to over 700 persons. Its further growth entails numerous advantages for the city inhabitants, which primarily includes new jobs.

The surveys conducted show that relations between the Municipality in Siedlce and Polimex-Mostostal are, above all, economic in their character. From the perspective of Polimex-Mostostal these are exclusively formal connections which fall within a remit

of inter-organisational relationships. Mutual collaboration yields significant benefits for each party. The growth of such a huge company on the territory of Siedlce indirectly drives the development of the city.

Conclusions

Inter-organisational relationships are inherent aspect for functioning of an organisation in the current economic environment. Building and advancement of relational capital emerges as one of the determinants for winning and maintaining a competitive advantage on the market. Organisations begin to recognize these dependencies and establish relations with other entities on the market. Frequently, these include relations at the level of enterprise to enterprise. Also, they may take a form of public-private relations which represent a specific type of inter-organisational relationships in view of legal provisions restricting free functioning of public entities. Building and development of public-private relations may prove to be more challenging than establishing private-private relations, though as evidenced by the case of the Municipality in Siedlce and Polimex-Mostostal it is possible to achieve. Relations between the entities surveyed bring a magnitude of mutual benefits, and provide a great chance for growth of the whole region.

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Wioletta Wereda

CREATION OF INTER-ORGANISATIONAL RELATIONSHIPS AS A CRUCIAL ELEMENT OF BUILDING TRUST BETWEEN A LOCAL GOVERNMENT UNIT AND AN ENTERPRISE

Summary

The development of relational capital and inter-organizational relationships in any organization has a significant impact on its survival and development. The quality of relationships that will create an organization has influence on its success or failure in the market. The biggest share in this process have employees and a willingness to the cooperation of different stakeholders in the local market. Therefore, building certain relationships is a long-term process and requires the mutual trust of all partners. The aim of this paper is to present what role acts the trust in creating inter-organizational relationships between an enterprise and a local government unit.

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ROLE OF PUBLIC - PRIVATE PARTNERSHIPS IN INVESTMENT PROJECT MANAGEMENT IN LOCAL GOVERNMENT UNITS

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Abstract

Each local government unit, in particular a commune, aims to meet collective and individual citizen's needs, arising from living in a local community. This objective may be delivered by undertaking appropriate operations related to, among others, setting strategic directions for development of a commune. A core element in planning development is a strategy for development of a commune and projects crafted on its basis. To manage projects in an adequate manner, a commune's structure involves specific project teams tasked with completion of numerous tasks connected with satisfying local needs of multiple interest groups while keeping the financial costs as low as possible and rationally spending public funds. The article illustrates the role of local public-private partnerships in managing investments projects in local government units with a special focus on an innovative project of setting up council housing in Siedlce.

Keywords: local public-private partnership (PPP), investment project management, local government unit.

Introduction

Investment project management is a process including a strictly specified beginning and end that is a clearly defined target to be achieved. It proceeds in four phases (beginning, planning, realization and completion of a project). Each investment project entails risk which is monitored on an ongoing basis and controlled up to an acceptable level by a project manager and other team members. Large investment projects are typified by council housing investments planned and accomplished by local governments.

In many cases however, local governments are not capable of completing a number of schemes due to their limited financial resources. Therefore, it proves necessary to establish cooperation between organizations sharing the same target – social and economic advancement. Especially, it is of immense significance at the local level where shortfall of financial funds is prevalent and hinders carrying out a number of projects (Wereda, Dudzińska-Glaz, 2011).

The objective of this paper is to explore which roles are taken on by PPPs in managing investment projects in local government units in Poland – within both theoretical as well as practical frameworks, based on the example of a “case study”.

Methodology

The paper draws on mainly the analysis of the reference literature as well national and international reports, and

documents provided by municipal authorities. To present a case study, a survey was conducted in order to determine the role of PPP in the investment project management and its impact on the development of technical infrastructure in a local government unit, namely building council housing in city of Siedlce.

Characteristics of local public-private partnerships – literature review

There is no one uniform definition of public-private partnership applicable globally. Each country and each organization defines it individually for their own purposes, drawing upon their needs and experiences with regard to implementing PPP projects. Also the PPP definition is not set out at the level of the Community. Poland as an EU member state embarks on implementing projects and formulating definitions by a range of researchers within PPPs, both Polish and international, by adopting definition of partnership as cooperation among the public sector with business for the purpose of rendering services which are public in character.

In accordance with the Act on public-private partnership (PPP) – it is based on the cooperation agreement, made between a public entity and a private partner, intended to implement a public project, pursuant to which a private partner will bear or arrange, in full or in substantial portion, financial costs for completion of a specific project being the object of cooperation. A public-private partnership may be an implementation form for a specific venture within the scope of public assignments,

in accordance with and on the conditions specified in the Act on PPP¹⁸, only provided that this form brings benefits for the public interest which surpass those delivered by other methods of performing the public task or project (Wereda, Dudzinska-Glaz, 2011).

PPP is a project accomplished pursuant to a long-term agreement, conducted between a public entity and a private entity, aimed at establishing infrastructure components which enable provision of public services. The groundwork for this definition is constituted by a community of activities performed by public and private sectors – founded to facilitate both partners in best pursuing their goals to which they are committed. A public partner is obliged to provide public services by law, whereas a private partner is expected to conduct business and achieve profits (<http://www.partnerstwopublicznoprywatne.info/ustawa,pp.p> [access date: 2010.05.28]).

An opportunity to combine operations by local government units with private companies was laid out in the Act on public-private partnership (PPP) of 19 December 2008¹⁹ and in Article 28a of the Act on principles for pursuing the development policy²⁰ of 6 December 2006, being in force since 20 December 2008. This provision defines general principles for accomplishment of partnership projects and principles for selection of partners from outside the public finances sector by project promoters from within the public finances sector.

At the EU level a crucial legislation deed regulating the principles for partnership is the Council Resolution (EC) No. 1260/1999 of 12 June 1999²¹. The provisions included are general and they fail to specify the manner of entering into partnerships or the scope of activities performed by individual partners. Having in mind the need to specify more thoroughly the principles for operations of partnerships whose projects are co-financed from EU funds, the following document was drawn up “Scope of implementation of partnership projects” which determines (MRR, 2009):

- Basic requirements for partnerships;
- Assignment of partnerships among units of the public finances sector;
- Appointment of partnerships among units in the public finances sector with units from outside the public finances sector;
- Partnership with the entity failing to comply with statutory definition of the beneficiary;
- Partnership established in the course of accomplishing the project – changes in partnership;
- Financial issues in partnership projects, including the template for a partnership agreement for the benefit of the Project.

Investment project management in a local government unit

Recent years have seen a growing importance of unique activities, labelled investment projects. Such a situation is the result of increasing complexity and volatility of conditions in which today’s organizations operate as well as dynamic technological progress, world trade advancement, and globalization. Current reduction of product life cycle prompted organizations to place an emphasis on investments involving financing large investment projects at an extensive scale. At present day traditional methods of management no longer meet new social, economic and technological requirements, and therefore they were replaced by innovative methods of project management. New, more effective methods contributed to separating issues concerned with project management from those related to enterprise management.

An investment project is a kind of reflection of an investment venture. A project is a concept of a venture, representing a „body of investment tasks interrelated to each other participating in delivering the goal (...)” (Brandenburg, 2002) of an investment venture. This includes a set of documents pertaining to the investment, containing an accurate and precise specification of preparatory activities, realization and use of an investment (Róžański, 1998).

Currently in reference literature as well as in business practice, the concepts of the project and venture are used in a number of overlapping ways, though incorrectly. The terms are not identical. A venture is a collection of mutually correlated actions which may be approved or rejected as a specific whole (Carlsberg, 1974).

Characteristics of the investment project include the following:

- Has a precise goal, outcome;
- Time constrained – has a specified deadline for commencing and completing, defined phases;
- When accomplishing limited resources are exploited (human, financial, equipment, materials, facilities, information, etc.);
- Separated from other operations in the organization in terms of organization;
- Has a specific organizational structure;
- Accomplishment of the project entails participation of a magnitude of people;
- Is frequently extensive and complex;
- Accomplishment of the project is connected with risk which is mitigated in the course of works progress;
- Related to investments;
- Its character shifts within its consecutive phases;
- Is interdisciplinary;
- Often provokes conflicts in the organization (Pawlak, 2006).

Completion of each investment project involves a number of restrictions. The most significant of these involve scope, time and costs. These parameters are

¹⁸ Abbreviation: Public-Private Partnership.

¹⁹ Public-private partnership law of 19 December 2008 (Dz.U of 5 February 2009)

²⁰ Law on principles of pursuing the development policy of 6 December 2006, Art. 28a, Dz. U. Nro.216, item 1370.

²¹ Council Resolution (EC) No. 1260/1999 of 12 June 1999.

commonly adopted as a basis for defining investment projects management. A key role performed by the project manager is retaining a certain balance between the parameters outlined above (figure 1).

Project management entails “application of knowledge, skills, tools and methods available to meet or even exceed the needs and expectations of project commissioners” available (Compendium of knowledge on project management, 2003). Project management encompasses a wide spectrum of problems where we may recognize the knowledge areas (activities areas) of project managers (table 1)

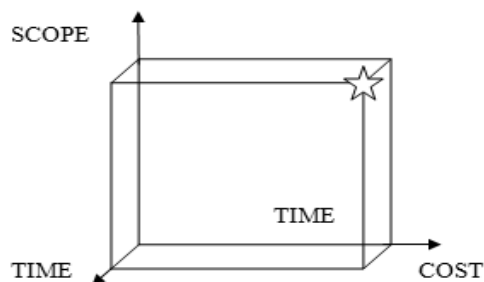


Figure 1. Project constraints

Source: Wilczek, M. T. (2004). Podstawy zarządzania projektem inwestycyjnym (p. 17). Katowice: Wyd. Akademii Ekonomicznej w Katowicach.

When analyzing table 1 it may be discerned that project management requires accurate and extensive expertise from almost every management realm. Project management areas according to PMI® (Project Management Institute) include:

1. Project integration management – as a process of coordinating all elements in a specific project, starting with its scope, costs, through time for accomplishing the entire scheme and its certain elements, to cooperation among constructors, etc. It regards the preparatory phase, project planning and realization phase, including coordination of modifications in the project schedule.

2. Project scope management – refers to its specific elements and manners for their accomplishment so that all tasks include in the scheme, with optimal use of resources available (taking task costs and completion time into account), contributed fully to achieve goals laid out in the project.

3. Project cost management – that implies steering processes for leveraging resources and time for project completion, estimating costs, controlling completion costs to deliver goals within a limited budget.

4. Project quality management – that is steering specific processes that enable achieving desired features of a specific product (meaning a defined quality of the product) and thus ensure meeting individual needs of the customer.

5. Project communication management – refers to processes driving framing, collecting, transferring and storing valuable data and necessary information with regard to the project. It is carried out at the phase of planning as well as accomplishing a project. It incorporates a method of communicating in the course of project accomplishing within a project team and between

its structures as well as between a project team and a principal (e.g. enterprise) and a sponsor of the project.

6. Project risk management – effected through identifying risk in a project, planning responses to risk occurrence and monitoring and overseeing risk on a continual basis. It facilitates bringing the project to completion to the agreed schedule and budget, and to ensure the quality desired.

7. Project time management – that is all processes starting from planning specific operations, determining their successive logical order, estimating time necessary to complete a project through developing a project schedule and manner for supervising it. Estimating time required for completing specific activities and interrelating them in the schedule will result in optimal realization of the scheme.

8. Project human resources management (management of recruiting constructors) taking into consideration qualifications as well as experience and cooperation in a project team, and then entering into agreements, being motivating in character and encouraging all employees involvement in the project.

9. Project Procurement Management – namely determining a type and scope of cooperation with external suppliers, methods for oversight of this cooperation, extending or cutting down orders, etc. while simultaneously linking these aspects with costs, workmanship quality and completion time.

Table 1

Knowledge areas in project management

PROJECT MANAGEMENT - areas	
Project integration management	Framing a project schedule, accomplishment of a project, integrated control of changes.
Project scope management	Initiating a project, planning a scope, specifying a scope, verification of a scope, controlling changes within the scope.
Project time management	Identifying of activities, determining an order of operations, estimating time necessary for activities, developing a schedule, supervising a schedule.
Project cost management	Planning resources, estimating costs, budgeting, supervising costs.
Project quality management	Planning a quality, its ensuring, controlling a quality.
Project human resources management	Organizational planning, recruiting personnel, arranging personnel.
Project communication management	Planning communication, distributing information, reporting on performance, administrative closure.
Project risk management	Planning management, identifying risk, quality risk analysis, quantity risk analysis, planning responses to risk, monitoring and controlling.
Project Procurement Management	Planning procurements, planning enquiries, collecting offers, selecting suppliers, administering a contract, closing a contract.

Source: Compendium of knowledge on project management, PMBOK Guide 2000 Edition (p. 9). (2003). Warsaw.

Strong and long-lasting mutual connecting of knowledge areas illustrated and the processes is emphasized. By selecting specific areas and processes, a project manager is provided with an opportunity to thoroughly analyze and guide the management process as this allows for swifter recognition already existing determinants for accomplishing the project, and in the

case of occurring risk for delivery of set project targets by means of undertaking timely required corrective operations. Such an approach enables more effective oversight and monitoring accomplishment, costs, time and quality, etc. and in the aftermath mitigation of the operation risk and potential undesirable effects (Roszkowski, Wiatrak, 2006).

To underline the specifics of project management it is worthwhile focusing on an exhaustive characteristic of project management provided by E. Turban and J.R. Meredith (table 2) which contains distinctive attributes of projects, key management traits and some symptoms underlying improper project management (Trocki, Grucza, Ogonek, 2003).

Table 2

Characteristic of project management

Distinctive traits of projects	Distinctive traits of project management	Symptoms for inappropriate project management
Uniqueness	Uncertainty	Exceeding costs
Long durability	Unpredictability	Deviation from a scheme
Complexity	Realization difficulties	Failure to satisfy technical requirements
Significant involvement of external contractors	Dependence on external partners	Problems with enforcing agreements
Intense cooperation	Difficulties when planning	Communication disruptions
Multilateral correlations	Necessity to visualize	Coordination difficulties
High risk	Particular control on the side of chief management	Criticism from public opinion, reluctance to make bold decisions
Hefty potential benefits	Particular concern on the side of chief management	Attacks from competitors

Source: Turban, E. & Meredith, J. R. (1985). *Fundamentals of Management Science* (p. 320). Plano: Business Publications.

With reference to a local government unit which is an integral part of the public administration we may ascertain current continual performing public assignments through a wide range of investment projects. However, project management proves to be a new dimension in accomplishing tasks set out by the public administration. Today local government units such as commune governments, districts and voivodeships are undergoing a transformation process from task management to project management. Thinking in terms of the project is coerced by a current situation, not least by the membership of the European Union. In an effort to gain European funds to carry out its assignments a local government unit is compelled to devise its task planned in the form of a project. Specifics embedded in project management in the public administration stem from the place where these projects are accomplished. A local government customer, unlike business customers pursuing gains, is not driven by an urge to reap profits. Instead, it purchases, commissions or creates systems having an impact on public needs such as health care, infrastructure, transport

or education. It is concerned with completing a project and places a lesser weight on time and costs, though they are crucial importance due to an environment of budgetary restrictions. Overall, conditions for project devising and its goals may be subject to specifics of the public sector whereas the manner of managing the project itself and its accomplishment and oversight are governed by the regulations applicable to other projects (Shenhar, 2008; Augustyniak, 2009).

Role of local PPPs in accomplishment of investment projects

Joint action of many entities in the current market economy is essential. The dynamic development in many areas urges to take up activities that are not always possible to be achieved alone. Thus, it is necessary to establish cooperation between organizations having a common goal - the socio-economic development. This is especially important at the local level where the lack of financial resources is blocking the implementation of many projects. Establishing cooperation with relevant partners can therefore contribute to greater social integration and effective problem-solving as well as being able to assist in moving away from fragmented and often uncoordinated activities undertaken by different entities in the same areas. Projects implemented in partnership will also facilitate significantly establishing cooperation between institutions and organizations representing different stakeholder groups.

Involvement of social organizations such as associations and foundations, as well as private entities in accomplishing tasks which fall into competence of public administration bodies and local governments is one of the determinants of democracy. It enables extensive civic participation in public initiatives, thus contributing to social sustainable growth as well as establishing civic society. In addition, it enhances mutual confidence among institutions representing specific sectors and awareness of shared responsibility for the citizen's quality of life (Wereda, Dudzinska-Glaz, 2011).

When we talk about PPP in the process of the implementation of investment projects, it can be defined as a project accomplished pursuant to a long-term agreement, conducted between a public entity and a private entity, aimed at establishing infrastructure components which enable provision of public services. The groundwork for this definition is constituted by a community of activities performed by public and private sectors – founded to facilitate both partners in best pursuing their goals to which they are committed. A public partner is obliged to provide public services by law, whereas a private partner is expected to conduct business and achieve profits (<http://www.partnertwopublicznoprywatne.info/ustawa,pp.p> [access date: 2010.05.28]).

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Local public-private partnerships as specific forms of cooperation may underpin financing of investment projects which may not be otherwise funded by local governments alone. Frequently raising European funds implies hefty own contribution and proving capabilities as well as demonstrating knowledge within investment projects management, which may then pose an impediment to development of local infrastructure for small local government units such as communes or districts. Therefore local partnerships assist in surmounting such barriers and may enhance relationships between interest groups to be located on a specific territory and committed to sustainable local development.

Local PPPs and development of council housing in the city of Siedlce - case study

Delivery of public services for the benefit of local communities urges local authorities to incorporate up-to-date methods and techniques in management process. Streamline management of public services leads to boosting as well as improvement of the quality of services provided by local government units in favour of inhabitants of a given local community. A requirement for adequate delivering and accomplishing tasks having public utility character by local governments are own revenues of the commune. Indebted local governments are not capable of embarking on new investments and continuing the initiated ones. An opportunity for economic development and meeting social needs is provided by cooperation between a public entity with a private partner within PPP (Ksiazek, 2011, p. 154).

In Poland unemployment, poverty and deficiency in housing contribute to growing significance of social problems. Endeavours to resolve and alleviate this predicament should form a ground for devising a model for cooperation between public and business organization committed to levelling inequalities in access to housing through applying innovative solutions with regard to implementing cooperation within PPP. Even though a housing policy is an element of the government social policy, yet debt liabilities originating from the former communist regime as well as a budget deficit obscure pursuing the policy and furthering housing construction in Poland. Hence, sanctioning new legal amendments in Polish legal system giving an opportunity to inter-sectoral collaboration within the PPP arrangements is backed by state authorities, and moreover, promoting the idea of partnerships was lawfully imposed on the Minister of Economy.

Therefore, for all local government units it must be an imperative to pursue an effective housing policy in order to eradicate deficiencies on the local market. Such an initiative was undertaken by the municipal authorities in Siedlce which devised a Long-term Programme for Managing Housing Resources of the City within 2011-2015.

Siedlce is a city having a long tradition of over 460 years, located in the east part of the Mazovian region, the largest centre in a Warsaw-Białystok-Lublin triangle. The city covers the area of 32 square kilometres with a population of over 77,000. Siedlce is a district city lying in the mazowieckie voivodeship, i.e. a voivodeship with the deepest spatial disproportions in social and economical development across Poland. In spite of dynamically evolving Warsaw and its adjoining areas, there are peripheral regions standing in stark contrast with the capital, with a development level nearing regions of so-called "eastern wall". Though Siedlce is situated in the centre of peripheral agricultural region with low income, along with other cities it plays a significant role in the mazowieckie voivodeship. The city exerts an influence on territories in its close vicinity, chiefly those eastwards and northwards (Development Strategy for the City of Siedlce, 2007).

Despite dynamic advancement, the city of Siedlce, like other local government units, runs into problems with meeting housing needs of the local community, and construction of new residential dwellings is one of the forms of accomplishing a commune's own tasks.

The local government may perform this task by initiating own investment activities as well as shoring up, within its own competence, external entities operating in housing, i.e. Social Housing Association or private partners, forming partnerships with them.

As regards the local government unit an economic impulse is not the critical criterion considered when making a decision. Equally important aspect involves unsatisfied needs of the local community and necessity to create conditions for city development (Appendix to Resolution No. LV/784/2010 of the City Council in Siedlce, 2010).

Toward the end of 2010 the City of Siedlce possessed 96 residential council buildings and 19 private buildings, being under obligatory administration of the City Council, with a total number of 1,614 units occupied by 4,982 persons. The housing situation in the first quarter of 2010 is illustrated in table 3.

Table 3

Housing resources of council residential units in the city of Siedlce in 1918-2010

No.	Year of construction	Number of buildings
1	before 1918	43
2	1918- 1944	13
3	1945- 1950	6
4	1951- 1970	20
5	1971- 1990	12
6	1991- 2008	2
TOTAL:		96

Source: Appendix to Resolution No. LV/784/2010 of the City Council in Siedlce, 2010, p. 5.

Siedlce as a pioneer of the programme for investment project management with regard to constructing council housing in Poland launched the Programme for Building Council Housing in Siedlce for 2009-2015.

The programme aims to improve housing conditions for families residing in the city through shrinking waiting time for a dwelling as well as to provide apartments to be able to enforce a final and binding eviction judgment. Also, it is set to activate costly investment areas in the city centre and after completing demolition of ramshackle back-premises to offer the land for sale under open tendering.

Such activity will drive financial resources for launch of the programme and arrange currently run-down districts of the city centre. Moreover, it will safeguard the city budget against potential penalties arising from failure to enforce eviction proceedings and will provide council and social dwellings for people waiting for apartments. Importantly, it will provide residential units of larger living area, which at present are not in municipal resources, to multi-children families. As a result of analysis conducted housing needs with regard to aforementioned premises should be met by 320 residential units. These are the needs of inhabitants awaiting provision of the public housing apartments, who are placed on a waiting list, as well as of tenants who face final and binding eviction judgments, and of people who are subject to eviction from investment sites in the city centre. It is assumed that a pool of housing units to be built will include 20% social²² apartments, the remaining are public²³ housing apartments.

²² Pursuant to the Tenants' protection law (Art.12) a social housing unit suitable for accommodating with regard to furnishings and fittings as well as technical state of repair, which living area for one member of household cannot be less than 5 sq metres, and in the case of single household – 10 sq metres while the premises may be at a lower standard.

²³ Public housing apartments, previously called lodging apartments, is an apartment owned by a commune. Each commune is under statutory

Investment phases are stretched for several years. Planning process took 2 years to be completed by the authorities. The realization of the scheme commenced in 2010 and is scheduled to be completed and accounted for in 2029.

The programme entails construction of 320 residential units, i.e. five residential buildings (64 units each) within 2010-2015. The premises will be located on lots owned by the City Council. These areas are intended for public housing construction in the local development plan. The land on the sites will be fully developed by the City Council. Also the City Council will finance the communication infrastructure to each residential building, including construction of the car park, and buildings complex in a given site.

For the purposes of the construction scheme plots will be lent for use (tenancy) to a specific commission contractor.

The contractor will be obliged to:

1 prepare technical documentation for constructing residential units, as well as obtain a construction permit,

2 construction as well as financing construction of turnkey premises to be suitable for accommodation.

On top of that, the Programme of Public Housing assumes building single-family residential pavilions intended for full year accommodation. The project of pavilions should be premised on its unrestricted location and its setting in free-standing developments (Appendix to Resolution No. LV/784/2010 of the City Council in Siedlce, 2010).

The contractor (partner) takes on the obligation to bear the costs of the constructing the apartment up till they are accommodated.

Based on the premise that an average area of the residential unit is 42 sq metres, thus planned total usable area of 320 premises is equalled to 13,500 sq metres. Then assuming that an average cost of the construction of 1 sq metre amounts to around PLN 2,500 (as to the end of 2010), thus a foreseen investment cost will be around PLN 35,000,000 (around PLN 7,000,000 spent on each building housing 64 families).

Therefore, beginning from 2011 in each consecutive budget year the City Council, for its tasks within public housing building has to allocate a sum of around PLN 1,200,000 for each occupied building. An estimated cost of obligations of the City Council with regard to construction of 320 residential units towards the end of 2029 should amount to PLN 90,000,000.

obligation to ensure accommodation for low-income people and families in accordance with Art. 4 and 20 of the Tenants' protection law. Unfortunately, not all people in need of housing are able to be provided with public housing apartment. Usually, communes are short of financial resources to construct as many residential units to meet all needs. Therefore they put in place certain restrictions and principles determining who should be given priority in providing housing. More complete information is included in the Law of 21 June 2001 on tenants' rights protection, housing resources of the commune and amendments to the Civil Code (Dz.U. 2005 No. 31, item 266, as amended).

Following the buildings commissioning and confirming that apartments meet the accommodation requirements, the City will receive them from the contractor and carry out their housing obligations, when simultaneously transferring administration obligations with the buildings to the administrator who at the moment delivers the service on behalf of the City Council.

Since then the City Council, under the agreement concluded, reimburses, in monthly instalments, the costs incurred the contractor for building a given building within a period of 10 or 15 years on the basis of the rate, obtained under public procurement proceedings, for 1 sq metre of the usable area to the partner-developer (Ibidem).

However, it should be kept in mind that the project is succumbing to a number of threats and therefore it may be hard to complete it. In view of the programme cost it is unlikely to determine a real value of the assignments to be accomplished in 2015 in current circumstances in the construction market. Another problem may be faced when selecting construction sites. Reluctance of the local communities to such investments may stymie the initiative of the City Council and confine the partnership.

Moreover, problems may mount around selecting the contractor.

Conclusions

Investment project management is always subject to the risk coming from the inside or the outside of each organization. To complete the project successfully persons responsible for the project are obliged to systematically oversee and monitor phases of its implementation process. Additionally, investment project management requires substantial funds and expertise which is often costly. Therefore, local government units, have to, with limited financial resources, seek various form of assistance from private entities by establishing partnerships with them to deliver tasks imposed by laws designed to meet needs of the local community. For both parties such solutions are effective and beneficial when partnering entities trust each other and are capable to assess the risk of their own operations in a current turbulent environment.

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ROLE OF PUBLIC - PRIVATE PARTNERSHIPS IN INVESTMENT PROJECT MANAGEMENT IN LOCAL GOVERNMENT UNITS

Summary

In the aftermath of transformation of local government structures after 1989, a three territorial division into communes, districts and voivodeships prompted a shift of powers and rights with regard to economic policy from the central level into lower levels, in territorial terms called regional and local. Decentralization of public administration drove restoration of local authorities structures and led to their enhanced significance, as well as

authorities at a local level were vested with competence and powers enabling accomplishment of public tasks dedicated to meeting needs of the community in the local government units. On many occasions local government units are not capable to fund investment projects and manage them by themselves. Therefore they enter into local public-private partnerships (PPPs). The article provides the insight into key content with regard to knowledge on local PPP, investment project management and public housing policy in Poland.

The paper mainly draws on the analysis of Polish and international reference literature as well as documents and reports provided by different institutions as well local authorities. To present the main idea behind deployment of PPP in investment project management a survey will be presented, which was carried out in Poland and based on the real example of innovative solutions for the council housing in the Polish local area.

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THE POSSIBILITIES FOR THE IMPLEMENTATION OF MEASURES FACILITATING AND (OR) STIMULATING PARALLEL IMPORT OF MEDICINAL PRODUCTS IN LITHUANIA

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Abstract

Parallel import creates a price competition for the medicinal products that are being put on the market by a marketing authorization holder and helps to increase savings in pharmaceutical expenditure for public health care payers (the state) and patients. The goal of this article is to analyze the legal prerequisites which may facilitate and (or) stimulate the parallel trade in Lithuania.

The article concludes, that Lithuanian law still creates challenges for parallel trade, as the EU law and CJEU jurisprudence is not being taken into account in current legislation. So, the smaller number of medicinal products is recognised as eligible for parallel trade. Secondly, current Lithuanian law uses no financial measures aimed to stimulate the parallel import. Thus, such measures, as obligatory quotas for parallel import medicinal products to be sold and bonus payments for pharmacists could be introduced into the legal system.

Keywords: parallel import, medicinal products, EU law, pharmaceutical law, pricing, *Kohlpharma*.

Introduction

Parallel import of medicinal products means import done outside the distribution network of the authorised distributor of the product granted marketing authorisation in another Member State, which is identical to the medicinal product already granted marketing authorisation in the Republic of Lithuania or sufficiently resembling it (Law on Pharmacy, 2006). The parallel import is interesting for wholesale distributors since different prices of medicinal products often apply in the different Member States of The European Union (EU) because of particular national pricing systems. Parallel importers buy medicinal products in Member States with a lower price level and then resell them in another Member State with higher price level. Thus, parallel import creates a price competition for the medicinal products that are being put on the market by a marketing authorization holder and helps to increase savings in pharmaceutical expenditure for public health care payers (the state) and patients (Arfwedson, 2004).

Evidence from market research reports (Thompson, 2007) suggests that parallel trade is expanding significantly at least in certain therapy areas or individual products. Parallel import accounts for a substantial proportion (up to 15-18 % of drugs overall) of domestic sales of medicinal products in higher-price markets such as Sweden or Germany (Poget, 2008). Despite the fact that parallel import became legal in Lithuania after the accession to the EU in 2004, it still remains in rudimentary stage. Lithuania is a higher-price market in case of medicinal products, but just 52 medicinal products are on The Parallel Import Medicinal Products List (Valstybinė vaistų kontrolės tarnyba prie Sveikatos apsaugos ministerijos, 2011). It has been noted

on the political level, that parallel import barriers exist in Lithuania and parallel import of some medicinal products remains hardly possible because of current legislation (Lietuvos Respublikos Seimo Sveikatos reikalų komitetas, 2011). However, scientific evaluation of the legislation was never done before and is still lacking. Taking this into account, *the object* of the research in this article is the norms, regulating parallel trade of medicinal products. *The goal* of this article is to analyze the legal prerequisites which may facilitate and (or) stimulate the parallel trade in Lithuania. In order to achieve this goal the article will cover the following issues: 1) systematic analysis of the EU law, with special attention to the jurisprudence of the Court of Justice of the European Union (hereinafter – CJEU) and legitimate limits of parallel trade within the EU; 2) comparative analysis of Member States national regulations and Lithuanian national law implementing the measures aimed to facilitate and (or) stimulate the parallel trade; 3) recommendations for legislation aimed to facilitate and (or) stimulate the parallel trade in Lithuania.

Methods of systematic and comparative legal analysis will be used.

Research results and discussions

Legitimate restrictions on parallel trade in the EU law

Pursuant to arts. 34 and 36 of the Treaty on the Functioning of the European Union (hereinafter – TFEU) (TFEU, 2010), Member States cannot create artificial barriers to prevent the free movement of goods within the Community and restrictions on the free movement of goods and all measures having equivalent effect between Member States are prohibited unless it is necessary for protecting values mentioned in the art. 36, *inter alia*, life and health of humans, intellectual property rights (eg. patents or trademarks). This provision would actually

restrict parallel imports while the patent is valid (Hays, 2004). However, according to the jurisprudence of the CJEU, once a product has been placed on the market voluntarily in one Member State, it can not be prevented from being resold in any other Member State of the EU (principle of “exhaustion of rights”) (Case C-187/80 *Merk v. Stephar* (Merk I) [1981] ECR 2063; Joined cases C-267/95 and C-268/95 *Merck & Co. Inc. v. Primecrown and Beecham Group Plc. v. Europharm of Worthing Ltd. (Merk II)* [1996] ECR I-6285). The rules of arts. 34 and 36 TFEU apply to the free movement of any goods, including the parallel import of medicinal products.

However, the placement of medicinal products on the market differs from the placement of other goods, because an authorisation (a license) is needed in order to place medicinal products on the market (Directive 2001/83/EC of the European Parliament and of the Council of 6 November 2001 on the Community Code Relating to Medicinal Products for Human Use; Council Regulation (EEC) No 2309/93 of 22 July 1993 Laying down Community Procedures for the Authorization and Supervision of Medicinal Products for Human and Veterinary Use and Establishing a European Agency for the Evaluation of Medicinal Products). This requirement is based on the fact, that medicinal products are potentially highly dangerous products, and a person wishing to market the products must demonstrate to national authorities (or the EU authority - European Medicines Agency) that the product is safe. To do so requires the would-be marketer to submit a full dossier of product safety information.

If the parallel importer had to go through the same process of submitting, the parallel trade would be restricted and even made impossible as all safety information is available only for the market authorisation holder and is his intellectual property. Therefore, in the early 80s the interpretation of the EU law faced a challenge and had to answer a question whether a parallel importer may be entitled to rely on product safety data possessed at the expense of an earlier licensee (Murphy, 2009). This question arose before the CJEU in the case of *De Peijper* and the Court clearly gave priority to the issue of free trade in this case. It stated that where the same medicinal product is marketed in two or more Member States and has been authorised by the licensing authority of each state, if a parallel importer supplies product from one state into a second Member State, the country of importation will infringe art. 36 TFEU if it makes authorisation in relation to the supply of the parallel imported medicinal product subject to the production of documents identical to those which were produced by the first marketer of the medicinal product. On the other hand, national rules or practices which do restrict imports of medicinal products or are capable of doing so are only compatible with the treaty to the extent to which they are necessary for the effective protection of health and life of humans. Thus, according to the Court, simplified licenses for parallel import may be used in order to ensure that imported products are safe and do not pose any risk to the health and life of humans (Case 15/74 *Centrafarm prieš Sterling Drug* (De Peijper I) [1974] ECR 01147). This

“simplified” procedure means that the applicant needs to provide less information than it is required for an application for a marketing authorisation and the issuance of the license is being done in a relatively shorter period of time.

One more legitimate restriction on the parallel trade of medicinal products is connected with question of the eligibility of medicinal products for parallel trade. Not all medicinal products are eligible for parallel trade as products to be imported must meet one of two eligibility criteria:

- 1) medicinal product may be imported in parallel when the imported product is *identical* to a product that has already received marketing authorisation in the Member State of destination.
- 2) medicinal product may be imported in parallel when the imported product is *sufficiently similar* to a product that has already received marketing authorisation in the Member State of destination (Commission of the European Communities, 2003).

The “sufficient similarity” is based on evaluative criteria and the CJEU was obliged clarify these criteria in numerous cases ruling that the two medicinal products do not have to be identical in all respects and may have qualitative and quantitative differences in composition. In such a case products will be regarded as sufficiently similar if both medicinal products have the same therapeutic effect. The differences between the two products should be of such minor importance that it is likely that the manufacturer is introducing these differences with the conscious and exclusive intention of using these differences with the aim to prevent the parallel import (Case 15/74 *Centrafarm prieš Sterling Drug* (De Peijper I) [1974] ECR 01147).

The explanation of “qualitative and quantitative differences in composition” may be found in other cases of the CJEU. The case *Smith & Nephew* (Case C-201/94 *Smith and Nephew* [1996] ECR 05819) requires that the two products do not have to be identical in all respects, but they should have at least been manufactured according to the same formulation, using the same active ingredient and that they have the same therapeutic effect. This was repeated by the EC Communication (Commission of the European Communities, 2003). However, the views presented in the Communication and in the CJEU ruling are slightly different. Not included in the Commission Communication, but a part of the judgement in case *Smith & Nephew*, was the requirement of a common origin. According to which the manufacturers of medicinal products in question should be part of the same group of undertakings or that they produce those medicinal products under agreements with the same licensor. This was underlined by the CJEU in *Rhone Rhône-Poulenc Rorer and May § Baker* judgement (Case C-94/98 *Rhône-Poulenc Rorer and May § Baker* [1999] ECR I-8789) as well. According to the CJEU in case *Rhône-Poulenc Rorer and May § Baker*, a medicinal product is sufficiently similar, if the parallel imported product has the same active ingredients and therapeutic effect as the product with marketing authorisation, but

does not use the same excipient and is manufactured by a different manufacturing process.

In case *Paranova Oy* (Case C-113/01 *Paranova Oy* [2003] ECR I-04243) the Court recognised that difference in form (tablets versus capsules) and composition (The active ingredient of the capsules contains omeprazole acid. The tablets contain magnesium salt of omeprazole acid) are regarded to be of minor importance when the therapeutic effect is the same. The Court even recognised that capsules containing the acid and tablets containing the salt of the same active ingredient are “two versions of the same medicinal product” (para. 33).

In *Kohlpharma* case (Case C-112/02 *Kohlpharma* [2004] ECR I-03369) the court went even further and refused to accept the requirement of common origin as a necessary requirement for the evaluation of medicinal product to be imported and even the term “sufficient similarity” in the judgement of the Court is missing. Only Advocate-General Tizziano tried to define conditions for “sufficient similarity” (Tizziano, 2003), but the CJEU did not acknowledge these conditions in the judgement and limited itself to stressing, that “In the case where

- an application for a marketing authorisation for a medicinal product is submitted with reference to a medicinal product that has already been authorised;
- the medicinal product which is the subject of the application is imported from a Member State in which it has obtained a marketing authorisation;
- the assessment of safety and efficacy carried out for the medicinal product which is already authorised can be used in the application for a marketing authorisation for the second medicinal product without the risk to public health;

articles 34 and 36 TFEU preclude the application being rejected solely on the ground that the two medicinal product do not have a common origin” (Case C-112/02 *Kohlpharma* [2004] ECR I-03369, para 21). On the other hand, such a judgment left the main question without a clear answer (Faus, 2005). Are there any legitimate restrictions (including product eligibility and “sufficient similarity”) for the parallel import of medicinal products left except that the product imported should not pose any risk to life and health of humans and should be therapeutically equivalent to the product which is placed on the market by marketing authorisation holder? Possibly, the answer could be negative and the evolution of jurisprudence clearly shows that the Court is moving in this direction.

In summarizing this part of the article it can be concluded, that there are only few legitimate restrictions on parallel trade of medicinal products within the EU. The restrictions (a duty to have a license for parallel import, the eligibility criteria of medicinal products) are based on the need to protect the life and health of humans. Furthermore, the current jurisprudence seems more likely to accept general criteria like comparison of safety and efficacy of the products than to adopt strict

measures to evaluate their “sufficient similarity”. From the *Kohlpharma* judgment appears that general criteria stimulate the possibility to increase the parallel trade. For example, the parallel trade of generic medicinal products is regarded as illegal when strict measures for the evaluation of “sufficient similarity” are applied by the Member States and common origin of medicinal products is required. Thus, by rejecting common origin and accepting more general criteria of safety and efficacy the *Kohlpharma* judgement made the parallel import of generic medicinal products possible. The wording used in the above mentioned judgement of the CJEU also questions the legitimacy of other criteria for “sufficient similarity”, which restrict the number of medicinal products to be found eligible for parallel import, as the judgement does not include any special conditions for the evaluation of the similarity between the medicinal products.

On the other hand, the judgments of the CJEU give an official interpretation of Treaties which are the basis of the EU law. This interpretation is used to form national legal systems as well. Therefore, further analysis will focus on the national law of the Republic of Lithuania and other Member States with special attention to the implementation of *Kohlpharma* and other CJEU judgments eliminating restrictions, which have no basis in the EU law and jurisprudence.

The possibilities for implementation of the CJEU judgments eliminating restrictions on parallel import

Parallel import of medicinal products in Lithuania is regulated by the Law on Pharmacy art. 17 (Law on Pharmacy, 2006) and Decree of the Ministry of Health No. V-228 (Sveikatos apsaugos ministro įsakymas Nr. V-228 Dėl vaistinių preparatų lygiagretaus importo taisyklių patvirtinimo, 2009). To the Republic of Lithuania may be imported medicinal products which are registered in the List of Parallely Imported Medicinal Products and in respect of which a license for parallel import has been issued. Eligible for the parallel import are those products, which are identical to the medicinal product already registered in the Republic of Lithuania or sufficiently similar to it (Law on Pharmacy, art. 17 para. 3-4). The following criteria are used in order to define similarity: the same active substance and the same salt of the active substance, the same ester, ether, isomer or mixtures of isomers, complexes or derivatives of an active substance of isomers; the same strength; the same pharmaceutical form and administration method; the same clinical and pharmaceutical properties; the same or related marketing authorisation holder and/or the same manufacturer. The law defining criteria for the similarity of the medicinal products took force in the year 2006. i.e. two years after the *Kohlpharma* judgement. However, the judgment was not used as a basis for legislation. The debates about the implementation of the *Kohlpharma* judgement started in 2010 with the new draft law only. In this draft law the Ministry of Health suggested to apply either the requirement of common origin of the products or the requirement of common origin of active substance (in this case, the manufacturer is not required to be the

same for both products) for the evaluation of sufficient similarity (Lietuvos Respublikos Farmacijos įstatymo 2, 4, 9, 12, 14, 17, 20, 23, 27, 33, 39, 55, 57, 62 ir 64 straipsnių pakeitimo ir įstatymo priedo papildymo įstatymo projektas). As it may be seen from the part I of this article, none of these two criteria was supported by the *Kohlpharma* judgement and after the parliamentary debates (Lietuvos Respublikos Seimo Sveikatos reikalų komiteto 2011 m. balandžio 20 d. posėdžio protokolai), these both requirements for common origin were rejected and will not take force in January 2012. The assumption may be made, that generic medicinal products, which usually have no common origin as are produced by competing companies, will be eligible for parallel trade in the Republic of Lithuania since 2012 and the aim of *Kohlpharma* judgement was reached. However, systematic analysis of the art. 17 shows that there could be some doubts about the legitimacy of parallel trade of generic medicinal products as art. 17 para. 4 part 1 is left unchanged. This part of the law declares that the products are acknowledged to be essentially similar when they have *the same* salt of the active substance, the same ester, ether, isomer or mixtures of isomers, complexes or derivatives of an active substance of isomers. But the proprietary medicinal product and bioequivalent generic product *may have different* salts, esters, ethers, isomers, mixtures of isomers, complexes or derivatives of an active substance and they will be considered to be the same active substance, unless they differ significantly in properties with regard to safety and/or efficacy (art. 11 para. 8). So, according to the art. 17 para. 4 part 1 generic and proprietary medicinal product having a different salt would not be regarded as essentially similar for the purpose of parallel trade, although they are bioequivalent in nature and thus have the same therapeutic effect. The national requirements for the same strength and form also will work as restrictions for parallel trade because the products may differ in form (tablets versus capsules) or strength but may have the same of safety and efficacy, i.e. the same therapeutic effect on the patient (Pasiūlymas dėl Lietuvos Respublikos Farmacijos įstatymo 2, 4, 9, 12, 14, 17, 20, 23, 27, 33, 39, 55, 57, 62 ir 64 straipsnių pakeitimo ir įstatymo priedo papildymo įstatymo projekto Nr. XIP-2307, 2011). The Jurisprudence of CJEU analysed in the part I of this article supports this observation.

The national legal requirements in other EU countries also let us presume that Lithuania implemented too much formal requirements for the evaluation of sufficient similarity. For example, in the Netherlands the medicinal product to be imported must be essentially similar to the reference product in terms of its qualitative and quantitative composition and must have the same therapeutic effect, but common origin is not required since 2008 (Parallel-import authorisations. MEB-14-3.0, 2008). The same requirements are in Denmark (Guidelines on Parallel Import of Medicinal Products. No. 44, 2008). In Sweden, during the evaluation of similarity the attention is paid to, whether the parallel import medicinal product and the reference product contain the same active ingredient (the difference in salts and other derivatives is not being stressed) and also that

they have the same therapeutic effect. Parallel import authorisation may be granted if differences in colour, scoring, dosage form, size, excipients and manufacturing process occur and these differences are not regarded as affecting the conditions relating to the medicinal product's quality, efficacy and safety. In deciding whether any possible differences are of therapeutic importance, the Medical Products Agency applies the same basis for assessment as applied in variations to the directly imported medicinal product. However, common origin is still required (The Medical Products Agency's Provisions and Guidelines for Marketing Authorisation of Parallel Imported Medicinal Products, 2004). In Malta, imported product shall have the same pharmaceutical form and be identical to, or have no significant therapeutic difference from, the Maltese-market product (Guide to parallel importation of medicinal products for which marketing authorisations have already been granted, 2004). In France, common origin, pharmaceutical form are not regarded as the criteria for essential similarity (Code de la Santé Publique, 2010). All of these countries require no identical strength for both products. In Poland common origin is not required, but the imported medicinal product must have the same strength, the same active substance, the same administration route and the same or similar form, that is not causing therapeutical differences compared to the product authorized for marketing in the territory of the Republic of Poland (Pharmaceutical Act, 2007). Thus, Polish national law is quite restrictive if compared to other countries. On the other hand, Poland is more famous for parallel export than for import. The same maybe observed after the analysis of regulation in Latvia (Republic of Latvia Cabinet Regulation No. 416, 2007).

In conclusion, it must be noted that variety of requirements exist in the EU Member States and not all of them are based on the EU law and the jurisprudence of CJEU. Lithuanian regulation is similar to its neighbour countries in Easter Europe, but if compared to the regulation in western countries, the parallel importers face more restrictions which are not required by the EU law and are not necessary for the protection of life and health of humans. Thus the criteria for the evaluation of essential similarity should be reviewed in Lithuania. This would help to increase the number of products eligible for parallel trade and more competitively priced therapeutic equivalents will have a possibility to appear in the national market.

The possibilities for implementation of financial measures aimed to stimulate the parallel import

Together with lifting the legal restrictions on the eligibility of medicinal products for parallel trade, some European countries are starting to introduce financial measures which aim to stimulate the parallel import. As a rule, the addressee of these measures is the retailer. Two types of measures are used: obligatory quotas for parallel import medicinal products to be sold and bonus payments for pharmacists.

In the scientific literature, Germany, Norway and Sweden are named as the pioneers for their successful

implementation of these measures (Kyle, 2009). German retailers are both legally and contractually bound to disperse parallel imports. Book V Art. 129 of the Social Code obliges pharmacists to issue a more favourably-priced imported medical product according to the requirements of the framework agreement and the Pharmaceutical Expenditure Limitation Act obliges pharmacists to generate at least 7% of their turnover from parallel imports since 2003. If the pharmacist does not achieve this quota in a given month, reimbursement bill of that pharmacy is reduced for that month. On the other hand, if quota is exceeded, the pharmacy receives a credit, which may be used later (VFA, 2004). The quota system works as a penalty for pharmacists for not dispensing parallel import products, and stimulates the fulfilment of their legal and contractual obligations.

In Sweden as in Germany, the pharmacist has an obligation to substitute the prescribed product by a less expensive product of parallel import and the pharmacist will be compensated for his or her work with parallel import medicinal products. In 2002, pharmacies received 50 Million Swedish crowns' compensation for their work with generics and parallel trade as a retrospective bonus payment. Such a system works as an incentive which helps the state to share its savings with the retailer. The financial measures in Norway slightly differ. Since Norway has a system of maximum prices for the retail and wholesaler levels, a pharmacy would be encouraged to sell the most expensive version of a medicinal product in order to maximise its mark-ups. However, in case of reimbursed products the state lets the pharmacy to retain 50% of the difference between the retail price of parallel import medicinal product and the maximum retail price of a given medicinal product supplied to the market by the marketing authorisation holder (Kanavos, 2004; Poget, 2008). However, such a bonus payment for pharmacists is implemented in the minority of the EU countries.

Lithuania also has no legal prerequisites for such a bonus payment as the profit of retailer is directly connected with the price of medicinal product. The Law on Pharmacy art. 57 para. 2. (Law on Pharmacy, 2006) defines that the highest retail prices of reimbursable medicinal products and medical aid equipment shall be calculated by adding to the price declared by the holder of manufacturing authorisation of the medicinal product or his representative or the manufacturer of medicinal aid equipment or his representative the amount of wholesale or retail mark-ups laid down by the Minister of Health and the amount of value added tax if the medicinal product or the medical aid equipment is subject to the tax. Thus the minister of health is to decide the retail mark-ups and mark-ups depend on the declared price: the retail mark-ups are increasing with the increase of the price which was declared (Lietuvos Respublikos Vysiausybės Nr. 257 Dėl nekompensojamųjų vaistinių preparatų didžiausių didmeninės ir mažmeninės prekybos antkainių patvirtinimo, 2010). So, it is more convenient for the pharmacist to deal with the expensive product, than with imported in parallel cheaper one and the lack of financial interest is one of the factors, why not all pharmacies wish to be supplied with parallel imports products (Lietuvos

Respublikos Seimo Sveikatos reikalų komitetas, 2011) and these products remain unavailable for patients. Therefore, the implementation of obligatory quotas for parallel import medicinal products to be sold and (or) bonus payments for pharmacists could help to solve the issue of availability of cheaper medicinal products in the market.

On the other hand, in Lithuania two pricing systems for reimbursed medicinal products are being applied: one system is being used for the products supplied to the market by the marketing authorisation holder and another one – by the parallel importer. As seen from the formulas used, the price of parallel import medicinal product is not able to influence the pricing of products supplied to the market by the marketing authorisation holder. Paradoxically, identical products supplied by two different competing entities even belong to two different lists of reimbursed medicinal products. So, the regulation of prices of medicinal products when they are reimbursed by state pays no attention to the possibility to lower prices when “parallel” medicinal product coexists in the market.

It may be observed in conclusion, that Lithuanian legal system uses no financial measures aimed to stimulate the parallel import and in this perspective Lithuanian legal regulation differs from the regulation which is used in the EU countries with high level of parallel import medicinal products in the national market. Current regulation also limits price competition and its economical evaluation is still waiting to be done.

Conclusions

1. there are few legitimate restriction on parallel trade in the EU law, these restrictions are based on art 36 of the TFEU and are aimed to ensure that parallel import products are safe and do not pose any risk to the health and life of humans. Thus, it is legitimate to require that the parallel importer should have a license for parallel import, which will be issued using the simplified procedure. The number of medicinal products to be imported in parallel is also limited to the products which are identical or sufficiently similar with the products to which marketing authorisation is issued in the country of destination.

2. Lithuanian national law still creates challenges for parallel trader, as the EU law and the CJEU jurisprudence is not being taken into account during the implementation of the criteria for sufficient similarity. The paper found out that the main principles of *Kohlpharma* judgment are not yet fully implemented. Therefore, the smaller number of medicinal products is recognised as eligible for parallel trade. The implementation of *Kohlpharma* judgement may be done by changing art. 14 para. 4 of the Law on Pharmacy.

3. Lithuanian legal system uses no financial measures aimed to stimulate the parallel import. Thus, obligatory quotas for parallel import medicinal products to be sold and bonus payments for pharmacists could be introduced into the national legal system.

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THE POSSIBILITIES FOR THE IMPLEMENTATION OF MEASURES FACILITATING AND (OR) STIMULATING PARALLEL IMPORT OF MEDICINAL PRODUCTS IN LITHUANIA

Summary

Parallel import of medicinal products means import done outside the distribution network of the authorised distributor of the product granted marketing authorisation in another EEA Member State, which is identical to the medicinal product already granted marketing authorisation in the Republic of Lithuania or sufficiently resembling it. Parallel importers buy medicinal products in a members States with a lower price level and then resell them in another Member State with higher price level. Thus, parallel import creates a price competition for the medicinal products that are being put on the market by a marketing authorization holder and helps to increase savings in pharmaceutical expenditure for public health care payers (the state) and patients. Despite the fact parallel import became legal in Lithuania after the accession to the European Union (EU) in 2004, the parallel import of medicinal products is still in rudimentary stage. Lithuania is a higher-price market in case of medicinal products, but just 44 medicinal products are on the Parallel Import Medicinal Products List. However, scientific evaluation of the legislation was never done before and is still lacking. Taking this into account, the *goal* of this article is to analyze the legal prerequisites which may encourage the parallel trade in Lithuania. In order to achieve this goal the article covers the following issues: 1) systematic analysis of the EU law, with special attention to the jurisprudence of the Court of Justice of the European Union (CJEU) and legitimate limits of parallel trade within the EU; 2) comparative analysis of Member States national regulations and Lithuanian national law implementing the measures aimed to facilitate and (or) stimulate the parallel trade; 3) recommendations for legislation aimed to facilitate and (or) stimulate the parallel trade in Lithuania.

Methods of systematic and comparative legal analysis will be used.

The article is divided into three parts.

The first part aims to define legitimate restrictions on parallel trade in the EU law, which should be followed in the national law as a part of Treaty obligations. Pursuant to Arts 28 and 30 EC, restrictions on the free movement of goods and all measures having equivalent effect between Member States are prohibited unless it is necessary for protecting values mentioned in the art.30, *inter alia*, life and health of humans. As medicinal products are potentially highly dangerous products, all member States are allowed to issue a license for parallel import. One more legitimate restriction on the parallel trade of medicinal products is connected with question of the eligibility of medicinal products for parallel trade. Not all medicinal products are eligible for parallel trade as products to be imported must meet one of two eligibility criteria: medicinal product may be imported in parallel when the imported product is *identical* to a product that has already received marketing authorisation in the Member State of destination; or medicinal product may be imported in parallel when the imported product is *sufficiently similar* to a product that has already received marketing authorisation in the Member State of destination. The current jurisprudence seems more likely to accept general criteria like comparison of safety and efficacy of the products than to adopt strict measures to evaluate their "sufficient similarity". From the *Kohlpharma* judgment appears that general criteria stimulate the possibilities to increase the parallel trade as the *Kohlpharma* judgement made parallel import of generics possible.

The second part focuses on the possibilities for implementation of the CJEU judgments and prerequisites for facilitation of parallel import in Lithuania. The part observes that the variety of regulations exist in the EU Member States and not all of these variation are based on the EU law and the jurisprudence of CJEU. Lithuanian regulation is similar to its neighbour countries in Easter Europe, but if compared to the regulation in western countries, the parallel importers face more restrictions regarding the eligibility criteria and these restrictions are not required by the EU law and are not necessary for the protection of life and health of humans.

The third part pays attention to the possibilities for implementation of financial measures aimed to stimulate the parallel import and analyses the Member States experience, which shows that two types of measures exist: obligatory quotas for parallel import medicinal products to be sold and bonus payments for pharmacists. Neither of them is implemented in Lithuanian legal system. On the other hand, in Lithuania two pricing systems for reimbursed medicinal products are being applied: one system is being used for the products supplied to the market by the marketing authorisation holder and another one – by the parallel importer. So, the regulation of prices of medicinal products when they are reimbursed by state pays no attention to the possibility to lower prices when "parallel" medicinal product coexists in the market.

The article concludes, that Lithuanian national law still creates challenges for parallel trader, as the EU law and CJEU jurisprudence is not being taken into account during the implementation of the criteria for sufficient similarity. The paper found out that the main principles of *Kohlpharma* judgment are not yet fully implemented. Therefore, the smaller number of medicinal products is recognised as eligible for parallel trade. The implementation of *Kohlpharma* judgement may be done by changing art. 14 para. 4 of the Law on Pharmacy. Lithuanian legal system uses no financial measures aimed to stimulate the parallel import. Thus, obligatory quotas for parallel import medicinal products to be sold and bonus payments for pharmacists could be introduced into the national legal system.

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RELATIONSHIP BETWEEN MARKETING CULTURE AND MARKETING EFFECTIVENESS IN SERVICE FIRMS

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Abstract

The scientific article is aimed at revealing the relationship of marketing culture and effectiveness of marketing activities. Rapid changes in the environment force companies to search for unconventional solutions in order to survive on the market. This necessitates the examination of company's operations based on the analysis of financial indicators as well as from the culture perspective, seeing that cultural moments, service quality and customer's sense of well-being in the company affect the customer loyalty and are, therefore, none the less important than instantaneous financial indicators, such as price level. Marketing culture, expressing itself through marketing culture elements that are inherent to it, may affect the marketing activity and company's operations as well as its results. The article aims at substantiating this statement through theoretical analysis and empirical research.

Keywords: marketing, marketing culture, marketing effectiveness

Introduction

As the competition increases, creation of new relationships between the company and users of its services and customer retention acquire an increasing importance. The retaining of customers and strengthening of company's position on the market are closely related with marketing culture; its application in the company ensures success. Marketing culture and its expression have been little researched, although the level of marketing culture in the company often determines the effectiveness of marketing activity.

The links between marketing culture and effectiveness of company's operations have been noticed by C. Webster (1995) who carried out a research in the United States of America. However, such studies are lacking in Lithuania while seeking to determine the significance of marketing culture to the effectiveness of marketing activity.

Scientific novelty of the article expresses through its presentation of the links between marketing culture and marketing effectiveness, based on the empirical research carried out in Lithuanian service companies.

Object of article: relationship between marketing culture and marketing effectiveness.

Purpose of article is to examine the relationship between marketing culture and marketing effectiveness from the perspective of service companies.

Tasks of article:

1. To reveal the conception of marketing culture.
2. To present the conception of marketing effectiveness.

3. To emphasize the relationship between marketing culture and marketing effectiveness.
4. To substantiate the methods for the research of the relationship between marketing culture and marketing effectiveness in service companies and to present the interpretation of research findings.

Methods applied: scientific literature analysis, questionnaire survey, correlation analysis.

The substance of marketing culture

Marketing culture is examined based upon marketing theory, organizational culture and general culture theory. The term *culture* does not have a single conventional meaning. The glossary of international words contains five definitions, out of which, in the opinion of N. Paulauskaitė and P. Vanagas (1998), the following would best define culture: „culture refers to the product of individual and social activity, its forms and systems the functioning of which enables the creation, use and rendering of material and spiritual values“ (Paulauskaitė, Vanagas, 1998, p. 49).

Organizational culture is not limited to one definition either. The variety originates from assumptions made by scientists about the company and culture when examining those as the two separate components (Smircich, 1983). C. Webster (1995) believes that organizational culture is based on unwritten rules and guidelines, which emerge from formally established processes as well as those transpiring within a company, and describes the organizational culture, therefore, as a model of shared values and beliefs that helps understanding the company's functioning and establishes the behavioral norms. Organizational culture is defined as major assumptions, values and means, experienced or

developed by company members (Schein, 1992; Hatch, 1993). Scientific literature analysis allows stating that organizational culture originates from the general culture. E. H. Schein's (1992) theory introduced the attitude that organizational culture comprises three elements, while M. J. Hatch (1993) conferred more significance to dynamic processes between the culture components. Marketing culture manifests and should be evaluated through the interaction of the company and external environment (Žostautienė, Urbanskienė, 2002).

C. Webster (1995) described marketing culture as unwritten conduct and rules of the company presenting the behavior norms for the company staff or as the importance of marketing functions' expression in all spheres of company's activities; or as a specific way for the marketing activities to be implemented in the company. Studying market orientation, J. C. Narver ir S. F. Slater (1990) singled out the marketing culture as a very important feature of company (organizational) culture enabling the companies to provide an added value of goods to the customers in the most effective and efficient manner and thus strengthen their position on the market. A little bit later P. J. Harrison and R. N. Shaw (2004) observed that marketing culture is considered to be an abstract of higher level than market-oriented culture.

According to J. C. Narver and S. F. Slater (1990), being market-oriented requires being constantly interested in one's customers while creating for them a higher value, as well as in competitors. Coordinated actions and inter-functional coordination of all functions in the company is the main element when defining the market-oriented concept (Kohli, Jaworski, 1990; Narver, Slater, 1990; Slater, Narver, 1999), because there would be no focus on the customers and competitors, if the company functioned in an uncoordinated fashion. Analysis of scientific literature revealed that C. A. Conrad and G. Brown (1997) presented the marketing culture as a market-oriented culture, and the elements of market-oriented culture were equated with the elements of marketing culture. Based on the research conducted by other authors it was noted that marketing culture includes the market-oriented culture; however many authors (Narver, Slater, 1990; Harrison, Shaw, 2004; Žostautienė, Urbanskienė, 2002; Webster, 1993 et al) concurred that marketing culture is the predominant one among other sub-cultures, i.e., marketing culture is a broader notion than market-oriented culture.

Organizational culture reveals the inner behavior of the company, whereas marketing culture as the component of organizational culture includes the inner behavior as well as relationships with the environment, seeing that the very purpose of marketing reflects the orientation to the environment, i.e., the customer while seeking for the objectives beneficial to the company. "Marketing culture is defined as the component of organizational culture, comprising the prevailing values, norms (rules), means and behaviors, describing the company's individuality through its relationships with market participants" (Žostautienė, Urbanskienė, 2002, p. 222).

The article maintains the attitude that marketing culture is perceived as a component of organizational culture that is comprised of such elements as values, norms, means and behaviors, highlighting the dynamics of culture and conveyance of meanings within the sub-cultures. Marketing culture is understood as a dominating, dynamic, market-oriented sub-culture.

Effectiveness of marketing

Company's survival on the market depends on its capability to create the value that is generally defined by customers. In this respect marketing plays a very important role when striving for long-term business success. B. Clark (2000) and H. T. Keh, S. Chu, J. Xu (2006) defined the effectiveness as carrying out the right actions while seeking to allocate the marketing activities and assets in such a manner as to create the highest output. Activity corresponding to organization's objectives or even exceeding them is considered to be effective.

The effectiveness of marketing activities has been studied by numerous scientists. Effective marketing requires that managers should have the appropriate information for the purpose of suitably planning and distributing the resources for different markets, products and territories (Webster, 1995). The creator of marketing effectiveness conception P. Kotler states that understanding by the top management of the company of the necessity to study the market is the primary prerequisite for effective marketing, seeing that this opens a multitude of opportunities: the identification of the most perspective markets allows delivering the goods to the customers subject to their needs and wishes (Kotler, 1977). Yet others define the marketing effectiveness as optimized costs of good quality during a certain time period (Solcansky, Simberova, 2010).

When engaging in marketing and striving for its effectiveness, interaction with the customers is construed as the improvement of services provided, attention to quality and innovations as well as the customer attitude to business. Values of companies implementing effective marketing are recognizable and clear, because they strive to be the best and simultaneously pay much attention to people, stability, long-term profitability; they strive to fulfill the customer needs, gain competitive advantage and strong market-orientation (Kotler, 1977; Webster, 1995).

The interest in marketing effectiveness particularly increases in service companies where it is approached as one of the key factors (Webster, 1995). In service companies, the consumption and acquisition of services occur simultaneously, and the final outcome as well as the entire process during which the interaction of the customer and service provider occur are evaluated.

The effectiveness of marketing is influenced by the following aspects (Nwokah, Ahiauzu, 2008):

1. Company. Each company is affected by certain restrictions: size, budget, ability to make changes; it is also affected by marketing culture – a certain marketing culture prevails in companies affecting their relationships with

market participants and simultaneously influencing the effectiveness of marketing and company's results.

2. Competition. The companies should have available the information on the behavior of competitors; however, in many sectors of industry information on competition is hard to come by (Nwokah, Ahiauzu, 2009).

3. Customers. The knowledge how the customers make the decisions might help improving the effectiveness of marketing activities. Certain customer groups act similarly; this determines the need for segmentation. With the help of segmentation researchers carry out studies aimed at finding out whether the quality of goods and trademark correspond to the price paid by the customers.

4. External factors. There are many factors upon occurrence of which immediate action is required, seeing as those might affect the effectiveness of marketing, for instance, natural forces, interest rate, governmental regulation.

5. Creativity. Regardless of the strategy staying the same, creativity may help improving the results of the company. It may also help increasing the company's growth rate.

After discussing the aspects affecting the effectiveness of marketing, we will get down to the criteria for the effectiveness of marketing. Studies helped identifying numerous criteria for the assessment of marketing effectiveness. A large number of scientists (Birley, Norburn, Dunn, 1988; Webster, 1995; Cizmar, Weber, 2000; Appiah-Adu, Fyall, Singh, 2001; Leisen, Lilly, Winsor, 2002; Nwokah, Ahiauzu, 2009) base upon the study conducted by the famous researcher of marketing P. Kotler (1977) who determined that the criteria of marketing effectiveness evaluation included operational efficiency, customer-oriented philosophy, accurate marketing information, strategic orientation and observance of marketing principles.

B. Clark (1999) distinguished about 20 criteria for marketing effectiveness evaluation. The author states that marketing effectiveness measurement criteria are divided into three groups: from financial to non-financial, from efficiency to costs, from single-dimensional to multi-dimensional. B. Clark (1999) emphasizes that the key criteria of effectiveness should be better utilized instead of formulating new ones each time. Considering this and furthering the work of B. Clark (1999), F. Kokkinaki and T. Ambler (1999) summarized the criteria describing marketing activities, dividing them into categories that might be generally defined as financial and non-financial criteria for marketing effectiveness measurement. Financial criteria are the following:

1. Total revenues and revenues by individual groups of goods/services.
2. Total profit and profit by individual groups of goods/services.
3. Volumes of total sales and sales by individual groups of goods/services.
4. Total marketing expenses and expenses by individual groups of goods/services.

Scientific literature also discusses the return on investment index (ROI) and marketing return on investment (MROI), which help optimizing the marketing expenses for short- and long-term period. Optimization of marketing expenses is one of the key objectives while seeking for optimization of marketing activities (Solcansky, Simberova, 2010).

After carrying out the scientific literature analysis and based on authors who examined the financial criteria for measurement of marketing effectiveness it was established that scientific works mostly used the following financial criteria: sales volumes, profit (Ambler, Kokkinaki, 1999; Clark, 1999; Pont, Shaw, 2003).

Financial criteria may help assessing the effectiveness of marketing rather clearly; nonetheless, according to G. Wyner (2008), it is important to realize that financial results are best reflected by customer evaluation and attitudes towards the company and products offered instead of data information systems. Should an unsuitable objective or customer segment be selected, financial criteria analysis will show failure; however it will not disclose the actual developments within the company.

Viewing from the financial side, the effectiveness of marketing activity is defined by quality, aided by which managers enter the markets seeking to optimize the expenses in order to attain good results in the short as well as long term. So far, many of the criteria are focused on short-term objectives, profit being one of them, whereas a long-term objective according to M. Solcansky and I. Simberova (2010) could be the recognition of the trademark and good image of the company. The financial criteria, therefore, do not consider the value created to fulfill the customer needs (Kumar, Shah, 2009). Non-financial criteria of marketing effectiveness measurement are none the less important than financial ones; they are mainly associated with the created customer value (Clark, 2001). Non-financial criteria for marketing effectiveness evaluation include the following:

1. Customer behavior (intensity of customer interest, level of need fulfillment and loyalty, customer referrals, number and content of complaints).
2. Customer feedback (recognition of the trademark, intensity of purchasing).
3. Market size and customer structure (number, distribution).
4. Innovativeness (product improvement intensity, presentation of new goods or services to the market).

Non-financial criteria generally deal with satisfaction and loyalty (Eusebio, Andreu, Belbeze, 2006). Customer loyalty is associated with long-term cash circulations, seeing that the retaining of customers is one of the loyalty indicators (Williams, Naumann, 2011):

1. guaranteeing constant revenues; lesser investments are needed for promotion;
2. being one of the key factors affecting profitability.

Customer loyalty can be attained through customer satisfaction and is the outcome of fulfilled customer needs (Figure 1).

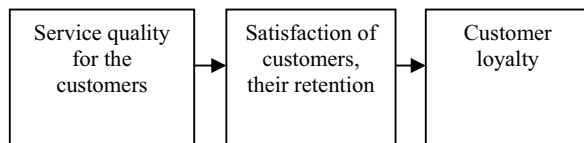


Figure 1. Scheme of customer loyalty (prepared according to Xu, Goedegebuure, Heijden, 2006)

In literature, customer satisfaction and retaining are the most frequently seen non-financial criteria. Customer loyalty is the ultimate aspiration. Nonetheless, non-financial criterion of customer loyalty (Appiah-Adu, Singh, 1999; Clark, 2000; Ambler, Xiucun, 2003; Pont, Shaw, 2003) is the outcome of high service quality, customer satisfaction and retention. Customer loyalty is closely related to financial criteria of marketing effectiveness evaluation, too: profit, sales volumes and market share (Milfelner, Gabrijan, Snoj, 2008, p.11). Strong marketing culture of the company can help attaining customer loyalty (Žostautienė, 2002).

In summary, marketing effectiveness refers to the outcome of marketing actions carried out seeking for the best position on the market, satisfaction of customer expectations and their loyalty. Marketing effectiveness simultaneously refers to the attainment of desired results through cost optimization.

Scientific literature analysis allows concluding that financial and non-financial criteria are the best means to reveal the effectiveness of marketing. Profitability and sales volumes are the key financial criteria, whereas satisfaction of customer needs and loyalty are the main non-financial criteria. Better non-financial results established when evaluating the marketing effectiveness help to attain better financial results: non-financial results determine the customer satisfaction; in the meantime, customer satisfaction leads to regular purchasing in turn increasing profitability, whereas regular sales and fulfilled expectations build customer loyalty.

Relationship between marketing culture and marketing effectiveness

The relationship between marketing culture and marketing effectiveness was noticed relatively recently (Webster, 1995; Appiah-Adu, Singh, 1997; Appiah-Adu, Singh, 1999). C. Webster (1995) was the pioneer of the research of links between marketing culture and marketing effectiveness in the United States of America; eventually the studies were started in Great Britain, too (Appiah-Adu, Singh, 1997). When the company has a strong marketing culture, it should rally the forces for the enhancement of marketing effectiveness (Appiah-Adu, Singh, 1999); marketing culture is also perceived as very important to the company, seeing that it directly affects the results of company's operations (Webster, 1995; Appiah-Adu, Singh 1997; Sin, Tse, 2000), while the marketing effectiveness is the pre-requisite for good results of company's operations (Figure 2).

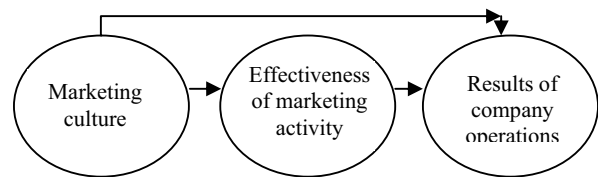


Figure 2. Relationship between marketing culture, marketing effectiveness and results of company operations (prepared according to Sin, Tse, 2000).

Scientists (Webster, 1995; Appiah-Adu, Singh, 1997; Appiah-Adu, Singh, 1999) who examined marketing culture maintain that it can be evaluated after establishing the following: service quality, interpersonal relationships, purpose-orientation, organization, internal communications and innovation. It is noteworthy that the six criteria distinguished by the scientists reflect the inner values of marketing culture, whereas marketing culture should be evaluated through marketing activities in external environment as well (Žostautienė, Urbanskienė, 2002). All elements of marketing culture are, therefore, important: values, norms, means and behaviors (Homburg, Pflesser, 2000; Žostautienė, Daraškevičiūtė, 2009; Žostautienė, Vaičiulėnaitė, 2010). The elements listed in this logical order of sequence are based upon theoretical assumptions that values form norms, while means are selected and behaviors are shaped subject to norms. Subject to the possibility to observe the expression of marketing culture elements in company's operations (for instance, it is difficult to immediately discern the values, while the behaviors and means can be evaluated straight away), three levels of marketing culture have been distinguished:

- 1) values,
- 2) norms,
- 3) means and behaviors.

Values. When employees assimilate the common values of marketing culture, they conduct themselves as required by market orientation and the values, as an element of marketing culture, play a very important function. If the value of market orientation prevails in the company, it can be stated that the staff will be more attentive to the customers.

L. C. Lloyd (1996) emphasizes that company's values are inseparable from external environment and customers who, inter alia, influence the effectiveness of company's operations and its operational results. This confirms that company's values affect the criteria for measuring the marketing effectiveness as well as the results of company's operations.

Values of marketing culture, such as open communications and responsibility of employees, in the opinion of D. Žostautienė and R. Urbanskienė (2002), mostly enhance the company's market orientation. Companies, promoting open communications as the key value of marketing culture, enjoy strong marketing culture, because information about sales and market is spread throughout the company instead of being considered the sole responsibility of marketing managers. Responsibility of employees as the value of marketing

culture creates the conditions for the decentralized decision-making; thus the influence of power and hierarchic level become less important and the market-orientation processes are facilitated (Vranesevic, Vignali, Vignali, 2002).

Opposite to norms, marketing culture values do not have direct influence to the behavior of company's employees in the market, but they facilitate the improvement and development of market orientation (Homburg, Pflesser, 2000). Values comprise the basis for formation of specific behavior norms in the company.

Norms. Norms are more concrete than values and are focused on behavior in specific situations. These are formed in the society and smaller groups of people as desired behaviors obligating each member of the group to adhere by the norms created and accepted by the group. Norms can be revealed based on values while showing the forms and ways of norm expression in marketing activities. Norms are similar to ideas contemplated by the group members and require the appropriate behavior (Schein, 1992). They form a special code of conduct for a certain group and indicate the ways of behavior determining the activities of the group members. Group members have to adopt them to be able to work together in harmony (Homburg, Pflesser, 2000).

Maintaining good relationships between the company and the customers is one of the key aspects of marketing culture. In this respect, communication and attention to the customer acquire special significance. Norms of marketing culture create and facilitate the market-oriented behavior of the company. Based on the identified values of marketing culture, the following key norms of marketing culture have been distinguished:

1. Open market-related communications;
2. Employee responsibility for activities on the market.

When members of the company interact openly perceiving this as a value, open communication on market-related issues becomes a specific norm associated with this value, whereas employee responsibility for activities on the market becomes a norm associated with the value of employee responsibility.

Means. Means of marketing culture, accounts, language, rituals and agreements particularly strengthen the market orientation while seeking for good company performance and manifest strongly in service companies:

1. Accounts motivate the employees and encourage them to commit to the company. For instance, the story of jewelry store employees about the customer of the store who placed the order for a wedding ring too late but had anyway delivered it to the church encourages them to match the role models and to do everything possible for the customers.

2. Language is used on a daily basis by the employees to interact with each other, customers and managers. In service companies, communication of the staff with the customers occurs constantly and the staff should, therefore, get to know their company, market and its customers particularly well. In order to attain this, first of all communication between employees and managers should be promoted.

3. Rituals promote communication with peers as well as management and enhance values. In order to reach these goals, periodical events of the company should be organized.

4. Agreements within a company are a kind of business card, the first impression to the customers who come to the company: interior, exterior, reception and offices should be clearly understandable and not intrude upon formal and informal conversations.

Market-oriented behavior. When examining market-oriented behavior, scientific literature utilizes the components identified by A. K. Kohli and B. J. Jaworski (1990):

1. market intelligence development;
2. market intelligence dispersion;
3. responding to market intelligence.

Intelligence can be understood as the ability to correctly forecast while basing the presumptions on the necessary information and individual or company (organizational) culture. Future-orientation is the main characteristic of intelligence.

Market intelligence depends on customer needs; it also shows how customers might be affected by external factors, for instance, state regulation, technologies, competitors etc (Kohli, Jaworski, 1990). Market intelligence is influenced by market players (competitors, suppliers, consumers) and macro-economic environment, comprising natural, economic, political-legal, scientific-technological, social-cultural environments, and the harmonious functioning thereof is the way to increase sales, to ensure the success of new products, to enhance the trust in the company and mutual cooperation.

Market intelligence development. Effective knowledge about the market includes the existing as well as latent customer needs, which ought to be identified and met. The anticipation of these needs is very important seeing that sometimes it takes many years for the company to create a new marketable product or service (Kohli, Jaworski, 1990). Market intelligence may be created through formal and non-formal means (for instance, informal discussions with sales partners) as well as with the aid of primary and secondary information sources, during meetings with customers, aided by sales reports, carrying out marketing studies aimed at determining the customer attitude or the necessity for a new product or service in a new market (Kohli, Jaworski, 1990).

It is important to emphasize that market intelligence development, spreading and responding is not the sole responsibility of marketing department. For instance, R&D department engineers may receive the information necessary for market intelligence development in scientific conferences; senior managers may discover the prevailing trends in marketing journals.

Companies with strong marketing culture have an advantage over other companies, i.e., employees who feel great responsibility when serving customers (Webster, 1993). Only the companies, which are close to their customers and emphasize the values associated with them, have a strong marketing culture (Sin, Tse, 2000). Implementation of marketing culture through its elements

presented above helps to attain economic and non-economic benefit and affects the company's performance such as growth of sales, successful sales of new products, strengthened trust in the company and the spirit of cooperation (Matsuno, Mentzer, Rentz, 2005), enhanced customer satisfaction, competitive advantage (Žostautienė, Urbanskienė, 2002), profitability (Appaih, Singh, 1999) and customer loyalty (Žostautienė, 2002). In the meantime, loyal customers may additionally increase the company's profitability through the reduction of sales costs, lower operational expenses and higher price tolerance (Reichheld, 1996).

As a consequence of analysis, a model of relationship between marketing culture and marketing effectiveness was developed (Figure 3). Seeing that marketing culture is a part of organizational culture (Žostautienė, Urbanskienė, 2002; Žostautienė, 2010), it is also included in the model. The model has been formed according to a logical sequence: subject to the marketing culture in the company, marketing activities being carried out are more or less effective and are reflected in financial or non-financial results of operations.

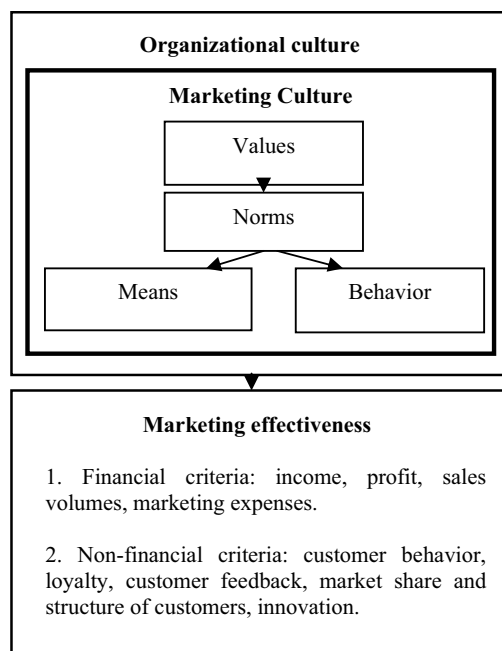


Figure 3. Model of relationship between marketing culture and marketing effectiveness (prepared based on Webster, 1995; Appaih, Singh, 1999; Sin, Tse, 2000; Žostautienė, Urbanskienė, 2002; Matsuno, Mentzer, Rentz, 2005)

Values prevailing in marketing culture should strengthen the company's market orientation and form the norms creating and facilitating the market-oriented conduct of company's employees that is enhanced through behaviors and means, which in turn directly affect the financial and non-financial results of marketing activities.

In order to ensure effective marketing, long-term needs of the customers should be met, whereas the implementation of marketing concept and attainment of

good results necessitate the formation of the appropriate marketing culture through enhancement of marketing culture elements. Analysis of scientific literature helped establishing that marketing culture has direct influence on the results of company's marketing activities, whereas the marketing effectiveness without strong marketing culture becomes the weak chain of the company.

An empirical research was carried out to substantiate the relationship between marketing culture and effectiveness of marketing.

Methods of the research of the relationship between marketing culture and marketing effectiveness in service companies and interpretation of research findings

A quantitative questionnaire survey method was chosen for the empirical research. During April – May 2011, managers of companies, associate managers and specialists associated with marketing activities were surveyed while assuming that the managing personnel of the company possess sufficient knowledge about marketing to carry out the research of the relationship between marketing culture and company performance in service companies. The city of Panevėžys was selected due to the convenience of surveying seeing that the respondents were not particularly eager to fill the questionnaires sent by e-mail and the authors had to visit the companies personally. Although the questionnaires were delivered (or sent) to the respondents who had the appropriate competence to reply to the questions presented, it can be assumed that the low response rate (20 %) indicated the unwillingness of respondents to reveal the aspects of company's operations or distrust (fear that the results will be publicized and become available for company's customers or rivals), lack of time or workload.

Based on the database of Statistics Lithuania (access through the Internet: <http://db1.stat.gov.lt> [viewed on 11-03-2011]), as of the beginning of 2010, there were 1879 service companies operating in the city of Panevėžys. Service companies to be participating in the survey were selected randomly.

The questionnaire was compiled based on scientific works of P. Kotler (1977), B. C. Webster (1995), F. Kokkinaki and T. Ambler (1999), B. H. Clark (1999; 2000), Ch. Homburg and Ch. Pflesser (2000), D. Žostautienė and R. Urbanskienė (2002), T. Ambler and W. Xiucun (2003).

The number of respondents was calculated according to V. Paniotto's formula:

$$n = l / (\Delta^2 + (l/N)); \quad (1)$$

where n – sample size; Δ – error ($\Delta = 0,05$); N – population size (total service companies in Panevėžys $N = 1879$).

The permissible error in this research does not exceed 5 %, counting on 95 % reliability.

$$n = 1 / (0,05^2 + (1/1879)) = 330; \quad (2)$$

The established survey sample comprised 330 companies, which have been surveyed. When carrying out the survey, 460 questionnaires have been sent by e-mail; out of those, 92 (20 %) were returned correctly filled. The low response rate necessitated repeated mailing of questionnaires and reminders inviting to answer the questions presented in the questionnaires; 260 more questionnaires were delivered to the respondents in person. Out of those, 12 were damaged and 10 contained very sparse information. Final research data was summarized after surveying 330 respondents.

When compiling the questionnaire, three blocks of questions were separated: indications of marketing culture, effectiveness of marketing activities and demographics.

Scientific literature analysis revealed that the factors generally reflecting the financial criterion of marketing effectiveness include the changes of profit and sales volumes, whereas the fulfillment of customer needs and customer loyalty were frequently selected as non-financial criteria for the evaluation of marketing effectiveness. While seeking to reveal the changes of profit and sales volumes in service companies, the intention was to establish the tendency because generally the companies do not tend to disclose specific financial results. The aim was to identify the change of profit of responding companies over the period of 5 years: whether it fell or increased within the limits of defined percent values.

The intention of the research was to find out how assertively the companies strive to meet the customer needs and what the percentage of loyal customers is. Likert scale 'Completely disagree 1 2 3 4 5 6 7 Completely agree' was invoked to evaluate the non-financial aspects of marketing culture and marketing effectiveness.

In Likert scale, 'one' denotes a minimal possible evaluation confirming that the respondent completely disagrees with the statement presented. 'Seven' means the maximal possible evaluation. It needs to be taken into account that the findings of empirical research may be slightly subjective seeing that some of the respondents tended to conceal their true opinion on certain issues.

Correlation and regression analysis (quantitative research method) was applied to establish the relationship between marketing culture and the effectiveness of marketing. The strength of relationship between the variables X and Y was calculated using the correlation coefficient (r), which was derived using the Microsoft EXCEL CORREL function. The closer (r) is to -1, the stronger is the negative linear relationship; the closer it is to 1, the stronger is the positive linear relationship. Positive values of correlation coefficient show direct dependence, negative values – reciprocal dependence.

Examination of the research findings revealed a moderately strong positive relationship between the values of marketing culture and financial results of marketing activities and a weak relationship between the values of marketing culture and non-financial results of marketing activities. Results are presented in Table 1.

Table 1
Relationship between marketing culture values and marketing effectiveness

Marketing effectiveness MC values	Financial criteria		Non-financial criteria	
	Profit changes	Sales changes	Customer satisfaction	Customer loyalty
Open communication	r=0,50	r=0,52	r=0,39	r=0,32
Responsibility of employees	r=0,54	r=0,50	r=0,43	r=0,39

As the prevalence of marketing culture values in the company increases, profit and sales volumes also grow. This implies that the openness of communication as well as responsibility of employees may help the company to attain good financial results. Weak relationship was identified between the values of marketing culture and non-financial criteria of the effectiveness of marketing activities. Rather poor loyalty of customers to the companies could be explained by the fact that quite many customers might shift to other companies during five years; furthermore, respondents might have been not too well aware of the situation in the company, i.e., no statistical records, insufficient market analysis, perhaps the companies did not have a customer database. It can be presumed that employees of companies do not make sufficient effort to find out and meet the customer needs, thus failing to make use of opportunities to attain the customer loyalty and strengthen the competitive ability of companies.

Meeting of customer needs and loyalty can be improved through the promotion of marketing culture values in the company as well as through inter-functional cooperation of employees, openness of internal communication and promotion of innovations. Frequently, people working in the same service company compete among themselves (salary depends on the number of agreements concluded with the customers); this could also result in the lack of inter-functional cooperation and openness of internal communication. Non-sharing of information might lead to uncoordinated operations of the company, in turn determining the financial and non-financial results; these values should be, therefore, more appreciated. When a company operates in an uncoordinated manner, employees avoid communicating, and the managers do not encourage this; consequently, this might result in high employee turnover, which is particularly disadvantageous to the companies due to reduced customer trust in the company, where people providing service to them change too frequently.

Further, research findings of the relationship between the norms of marketing culture and the marketing effectiveness are presented (Table 2).

Table 2

Relationship between marketing culture norms and marketing effectiveness

Marketing effectiveness MC norms	Financial criteria		Non-financial criteria	
	Profit changes	Sales changes	Customer satisfaction	Customer loyalty
Open communication regarding market problems	r = 0,50	r = 0,50	r = 0,50	r = 0,41
Responsibility of employees for activities in the market	r = 0,55	r = 0,52	r = 0,46	r = 0,42

Research findings confirmed the existence of the relationship between the norms of marketing culture and the effectiveness of marketing. A moderately strong positive relationship was identified between the norms of marketing culture and the financial results of marketing activities, and a weak relationship was detected between the norms of marketing culture and non-financial results of marketing activities.

The research revealed that such norms of marketing culture as open communication on market-related issues and responsibility of employees for activities on the market correlate with the effectiveness of marketing very similarly to the appropriate values. It can be, therefore, stated that strengthening of the norms of marketing culture in the company should lead to increased marketing effectiveness. The research, which revealed the dependence of marketing effectiveness on marketing culture, is significant to the already operating companies, which strive to gain a strong position in the market and acquire competitive advantage, as well as to prospective entrepreneurs, while encouraging to understand and introduce in future activities such values, which form the market-oriented norms. This is associated with innovation, service improvement, inter-functional cooperation and spreading of information within the company, communication of employees on market issues through meetings aimed at discussing the performance, changes in the market, customer needs, service attractiveness, competitors' strategies etc.

Before going to the examination of the relationship between the means of marketing culture and marketing effectiveness, it has to be noted that this was where the weakest relationship was detected (Table 3).

Table 3

Relationship between marketing culture means and marketing effectiveness

Marketing effectiveness MC Means	Financial criteria		Non-financial criteria	
	Profit changes	Sales changes	Customer satisfaction	Customer loyalty
Accounts	r = 0,31	r = 0,34	r = 0,37	r = 0,27
Agreements	r = 0,27	r = 0,25	r = 0,21	r = 0,25
Rituals	r = 0,27	r = 0,24	r = 0,38	r = 0,26
Language	r = 0,49	r = 0,51	r = 0,50	r = 0,39

The strongest relationship was observed between language and the effectiveness of marketing activity; the weakest – between agreements and marketing effectiveness. Employees of service companies must understand the importance of agreements to their activities, because service companies often provide the service to the customer during the customer's visit to them and it is, therefore, particularly important that the customers make a good impression about the company, i.e., the environment should not hinder communication, there should be a comfortable reception and waiting room. Weak correlation was noticed between marketing effectiveness and market-oriented rituals. This could have been determined by the fact that events and meetings with the customers are organized irregularly and too rarely; perhaps the companies pay too little attention to customer analysis, identification of needs and informal communication with the customers. Weak correlation was observed between accounts and marketing effectiveness. It might be that the companies insufficiently appreciate the importance and impact of accounts about market-oriented role models to the behavior and thinking of other employees. Accounts help focusing on market orientation and developing loyal employees who strive for common objectives of the company as well as display exemplary behavior while emphasizing that the main purpose of the company is to serve its customers and help the employees to understand the core values of the company. A moderately strong correlation was determined between language and marketing effectiveness. It can be assumed that employees of the companies realize the importance of language and vocabulary used when dealing with customers as well as the imperative to interact with the customer as acceptable and understandable to the latter, while adhering to the etiquette.

When examining the relationship between the marketing culture behaviors and marketing effectiveness, a positive moderately strong relationship was observed (Table 4).

Table 4

Relationship between marketing culture behaviors and marketing effectiveness

Marketing effectiveness MC behaviors	Financial criteria		Non-financial criteria	
	Profit changes	Sales changes	Customer satisfaction	Customer loyalty
Creation of market intelligence	r = 0,48	r = 0,53	r = 0,57	r = 0,51
Dissemination of market intelligence	r = 0,43	r = 0,45	r = 0,46	r = 0,53
Response to market intelligence	r = 0,48	r = 0,52	r = 0,65	r = 0,49

The strongest relationship was revealed between the response to market intelligence and non-financial criterion of marketing effectiveness – meeting of customer needs. The correlation is defined as

moderately strong, positive. Although certain aspects of responding to market intelligence should be reinforced, it can be stated that companies realize the importance of meeting the customer needs, timely response to changes on the market and meeting them well prepared. The behavior of company's employees manifests through the creation of innovations in services and their presentation as well as through the shaping of opinion about new services within and outside the company, educating the customers, responding to their needs, ideas or problems posed and making efforts to solve them. Behaviors of marketing culture in particular is the element, which is focused directly upon the customers, whereas the customers, meeting of their needs and exceeding of their expectations determine the effectiveness of marketing activities and company performance.

In summary, it can be stated that theoretical relationship between marketing culture and marketing effectiveness has been confirmed after carrying out an empirical research through questionnaire survey in service companies of the city of Panevėžys. The identified relationship was positive, moderately strong or weak, enabling to conclude that the formation and strengthening of marketing culture and its prevalence in the company through its elements such as values, norms, means and behaviors could lead to better financial and non-financial outcomes of marketing activities when other conditions remain unchanged.

Conclusions

3. Marketing culture is a derivative, displaying the features of overall and organizational culture. Marketing culture is approached as the component of organizational culture emphasizing the specificity of marketing culture through the unfolding of elements inherent to it – values, norms, means and behaviors – in interaction with other market participants.

4. Marketing effectiveness is evaluated from financial and non-financial perspective. Scientific literature analysis helped establishing that financial criteria are best reflected by changes of profit and sales volumes, while non-financial criteria – by meeting of customer needs and customer loyalty.

5. Scientific literature analysis revealed that marketing culture affects marketing effectiveness, while marketing effectiveness is the pre-requisite for good company performance; it is, therefore, important to strengthen the marketing culture in the company, to inoculate the recognition of values and norms as well as the application of means and behaviors in everyday activities.

6. After summarizing the research findings it can be stated that the theoretical relationship between marketing culture and marketing effectiveness was confirmed by empirical research. A moderately strong relationship was found between values and financial criteria for evaluation of marketing effectiveness, language and changes of sales volumes as well as the non-financial criterion for evaluation of marketing effectiveness that is the meeting of customer needs; between the components of behavior, i.e., market intelligence development and changes of sales volumes, meeting of customer needs, spreading of market intelligence and customer loyalty, and responding to market intelligence and changes of sales volumes. The strongest relationship was observed between the responding to market intelligence and meeting of customer needs. The established relationship implies that as the marketing culture strengthens and its recognition and prevalence in the company improve, the effectiveness of marketing and simultaneously the company's performance improve, too.

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RELATIONSHIP BETWEEN MARKETING CULTURE AND MARKETING EFFECTIVENESS IN SERVICE FIRMS

Summary

Rapid changes in the environment force companies to search for unconventional solutions in order to survive on the market. This necessitates the examination of company's operations based on the analysis of financial indicators as well as from the culture perspective, seeing that cultural

moments, service quality and customer's sense of well-being in the company affect the customer loyalty and are, therefore, none the less important than instantaneous financial indicators, such as price level. Marketing culture, expressing itself through marketing culture elements that are inherent to it, may affect the marketing activity and company's operations as well as its results. The retaining of customers and strengthening of company's position on the market are closely related with marketing culture; its application in the company ensures success. Marketing culture and its expression have been little researched, although the level of marketing culture in the company often determines the effectiveness of marketing activity.

The links between marketing culture and effectiveness of company's operations have been noticed by C. Webster (1995) who carried out a research in the United States of America. However, such studies are lacking in Lithuania while seeking to determine the significance of marketing culture to the effectiveness of marketing activity.

Scientific novelty of the article expresses through its presentation of the links between marketing culture and marketing effectiveness, based on the empirical research carried out in Lithuanian service companies.

Object of article: relationship between marketing culture and marketing effectiveness.

Purpose of article is to examine the relationship between marketing culture and marketing effectiveness from the perspective of service companies.

Tasks of article:

1. To reveal the conception of marketing culture.
2. To present the conception of marketing effectiveness.
3. To emphasize the relationship between marketing culture and marketing effectiveness.
4. To substantiate the methods for the research of the relationship between marketing culture and marketing effectiveness in service

companies and to present the interpretation of research findings.

Methods applied: scientific literature analysis, questionnaire survey, correlation analysis.

Marketing culture is examined based upon marketing theory, organizational culture and general culture theory. Marketing culture is a derivative, displaying the features of overall and organizational culture. Marketing culture is approached as the component of organizational culture emphasizing the specificity of marketing culture through the unfolding of elements inherent to it – values, norms, means and behaviors – in interaction with other market participants.

Company's survival on the market depends on its capability to create the value that is generally defined by customers. In this respect marketing plays a very important role when striving for long-term business success. Marketing effectiveness refers to the outcome of marketing actions carried out seeking for the best position on the market, satisfaction of customer expectations and their loyalty. Marketing effectiveness simultaneously refers to the attainment of desired results through cost optimization. So marketing effectiveness is evaluated from financial and non-financial perspective. Scientific literature analysis helped establishing that financial criteria are best reflected by changes of profit and sales volumes, while non-financial criteria – by meeting of customer needs and customer loyalty.

Scientific literature analysis revealed that marketing culture affects marketing effectiveness, while marketing effectiveness is the pre-requisite for good company performance; it is, therefore, important to strengthen the marketing culture in the company, to inoculate the recognition of values and norms as well as the application of means and behaviors in everyday activities. In order to ensure effective marketing, long-term needs of the customers should be met, whereas the implementation of marketing concept and attainment of good results necessitate the formation of the appropriate marketing culture through enhancement of marketing culture elements. Values prevailing in marketing culture should strengthen the company's market orientation and form the norms creating and facilitating the market-oriented conduct of company's employees that is enhanced through behaviors and means, which in turn directly affect the financial and non-financial results of marketing activities. Analysis of scientific literature helped establishing that marketing culture has direct influence on the results of company's marketing activities, whereas the marketing effectiveness without strong marketing culture becomes the weak chain of the company.

An empirical research was carried out to substantiate the relationship between marketing culture and effectiveness of marketing. A quantitative questionnaire survey method was chosen for the empirical research. During April – May 2011, managers of companies, associate managers and specialists associated with marketing activities were surveyed while assuming that the managing personnel of the company possess sufficient knowledge about marketing to carry out the research of the relationship between marketing culture and company performance in service companies. The city of Panevėžys was selected due to the convenience of surveying seeing that the respondents were not particularly eager to fill the questionnaires sent by e-mail and the authors had to visit the companies personally. After summarizing the research findings it can be stated that the theoretical relationship between marketing culture and marketing effectiveness was confirmed by empirical research. A moderately strong relationship was found between values and financial criteria for evaluation of marketing effectiveness, language and changes of sales volumes as well as the non-financial criterion for evaluation of marketing effectiveness that is the meeting of customer needs; between the components of behavior, i.e., market intelligence development and changes of sales volumes, meeting of customer needs, spreading of market intelligence and customer loyalty, and responding to market intelligence and changes of sales volumes. The strongest relationship was observed between the responding to market intelligence and meeting of customer needs. The established relationship implies that as the marketing culture strengthens and its recognition and prevalence in the company improve, the effectiveness of marketing and simultaneously the company's performance improve, too.

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